

Company Registration No. 08111929 (England and Wales)

FARMDROP LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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FARMDROP LIMITED

COMPANY INFORMATION

Directors

K Bone
E Herrin
W Kendall
P Kristensen (Appointed 14 November 2019)
K Burt (Appointed 19 March 2020)
J D Kamaluddin (Appointed 10 June 2020)

Company number

08111929

Registered office

Unit 5
East Duck Lees Lane
Enfield
London
EN3 7SR

Auditor

UHY Hacker Young
Quadrant House
4 Thomas More Square
London
E1W 1YW

Solicitors

Taylor Wessing LLP
5 New Street Square
London
EC4A 3TW

FARMDROP LIMITED

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FARMDROP LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 30 JUNE 2020

The directors present the strategic report for the year ended 30 June 2020.

Review of the business

The results for the year and the financial position at the year-end were considered satisfactory by the directors who expect continued growth in the foreseeable future.

Principal risks and uncertainties

Farmdrop faces a number of risks and uncertainties that may have an adverse impact on its operation, performance or future prospects. The risks and uncertainties described below represent those that the directors consider being the most significant in achieving the potential success of the business strategy.

The following principal risks have been identified by the directors:

1. *Customer Acquisition & Retention*

Acquisition remains a challenge due to the geographical limitations of its footprint. In order to grow profitably, we are looking to acquire customers with high average order values, which reduce the volume of targetable customers further. There is a risk that other grocers or food delivery alternatives eat into our share of voice with these customers, making customer acquisition costs too high.

The risk with customer retention is if their order experience falls short of customer expectations, particularly the shopping experience and whether their order is delivered on time and in full. Also, heavy use of first-time customer promotions to encourage trial attracts a proportion of deal seekers who don't intend to stay with us.

Mitigation

We have increased our operational and geographical footprint, combining this with range expansion across core grocery and Made by Farmdrop prepared meals. We have also launched Farmdrop on Deliveroo to offer our customers an ultra-fast delivery service.

We continue to analyse our best performing customer segments and identify the right channels for driving more of those customers onto the platform, using the most effective tactical methods. Use of a combination of direct channels and brand awareness advertising, which can convey the superior differentiation of the service vs. competition to steal share from online supermarkets and box-schemes alike. Ensuring the most efficient phased deployment of marketing spend across digital and offline channels, brand awareness and direct acquisition. Finding new added value ways of driving a solid response to advertising without resorting to discounting the core product.

To minimise churn related to customer experience challenges, continue improving the shopping experience on the website and app, improving forecasting and operational excellence to continue improving on time and in full.

2. *Supplier Relationships*

Because of our lean supply chain, Farmdrop may rely more than competitors on its suppliers' inbound delivery accuracy to meet customer demand. If suppliers cannot fulfil orders, Farmdrop will need to find other means to ensure customers' orders are delivered in full without compromising product freshness or waste targets.

FARMDROP LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2020

Mitigation

Farmdrop is well regarded among sustainable producers due to its values and mission. Our producers enjoy industry-leading collaborative working relationships and best-in-class supplier experience. During the Covid-19 pandemic, our agile approach to the supply chain allowed us to help producers who lost their restaurant customers overnight find a new friction-free route to market for their product.

Real-time visibility of customer orders enables producers to pack to order on a day to day basis. We mitigate the supply risk associated with our lean supply chain with a small amount of buffer stock, and forecasting allows us to plan capacity in collaboration with producers for future demand, thereby ensuring continuity of supply and identifying the need for producers to increase capacity or for us to find additional suppliers.

3. *Competition*

There is a risk relating to the uncertainty created by the existence of competitors or the emergence of new competitors with their strategies. There could also be a risk that the trend in UK food retailing of moving from the traditional grocery market to the online grocery market, which has been accelerated during the ongoing Covid-19 pandemic, may not continue.

Mitigation

The directors believe that the online grocery market will continue to grow rapidly in the UK, particularly as the number of people shopping online has continued to increase throughout 2021. The Covid-19 pandemic has accelerated the shift to online.

Farmdrop's business model is based on offering our customers superior service in terms of product quality, convenience, reliability, accuracy of delivery, and being environmentally sustainable. In continuing to improve the businesses IT systems (including the website and mobile app, producer portal, order picking system and the van routing system), Farmdrop can continue to build on its disruptive online grocery offer. One such example is our move to a same-day delivery service using third-party services, reducing the time between customers placing orders and taking delivery of produce.

4. *Technology*

A significant failure of IT infrastructure or key IT system results in loss of information, inability to operate effectively and/or financial or other regulatory penalties.

Mitigation

Farmdrop regularly reviews its data access policy, monitors controls, and restricts confidential and private customer information. Farmdrop regularly runs scheduled backups of critical information and systems, including customer data and its intellectual property in the form of software, documentation, etc.

5. *Data Security & Data Privacy*

A significant data breach and loss of either supplier or customer data could cause financial, regulatory, legal and/or reputational damage.

FARMDROP LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2020

Mitigation

Farmdrop restricts access to confidential information in its system only to authorised parties in the business's employment or contractors from companies that have signed a legally binding contract. Farmdrop secures customer data by requiring 2-Factor Authentication to access customer data to ensure its systems and data further.

Development and Performance

As of the year-end, the company suffered a decrease in losses from £10,787,072 to £8,582,692. This was due to a substantial increase in sales revenue and reduced overhead costs, particularly among admin staff and support teams.

Key Performance Indicators

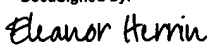
Based on the figures provided in the accounts that follow, the company's gross profit margin increased from 19.3% in 2019 to 21.9% in 2020 due to improved costs and change in product mix. The operating loss margin decreased from 201.9% in 2019 to 81.4% in 2020 due to an increase in volume.

Impact of Covid-19

The Covid-19 pandemic brought unprecedented growth in order volumes, driven by demand from existing and new customers. To enable us to deliver to as many people as possible, we have raised the minimum order level to £60; our average order values have increased by 50%.

We have implemented several initiatives to minimise the risks of the outbreak on the business and ensure we can continue delivering to all our customers during this time. All of these initiatives have come at a high cost to the company. The growth in orders and sales has not translated into profitability like expected data under normal circumstances. As we adapt to our new normal, finding ways of bringing our variable operating costs down to the run rate we had before Covid-19 is key to our continued success.

On behalf of the board

DocuSigned by:

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E Herrin

Director

03 June 2021

FARMDROP LIMITED**DIRECTORS' REPORT****FOR THE YEAR ENDED 30 JUNE 2020**

The directors present their annual report and financial statements for the year ended 30 June 2020.

Principal activities

Farmdrop is an online grocer with a focus on food sourced from local farmers, fishermen, and other producers. The company provides farm-to-table foods and fresh fish for consumers in the London area, along with ethically-sourced products for babies, kids and the household.

Results and dividends

The results for the year are set out on page 11.

No dividends were declared or paid in the year.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

C Pugh	(Resigned 4 February 2020)
N Zennstrom	(Resigned 4 February 2020)
F O'Sullivan	(Resigned 4 February 2020)
K Bone	
E Herrin	
W Kendall	
P Kristensen	(Appointed 14 November 2019)
K Burt	(Appointed 19 March 2020)
J D Kamaluddin	(Appointed 10 June 2020)

Directors' share options

Details of directors' share options are as follows:

	At 1 July 2019	Granted	Forfeited	Exercised	At 30 June 2020	Expiry date
Charles Pugh	1,400,000	-	(787,500)	(612,500)	-	18/10/2028
Charles Pugh	786,541	-	(284,070)	(502,471)	786,541	23/04/2029
Eleanor Herrin	400,000	-	-	-	400,000	11/04/2029
Fern O'Sullivan	400,000	-	(166,666)	(233,334)	400,000	11/04/2029

Supplier payment policy

The company's current policy concerning the payment of trade creditors is to follow the CBI's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU).

The company's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by the inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

FARMDROP LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2020

Post reporting date events

Post-year-end, the company has repaid its outstanding loan and issued a £3m secured debenture with an 11% fixed interest rate on 04 August 2020. The company also received £5m of unsecured convertible loans on 5 November 2020 and a further £2m of unsecured convertible loans on 06 May 2021.

The company is in active discussions with institutional investors and expected to complete a further equity funding round in Q3 2021.

Future developments

Farmdrop will continue to increase the product range and further improve delivery convenience for our customers.

Auditor

In accordance with the company's articles, a resolution proposing the UHY Hacker Young be reappointed as auditor of the company will be put at a General Meeting,

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; 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. They 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.

FARMDROP LIMITED

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020

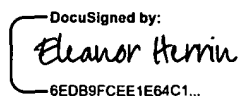
Statement of disclosure to auditor

Each director in office at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the board

DocuSigned by:

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E Herrin

Director

03 June 2021

Date:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FARMDROP LIMITED

Qualified opinion on financial statements

We have audited the financial statements of Farmdrop Limited (the 'company') for the year ended 30 June 2020 which comprise the income statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2020 and of its for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for qualified opinion

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

We have issued a qualified opinion due to a limitation of scope in our audit work on stock. The Company had strong growth in revenue towards the year-end, partly due to increased demand as a result of the Covid-19 pandemic. This led to changes in the stock system being made due to the Bristol hub being brought back into use by the Company in order to meet increased demand, and higher levels of stock being held. During our year end stock take we identified several variances between the stock count and the stock listing. This was subsequently corrected by management and a further stock take was performed on 04 November 2020 which was satisfactory, and a rollback to the year-end was performed from this date. This rollback confirmed that the year-end stock amount is fairly stated. However, due to the length of time between the second stock take and the year end, given the high number of movements, we were unable to obtain supporting evidence for all adjustments in the roll back and we could not perform alternative procedures, therefore we have issued a limitation of scope in this area. Management have confirmed controls have been improved post year-end to avoid such a stock issue occurring in future years.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF FARMDROP LIMITED

Material uncertainty - going concern

In forming our opinion on the financial statements which is qualified, we have considered the disclosure made in note 1.2 of the financial statements regarding the company's ability to continue as a going concern. The company has ambitious expansion plans and needs significant growth in order to meet its targets but is still generating losses. It will also require sufficient funding to be raised in its upcoming funding round, expected in Q3 2021, to provide sufficient funding to continue to meet its ongoing costs and to subsequently enable the future expansion. Although the directors are confident that investors and existing shareholders will continue to support the company, a failure to raise sufficient funds would require a significant scaling back of operations and due to the ongoing losses being incurred the company may not be able to pay its liabilities as they fall due.

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Other information

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

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

As described in the basis for qualified opinion section of our report, we were unable to obtain supporting evidence for all adjustments in the rollback confirming the year-end stock amount of £537,177 held at 30 June 2020. There is therefore an inherent resulting risk that where other information refers to the stock balance or related balances such as cost of sales, there may be resulting inconsistencies for the same reason.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF FARMDROP LIMITED

Matters on which we are required to report by exception

In respect solely of the limitation on our work relating to stock, described above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records had been maintained.

Except for the matter described in the basis for qualified opinion section of our report, in the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

Arising solely from the limitation of the scope of our work relating to not being able to vouch all adjustments in the stock rollback due to the complexity and unavailable evidence, referred to above:

- we have not obtained all the information that we considered necessary for the purpose of our audit solely relating to adjustments to the year-end stock rollback; and
- we were unable to determine whether adequate accounting records have been kept solely relating to the physical year end stock balance.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF FARMDROP LIMITED

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

UHY Hacker Young

Daniel Hutson (Senior Statutory Auditor)
for and on behalf of UHY Hacker Young

4 Jan 2021

Chartered Accountants
Statutory Auditor

FARMDROP LIMITED**INCOME STATEMENT****FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	2020 £	2019 £
Revenue	3	11,822,436	5,405,173
Cost of sales		(9,230,219)	(4,360,289)
Gross profit		2,592,217	1,044,884
Distribution costs		(585,371)	(3,536,313)
Administrative expenses		(11,630,190)	(8,422,687)
Operating loss	4	(9,623,344)	(10,914,116)
Finance costs	8	(328,783)	(146,000)
Loss before taxation		(9,952,127)	(11,060,116)
Income tax income	9	1,369,435	273,044
Loss and total comprehensive income for the year		(8,582,692)	(10,787,072)

The income statement has been prepared on the basis that all operations are continuing operations.

FARMDROP LIMITED**STATEMENT OF FINANCIAL POSITION****AS AT 30 JUNE 2020**

	Notes	2020 £	2019 £
Non-current assets			
Tangible assets	10	2,472,470	551,055
Current assets			
Inventories	11	537,177	131,545
Trade and other receivables	12	3,498,384	1,620,215
Cash and cash equivalents		1,141,744	450,453
		5,177,305	2,202,213
Total assets		7,649,775	2,753,268
Current liabilities			
Trade and other payables	17	2,978,301	2,028,179
Borrowings	14	359,361	660,000
Lease liabilities	18	234,573	-
		3,572,235	2,688,179
Net current assets/(liabilities)		1,605,070	(485,966)
Non-current liabilities			
Borrowings	14	41,667	289,583
Lease liabilities	18	1,948,244	-
		1,989,911	289,583
Total liabilities		5,562,146	2,977,762
Net assets/(liabilities)		2,087,629	(224,494)
Equity			
Called up share capital	21	800,900	403,484
Share premium account	22	35,170,698	24,544,657
Other reserves		16,604	8,410
Retained earnings		(33,900,573)	(25,181,045)
Total equity		2,087,629	(224,494)

FARMDROP LIMITED

STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2020

The financial statements were approved by the board of directors and authorised for issue on 03 June 2021 and are signed on its behalf by:

DocuSigned by:

Eleanor Herrin

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E Herrin

Director

Company Registration No. 08111929

FARMDROP LIMITED**STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 30 JUNE 2020**

		Share capital	Share premium account	Other reserves	Retained earnings	Total
	Notes	£	£	£	£	£
Balance at 1 July 2018		345,931	20,752,830	7,128	(14,393,973)	6,711,916
Year ended 30 June 2019:						
Loss and total comprehensive income for the year		-	-	-	(10,787,072)	(10,787,072)
Issue of share capital	21	57,553	3,791,827	-	-	3,849,380
Transfer to other reserves		-	-	1,282	-	1,282
Balances at 30 June 2019		403,484	24,544,657	8,410	(25,181,045)	(224,494)
Year ended 30 June 2020:						
Adoption of IFRS 16 (Note 23)		-	-	-	(136,836)	(136,836)
Loss and total comprehensive income for the year		-	-	-	(8,582,692)	(8,582,692)
Issue of share capital	21	397,416	10,626,041	-	-	11,023,457
Share based payment charge		-	-	8,194	-	8,194
Balances at 30 June 2020		800,900	35,170,698	16,604	(33,900,573)	2,087,629

FARMDROP LIMITED**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 30 JUNE 2020**

		2020		2019	
	Notes	£	£	£	£
Cash flows from operating activities					
Cash absorbed by operations	26	(10,319,092)		(10,887,952)	
Interest paid		(76,386)		(146,000)	
R&D tax refund		1,369,435		273,044	
Net cash outflow from operating activities		(9,026,043)		(10,760,908)	
Investing activities					
Purchase of property, plant and equipment		(284,658)		(443,500)	
Proceeds on disposal of property, plant and equipment		-		23,530	
Net cash used in investing activities		(284,658)		(419,970)	
Financing activities					
Proceeds from issue of shares		11,195,301		3,991,149	
Share issue costs		(171,844)		(140,487)	
Repayment of bank loans		(548,555)		(659,667)	
Payment of lease liabilities		(472,910)		-	
Net cash generated from financing activities		10,001,992		3,190,995	
Net increase/(decrease) in cash and cash equivalents		691,291		(7,989,883)	
Cash and cash equivalents at beginning of year		450,453		8,440,336	
Cash and cash equivalents at end of year		<u>1,141,744</u>		<u>450,453</u>	

FARMDROP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1 Accounting policies

Company information

Farmdrop Limited is a private company limited by shares incorporated in England and Wales. The registered office is Unit 5, East Duck Lees Lane, Enfield, London, EN3 7SR. The company's principal activities and nature of its operations are disclosed in the directors' report.

1.1 Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, except as otherwise stated.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Going concern

These financial statements are prepared on the going concern basis. The directors have a reasonable expectation that the company will continue in operational existence for the foreseeable future. However, the directors are aware of certain material uncertainties which may cause significant doubt on the company's ability to continue as a going concern. The company will require funding in Q3 2021 to continue to meet its operating costs and plans for its ongoing expansion. Whilst the directors are confident of the company's ability to secure support from investors and existing shareholders, a failure to raise the required funds would directly impact the ability of the company to pay its liabilities as they fall due. Post year end, the impact of the Covid 19 virus has led to a sustained increase in order volumes for which the business has implemented measures to manage its staffing levels appropriately. However, the longer term economic impact of the virus is still unknown and could potentially lead to difficulties in raising funding or for the company to achieve its target market share.

Consequently, a material uncertainty exists that may cast significant doubt over the company's ability to continue as a going concern

1.3 Revenue

Revenue relates to online grocery sales. It is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

Revenue from the sale of goods is recognised when performance obligations to the customer have been satisfied (usually on delivery of goods), the amount of revenue can be measured reliably, it is probable that the economic benefit associated with the transaction will flow to the entity, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****1 Accounting policies****(Continued)****1.4 Property, plant and equipment**

Property, plant and equipment are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold improvements	Straight line over the lease term
Office Equipment	25% straight line
Hub Equipment	25% straight line
Computer Equipment	25% straight line
Right of Use Assets	25% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the income statement.

1.5 Impairment of tangible and intangible assets

At each reporting end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

FARMDROP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2020

1 Accounting policies

(Continued)

1.6 Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Inventories held for distribution at no or nominal consideration are measured at the lower of replacement cost and cost, adjusted where applicable for any loss of service potential.

Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.8 Financial assets

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. Financial assets are classified into specified categories, depending on the nature and purpose of the financial assets.

At initial recognition, financial assets classified as fair value through profit and loss are measured at fair value and any transaction costs are recognised in profit or loss. Financial assets not classified as fair value through profit and loss are initially measured at fair value plus transaction costs.

Financial assets at fair value through profit or loss

When any of the above-mentioned conditions for classification of financial assets is not met, a financial asset is classified as measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognized initially at fair value and any transaction costs are recognised in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognised in profit or loss, and is included within finance income or finance costs in the statement of income for the reporting period in which it arises.

Financial assets held at amortised cost

Financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held to maturity investments.

Held to maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

FARMDROP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2020

1 Accounting policies

(Continued)

Trade Receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Financial assets at fair value through other comprehensive income

Debt instruments are classified as financial assets measured at fair value through other comprehensive income where the financial assets are held within the company's business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument measured at fair value through other comprehensive income is recognised initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, each asset is measured at fair value, with changes in fair value included in other comprehensive income. Accumulated gains or losses recognised through other comprehensive income are directly transferred to profit or loss when the debt instrument is derecognised.

Impairment of financial assets

Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

1.9 Financial liabilities

The company recognises financial debt when the company becomes a party to the contractual provisions of the instruments. Financial liabilities are classified as either 'financial liabilities at fair value through profit or loss' or 'other financial liabilities'.

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****1 Accounting policies****(Continued)*****Financial liabilities at fair value through profit or loss***

Financial liabilities are classified as measured at fair value through profit or loss when the financial liability is held for trading. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of selling or repurchasing it in the near term, or
- on initial recognition it is part of a portfolio of identified financial instruments that the company manages together and has a recent actual pattern of short-term profit taking, or
- it is a derivative that is not a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at fair value through profit or loss are stated at fair value with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

The company issues customers with loyalty or goodwill incentives known as piggy bank credits. These may be utilised against future Farmdrop purchases within a period of 6 months from the date of issue. The value of credits issued is deferred and recognised as revenue when the credit has been either redeemed or expired. The company has reviewed historical data and estimates that 60% of credits will be redeemed, therefore revenue is deferred on this basis.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

During the prior year, the company issued warrant instruments which met the requirements to be classified as financial liabilities. The impact on the financial statements was immaterial and was therefore not recognised.

1.10 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

FARMDROP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2020

1 Accounting policies

(Continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred tax is realised or the deferred liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

1.12 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of inventories or non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.13 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.14 Leases

At inception, the company assesses whether a contract is, or contains, a lease within the scope of IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where a tangible asset is acquired through a lease, the company recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use assets are included within property, plant and equipment, apart from those that meet the definition of investment property.

FARMDROP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2020

1 Accounting policies

(Continued)

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs and an estimate of the cost of obligations to dismantle, remove, refurbish or restore the underlying asset and the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of other property, plant and equipment. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, and the cost of any options that the company is reasonably certain to exercise, such as the exercise price under a purchase option, lease payments in an optional renewal period, or penalties for early termination of a lease.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in: future lease payments arising from a change in an index or rate; the company's estimate of the amount expected to be payable under a residual value guarantee; or the company's assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less, or for leases of low-value assets including IT equipment. The payments associated with these leases are recognised in profit or loss on a straight-line basis over the lease term.

1.15 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****2 Adoption of new and revised standards and changes in accounting policies****Impact of application of IFRS 16 Leases**

The company has applied IFRS 16 for the first time using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed below. The majority of leases for which IFRS 16 has been applied relate to the companies leased hubs, equipment, and motor vehicles.

Transition from IAS 17 to IFRS 16

For contracts entered into before 1 July 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfillment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - "the purchaser had the ability or right" to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

Under IAS 17

In the comparative period, assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property.

No onerous leases were identified during the transition process.

There are no other standards and interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the reported income or net assets of the Company.

3 Revenue

An analysis of the company's revenue is as follows:

	2020	2019
	£	£
Revenue analysed by class of business		
Sale of goods	11,822,436	5,405,173

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****3 Revenue (Continued)**

All income was derived from the United Kingdom.

4 Operating loss

	2020	2019
	£	£
Operating loss for the year is stated after charging/(crediting):		
Exchange losses	4,624	2,355
Depreciation of property, plant and equipment	492,564	166,230
(Profit)/loss on disposal of property, plant and equipment	-	10,910
Cost of inventories recognised as an expense	9,230,219	4,360,289
	<u>9,230,219</u>	<u>4,360,289</u>

5 Auditor's remuneration

	2020	2019
	£	£
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	23,500	14,750
	<u>23,500</u>	<u>14,750</u>
For other services		
Tax services	4,750	2,750
	<u>4,750</u>	<u>2,750</u>

6 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2020	2019
	Number	Number
Employees	172	174
Directors	3	4
	<u>175</u>	<u>178</u>
Total	<u>175</u>	<u>178</u>

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****6 Employees (Continued)**

Their aggregate remuneration comprised:

	2020 £	2019 £
Wages and salaries	6,540,458	5,979,555
Social security costs	663,935	607,977
Pension costs	93,024	74,045
	<u>7,297,417</u>	<u>6,661,577</u>

7 Directors' remuneration

	2020 £	2019 £
Remuneration for qualifying services	381,000	365,874
Company pension contributions to defined contribution schemes	3,069	2,331
	<u>384,069</u>	<u>368,205</u>

The number of directors who exercised share options during the year was 3 (2019 - 1).

Remuneration disclosed above include the following amounts paid to the highest paid director:

Remuneration for qualifying services	<u>185,417</u>	<u>100,000</u>
--------------------------------------	----------------	----------------

8 Finance costs

	2020 £	2019 £
Interest on bank overdrafts and loans	76,386	146,000
Interest on lease liabilities	252,397	-
Total interest expense	<u>328,783</u>	<u>146,000</u>

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****9 Income tax expense**

	2020	2019
	£	£
Current tax		
UK corporation tax on profits for the current period	(598,718)	(273,044)
Adjustments in respect of prior periods	(770,717)	-
Total UK current tax	<u>(1,369,435)</u>	<u>(273,044)</u>

The charge for the year can be reconciled to the loss per the income statement as follows:

	2020	2019
	£	£
Loss before taxation	<u>(9,952,127)</u>	<u>(11,060,116)</u>
Expected tax credit based on a corporation tax rate of 19.00%	(1,890,904)	(2,101,422)
Effect of expenses not deductible in determining taxable profit	2,833	55,239
R&D tax credit	(770,717)	(273,044)
Deferred tax adjustments in respect of prior years	-	215,395
Deferred tax not recognised	1,566,230	1,830,863
Fixed asset differences	(19,304)	-
Additional deduction for R&D expenditure	(443,429)	-
Surrender of tax losses for R&D tax credit refund	185,810	-
Other differences	46	(75)
Taxation credit for the year	<u>(1,369,435)</u>	<u>(273,044)</u>

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****10 Property, plant and equipment**

	Leasehold improve- ments	Office Equipment	Hub Equipment	Computer Equipment	Right of Use Assets	Total
	£	£	£	£	£	£
At 30 June 2019	501,995	43,363	132,698	133,806	-	811,862
Adoption of IFRS 16 (Note 23)	-	-	-	-	2,414,241	2,414,241
Additions	21,556	1,542	185,790	75,770	53,625	338,283
At 30 June 2020	523,551	44,905	318,488	209,576	2,467,866	3,564,386
Accumulated depreciation and impairment						
At 30 June 2019	139,053	9,618	47,863	64,273	-	260,807
Adoption of IFRS 16 (Note 23)	-	-	-	-	338,545	338,545
Charge for the year	105,664	10,578	44,501	48,385	283,436	492,564
At 30 June 2020	244,717	20,196	92,364	112,658	621,981	1,091,916
Carrying amount						
At 30 June 2020	278,834	24,709	226,124	96,918	1,845,885	2,472,470
At 30 June 2019	362,942	33,745	84,835	69,533	-	551,055

11 Inventories

	2020	2019
	£	£
Finished goods	537,177	131,545

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****12 Trade and other receivables**

	2020	2019
	£	£
Trade receivables	3,730	2,506
VAT recoverable	219,855	203,793
Other receivables	2,520,621	994,445
Prepayments	754,178	419,471
	<u>3,498,384</u>	<u>1,620,215</u>

Other receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. Included within 'Other receivables' are deposits paid for the head office at Classic House (£174,600) and deposits paid for the Enfield Hub (£250,572), which are both due in greater than one year.

13 Trade receivables - credit risk**Fair value of trade receivables**

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

No significant receivable balances are impaired at the reporting end date.

14 Borrowings

	2020	2019
	£	£
Unsecured borrowings at cost		
Bank loans	<u>401,028</u>	<u>949,583</u>

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****14 Borrowings****(Continued)****Analysis of borrowings**

Borrowings are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2020	2019
	£	£
Current liabilities	359,361	660,000
Non-current liabilities	41,667	289,583
	<u>401,028</u>	<u>949,583</u>

A loan of £2 million was taken out in September 2017. The loan comes in two tranches, Tranche 1 is due on 2 April 2021, and Tranche 2 is due on 27 September 2021. A six month loan deferral was taken between May and October 2020.

The bank loan carries an interest rate of Sterling Base Rate plus 9.75% per annum.

As part of the bank loan negotiations, the company issued warrants in respect of £200,000 of Series A Preferred Shares at an average price of £0.96 to the bank which are exercisable for a period of ten years from the date of grant. Per IFRS 9 the warrants meet the criteria of a liability but are currently not material to the financial statements and as such have not been recognised.

15 Fair value of financial liabilities

The directors consider that the carrying amounts of financial liabilities carried at amortised cost in the financial statements approximate to their fair values.

The main financial liability of the company is the bank loan with Silicon Valley Bank (SVB). This loan is repayable over a three year term and the difference between fair value and the amortised cost of the loan is not deemed to be material to the company's financial statements.

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****16 Liquidity risk**

The following table details the remaining contractual maturity for the company's financial liabilities with agreed repayment periods. The contractual maturity is based on the earliest date on which the company may be required to pay.

	1 - 3 months	3 months to 1 Year	1 -5 Years	Total
	£	£	£	£
At 30 June 2019				
Trade Payables	1,072,422	-	-	1,072,422
Accruals	394,780	-	-	394,780
Social security and other taxation	391,583	-	-	391,583
Other payables	169,394	-	-	169,394
Bank Loans	190,236	503,054	300,856	994,146
	<u>2,218,415</u>	<u>503,054</u>	<u>300,856</u>	<u>3,022,325</u>
At 30 June 2020				
Trade Payables	1,694,770	-	-	1,694,770
Accruals	935,885	-	-	935,885
Social security and other taxation	244,838	-	-	244,838
Other payables	222,248	-	-	222,248
Bank Loans	-	361,111	41,667	402,778
	<u>3,097,741</u>	<u>361,111</u>	<u>41,667</u>	<u>3,500,519</u>

Liquidity risk management

Responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the company's funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows.

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****17 Trade and other payables**

	2020	2019
	£	£
Trade payables	1,694,770	1,072,422
Accruals	940,635	394,780
Social security and other taxation	244,838	391,583
Other payables	98,058	169,394
	<u>2,978,301</u>	<u>2,028,179</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

The directors consider that the carrying amount of trade payables approximates to their fair value.

18 Lease liabilities

	2020	2019
	£	£
Maturity analysis		
Within one year	234,573	-
In two to five years	1,001,570	-
In over five years	946,674	-
	<u>2,182,817</u>	<u>-</u>
Total undiscounted liabilities	<u>2,182,817</u>	<u>-</u>

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2020	2019
	£	£
Current liabilities	234,573	-
Non-current liabilities	1,948,244	-
	<u>2,182,817</u>	<u>-</u>

	2020	2019
	£	£
Amounts recognised in profit or loss include the following:		
Interest on lease liabilities	<u>252,397</u>	<u>-</u>

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****18 Lease liabilities****(Continued)**

The fair value of the company's lease obligations is approximately equal to their carrying amount.

Other leasing information is included in note 23.

19 Retirement benefit schemes**Defined contribution schemes**

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

The total costs charged to income in respect of defined contribution plans is £93,024 (2019 - £74,045).

20 Share-based payment transactions

The company operates a share option scheme for employees. The vesting period is four years and options are forfeited if the employee leaves the company before the options vest.

	Number of share options		Weighted average exercise price	
	2020	2019	2020 £ (Pence)	2019 £ (Pence)
Outstanding at 1 July 2019	4,101,206	3,318,556	1	82
Granted	-	5,714,882	-	1
Forfeited	(1,650,799)	(3,341,929)	1	(83)
Exercised	(1,605,500)	(1,590,303)	1	1
Outstanding at 30 June 2020	<u>844,907</u>	<u>4,101,206</u>	<u>1</u>	<u>1</u>

The options outstanding at 30 June 2020 had an exercise price of 1p and a weighted average remaining contractual life of 8 years 9 months.

FARMDROP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

20 Share-based payment transactions

(Continued)

Warrants

During the year, three warrant contracts were held with suppliers. All three contracts are similar in nature, and are £nil cost to the suppliers. The contracts have some performance targets which determine the number of warrants to be issued over the vesting period of 4 years up to a maximum of 5,000 shares in the company.

The warrants have been valued in line with IFRS 2 using the same inputs as the share options above and the resulting charge was immaterial and has therefore not been recognised in these financial statements.

12,878,924 B warrants were issued on July 2019. A further 65,612 B warrants were issued in November 2019. Each warrant allows the holder to subscribe for an A Ordinary Share between 31 July 2019 and 01 July 2029 for £0.01 each in a qualifying fundraising round. 12,878,924 of these warrants were exercised in February 2020, with a price paid of £0.01. The remaining 65,612 B warrants in issue at the year-end are considered to have nil fair value, and as such no profit or loss has been recognised in the financial statements in respect of these.

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020**

21 Share capital	2020	2019
	£	£
Ordinary share capital		
<i>Issued and fully paid</i>		
27,868,400 Ordinary Class A of 1p each	278,684	133,877
1,201,502 Investment Class B of 1p each	12,015	12,015
540,510 Deferred of 1p each	5,405	5,405
50,479,600 Series Seed of 1p each	504,796	252,187
	<u>800,900</u>	<u>403,484</u>

Share capital represents the nominal value of shares that have been issued.

A Ordinary shares have attached to them full voting, dividend and capital distribution (including on wind up) rights; they do not confer any rights of redemption.

B Investment shares have attached to them no voting rights, full dividend and capital distribution (including on wind up) rights; they do not confer any rights of redemption.

Deferred shares have no voting rights and no rights to receive a dividend. In the event of liquidation or an exit, out of the surplus assets of the company remaining after payment of its liabilities has been made, a total payment of £1 shall be made for the entire class of deferred shares but not until any such distribution has been made first to the holder of the series seed preferred shares.

The Series seed preferred shares category above includes Series seed preferred shares, Series A preferred shares, Series B preferred shares, and Series C preferred shares. These share types have been grouped as they have similar properties. They have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption, they are entitled to require conversion into A ordinary shares of all the fully paid shares held. In the event of liquidation or a return of capital, the surplus assets of the company remaining after payment of its liabilities shall be applied first to the holders of Series C preferred shares, then to Series B preferred shares, then to Series A preferred shares, and then to Series seed preferred shares.

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**

21 Share capital	(Continued)			
	2020		2019	

Reconciliation of movements during the year:

	A Ordinary Number	B Investment Number	Deferred Number	Series Seed Number
At 1 July 2019	13,387,716	1,201,502	540,510	25,218,744
Issue of fully paid shares	14,480,684	-	-	25,260,856
At 30 June 2020	<u>27,868,400</u>	<u>1,201,502</u>	<u>540,510</u>	<u>50,479,600</u>

22 Share premium account

	2020	2019
	£	£
At the beginning of the year	24,544,657	20,752,830
Issue of new shares	10,797,885	3,932,314
Share issue expenses	(171,844)	(140,487)
At the end of the year	<u>35,170,698</u>	<u>24,544,657</u>

The share premium account includes any premiums received on issue of share capital. Any transaction cost associated with the issuing of shares are deducted from share premium.

During the year, the company issued 14,480,684 Ordinary A shares and 25,260,856 Series seed shares raising £11,195,337 before expenses.

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****23 Other leasing information****Lessee**

Set out below are the future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities:

	2020	2019
	£	£
Land and buildings		
Within one year	-	1,000,560
Between two and five years	-	1,328,077
In over five years	-	1,465,933
	<u>-</u>	<u>3,794,570</u>

The above disclosure of future cash outflows is for leases accounted for under IAS 17, thus the disclosure is present for the comparative period only. In the current year all leases are accounted for under IFRS 16 and thus the respective lease liability disclosures can be found in note 18.

The Company has adopted IFRS 16 under the modified retrospective approach when reporting leases in the 2019/20 financial year. On the adoption of IFRS 16, lease agreements will give rise to both a right of use asset and a lease liability for future lease payables. The right of use asset is depreciated on a straight-line basis over the life of the lease. Interest is recognised on the lease liability.

The Company has a portfolio of leased offices, hubs, vehicles and other equipment. The adoption of IFRS 16 has no effect on the cash flow or any of the Company's operations.

Information relating to lease liabilities is included in note 18.

24 Events after the reporting date

Post-year-end, the company has repaid its outstanding loan and issued a £3m secured debenture with an 11% fixed interest rate on 04 August 2020. The company also received £5m of unsecured convertible loans on 5 November 2020 and a further £2m of unsecured convertible loans on 06 May 2021.

The company is in active discussions with institutional investors and expected to complete a further equity funding round in Q3 2021.

FARMDROP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 30 JUNE 2020****25 Related party transactions****Remuneration of key management personnel**

The remuneration of the directors, who are key management personnel, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2020	2019
	£	£
Short-term employee benefits	1,205,735	990,740

No guarantees have been given or received.

26 Cash generated from operations

	2020	2019
	£	£
Loss for the year after tax	(8,582,692)	(10,787,072)
Adjustments for:		
Taxation credited	(1,369,435)	(273,044)
Finance costs	328,783	146,000
(Gain)/loss on disposal of property, plant and equipment	-	10,910
Depreciation and impairment of property, plant and equipment	209,128	166,230
Depreciation and impairment of right of use assets	283,436	-
Equity settled share based payment expense	8,194	-
Movements in working capital:		
Increase in inventories	(405,632)	(37,307)
Increase in trade and other receivables	(1,878,169)	(822,031)
Increase in trade and other payables	1,087,295	708,362
Cash absorbed by operations	<u>(10,319,092)</u>	<u>(10,887,952)</u>