REGISTERED NUMBER: 05904885 (ENGLAND AND WALES)

# REPORT OF THE DIRECTORS AND

# AUDITED FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 DECEMBER 2020 FOR

# VERDE AGRITECH PLC

# VERDE AGRITECH PLC

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# VERDE AGRITECH PLC

## COMPANY INFORMATION

## FOR THE YEAR ENDED 31 DECEMBER 2020

| | |
|---|---|
| Directors: | Cristiano Veloso (Chairman)<br>Alysson Paolinelli<br>Getulio Fonseca<br>Renato Gomes<br>Paulo Machado Ribeiro<br>Michael St Aldwyn |
| Secretary: | Tim Slater |
| Registered office: | Salatin House<br>19 Cedar Road<br>Sutton<br>Surrey<br>SM2 5DA |
| Registered number: | 5904885 (England and Wales) |
| Auditor: | PKF Littlejohn LLP<br>15 Westferry Circus<br>London<br>E14 4HD |

# VERDE AGRITECH PLC
## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

### PRINCIPAL ACTIVITIES

The principal activity of the Group is the production and sale of a multinutrient potassium fertilizer marketed in Brazil as K Forte® and internationally as Super Greensand®. The principal activity Verde AgriTech PLC (“the company”) is that of a holding company.

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

During the year the Group earned revenue of $9,167,000 (2019: $6,029,000) and made a gross profit of $5,652,000 (2019: $2,863,000) from the sale of 243,707 tonnes (2019: 119,809 tonnes) of the Product. Overall, the Group made an operating profit $1,126,000 (2019: operating loss of $784,000) and a net profit of $550,000 (2019: loss $1,107,000) for the year. Sales and General Administrative expenses increased to $4,526,000 (2019 $3,647,000) as the Group operations expand and share based payments decreased to $106,000 (2019: $787,000) as less options vested during the year.

The devaluation of the Brazilian Real against the Canadian Dollar of 29% during the year has had a significant effect on the results as the Group operation is based in Brazil. The actual increase in revenue in Brazilian Real was 97%, BRL $35,232,133 ($9,167,000) (2019: BRL $17,913,104 ($6,029,000)).

In 2020, the Group continued to invest in the expansion of the factory capacity. Property, plant and equipment increased by $1,357,000 (2019: $1,341,000) during the year. Cash increased to $2,237,000 (2019: $666,000). Trade receivables increased to $2,106,000 (2019: $664,000) due to increased sales to December 2020 vs December 2019. The mine closure provision has decreased to $2,716,000 (Restated 2019: $3,450,000) due to the revaluation of the provision from Brazilian Real to the Groups reporting currency Canadian Dollars.

The Group’s financial Key Performance Indicators are production and Product sold. Production is monitored by reference to the mining permits and the Group mined 248,653 (2019: 122,809) tonnes in 2020. The Group sold 243,707 (2019: 119,809) tonnes. Revenue per tonne was $38 and production costs were $14, compared to revenue per tonne of $50 and production costs of $26 in 2019. This is due to the decline in potash price. At the year end, the plant held 3,195 (2019: 4,320) tonnes of finished Product and 29,817 (2019: 11,717) tonnes of raw material.

**Summary of the Cerrado Verde Project**

During 2008 the Group staked a large mineral occurrence of a potassium silicate rock, which is believed to be uniquely suited to Brazil’s domestic fertilizer needs.

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS (CONTINUED)

Throughout 2009-2014, the Group advanced and completed a large drilling program at Cerrado Verde, which has a strike length exceeding 100km. Potassium mineralization was found from the surface to a maximum depth of 80m, rendering the deposit amenable to open pit mining. Cerrado Verde has an NI 43-101 Measured and Indicated Mineral Resource Estimate of 1.47 billion tonnes at a grade of 9.2% $K_2O$ which includes a Measured Mineral Resource of 83 million tonnes with an average grade of 10.1% $K_2O$. Additionally, the Inferred Mineral Resource Estimate is 1.85 billion tonnes at a $K_2O$ grade of 8.6%. The mineral resource was estimated from data collected from a total of 41,021m of reverse circulation drilling from 710 drill holes with a collar spacing ranging from 100m x 100m (measured resource) to 400m x 400m (inferred resource) and 1,717m of DC drilling from 25 drill holes.

The Group produces Super Greensand®. Super Greensand® is both a fertilizer and a soil conditioner. As a fertilizer it provides potassium, magnesium, silicon, iron and manganese. As a soil conditioner it increases the soil's capacity to retain water and nutrients. A 100% natural product, Super Greensand® is certified for use in organic agriculture.

In November 2017, the Group announced the completion of its Pre-Feasibility Study ("PFS"). The PFS evaluated the technical and financial aspects of producing 25 Million tonnes per year ("Mtpy") of K Forte divided in three phases: Phase 1 (0.6Mtpy); Phase 2 (5Mtpy) and Phase 3 (25Mtpy). The proposed scalable development is predicated on production growth being financed largely from expected internal cash flow.

**Project Highlights:**

- Proven and Probable Reserves of 777.28 Mt, grading 9.78% $K_2O$.
- Capex for Phase 1 is estimated at US$3.05 million.
- Capex for all phases is estimated at US$369.53 million.
- Sustaining capital for the Project is estimated at US$222.26 million.
- Estimated after-tax Net Present Value ("NPV") for the Project, using an 8% discount rate, of US$1,987.97 million.
- Estimated after-tax Internal Rate of Return ("IRR") of 290%.
- Payback of 0.5 years for Phase 1, 0.2 years for Phase 2 and 1. 2 years for Phase 3, from the start of production in each phase (years 1, 3 and 6, respectively).
- Adopted Potassium Chloride ("KCl") long term price of US$250 CFR Brazil as reference for K Forte pricing.
- Estimated Operating Cost of US$14.53, US$6.77, US$7.92 per product tonne for Phases 1, 2 and 3 respectively.

**The PFS is based on the following assumptions:**

- 100% equity.
- Phase 1 production of 0.6 Mtpy; Phase 2 production of 5 Mtpy; Phase 3 production of 25 Mtpy.
- A projected mine life of 36 years.
- Contract Mining.
- A 15% contingency applied to Capex.
- US Dollar-Brazilian Real exchange rate of US$1 = BRL $3.28.
- Potassium Chloride ("KCl") long term price of US$250 CFR Brazil as reference for K Forte pricing.

## REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS (CONTINUED)

On December 22, 2017, the Group received the results of the new NI 43-101 compliant technical report of its Pre-Feasibility studies. The results of the study indicate that the Product can be produced in the desired purity and that there is demand in the market in its use as a fertilizer.

In March 2018, the Group signed a turnkey agreement for the construction of a processing plant in the municipality of São Gotardo, in the state of Minas Gerais.

In July 2018, the Group announced the start-up of the processing plant. The cost of the production facility was initially budgeted at US$500,000. However, the total investment reached US$600,000 because the Group advanced part of the groundwork necessary for an expansion to reach the 600 thousand tonnes per annum capacity projected for Phase 1 in the pre-feasibility study (“PFS”).

With the successful completion of the production process the Group initiated commercial production on July 1, 2018.

In 2018, the Group also announced a broader line of Super Greensand® products. The line is composed of three versions: Micronized, Powder and Granular and Super Greensand® was listed as a product for sale at Amazon.com, as the Group continued to expand internationally.

**2020 Project Developments**

In July 2020, a new mill was purchased by the Group to replace the original mill bought in 2018, increasing Plant 1 production capacity by 14% to 2,880 tonnes per day, with expected operational capacity of 2,000 tonnes per day.

In October 2020, the Group concluded a new expansion project to Plant 1, which enables the combination of two additional nutrients to the Product according to the specific needs of each customer’s crop, enhancing its effectiveness.

In December 2020, the Group introduced a new product to the market, named BAKS®, which is a combination of K Forte® (source of potassium, silicon and magnesium) plus three other nutrients that can be chosen by customers according to their crops’ needs. Along with the new product, Verde also introduced two new technologies: 3D Alliance®, which was developed to transform the three-dimensional structure of the raw materials added to the fertilizer, and Micro S Technology®, an exclusive elemental sulfur (“S”) micronization technology.

The Group advanced engineering and project studies required for the construction of Plant 2. The plant capacity is 1,200,000 tpy. Construction is expected to take place in the second half of 2021.

**2020 Permits Status**

| Mine Pit | Date | Category | Status | Event |
|---|---|---|---|---|
| 2 | December 23, 2020 | Environment | Granted | 2,500,000 tpy Preliminary, Installation and Operation License |
| 2 | November 03, 2020 | Mining | Granted | 50,000 tpy Mining Permit |
| 3 | August 24, 2020 | Environment | Applied | 2,500,000 tpy Preliminary, Installation and Operation License |
| 1 | August 19, 2020 | Environment | Granted | 233,000 tpy Operating License |
| 2 | March 30, 2020 | Environment | Applied | 2,500,000 tpy Preliminary and Installation License |
| 2 | March 26, 2020 | Mining | Approved | 25,000,000 tpy Feasibility Study |
| 3 | March 25, 2020 | Mining | Applied | 2,500,000 tpy Mining Concession Application |

## REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS (CONTINUED)

### PRINCIPAL RISKS AND UNCERTAINTIES

The Board regularly reviews the risks to which the Group is exposed and ensures through Board Committees and regular reporting that these risks are minimized to the extent possible. The Audit Committee is responsible for the implementation and review of the Group's internal financial controls and risk management systems.

The extraction of natural resources involves a high degree of risk. The following risk factors should be considered in assessing the Group's activities. Should any one or more of these risks occur, it could have a material adverse effect on the business, prospects, assets, financial position or operating results of the Group. The risks noted below do not necessarily comprise all those faced by the Group.

Additional risks not currently known to the Group or that the Group currently deems would not likely influence an investor's decision to purchase securities of the Group may also impact the Group's business, prospects, assets, financial position or operating results.

There has been no change to the impact of risks on the previous year.

**Covid-19 (Coronavirus) risk**
Covid-19 (Coronavirus) remains an ongoing risk for all businesses worldwide. It is not clear for how long the pandemic will last or how much more extensive it will become, or the further measures that will be taken by governments and others to seek to control the pandemic and its impact.

At the date of signing this report, the globe is already showing signs of recovery following the development of multiple vaccines.

The Group's trade agriculture continues to fall under the food chain category and as such, the Brazilian government has confirmed there is no restriction on trade. During 2020 the plant remained open and was in full operation. Office staff worked from home.

Management has considered the risk to the supply chain and consider this low due to the simplicity of the operations. The Group can manage the on-site risk at the production facility if the employees were to get ill and have contingency plans in place. Management and the directors have stress tested the cashflow forecast for a worse case scenario if the operations shut down for six months and have demonstrated they would have necessary funds. Management and the directors consider this scenario to be a remote risk.

**Uncertainty in the estimation of mineral resources and mineral reserves**
The estimation of mineral reserves, mineral resources and related grades has a degree of uncertainty. Until such time as the mineral reserves and mineral resources are actually mined and processed, the quantity of grades must be considered as estimates only. The mineral reserve estimates of the Group have been determined or reviewed by an independent consultant and are based on assumed cut-off grades and costs that may prove to be inaccurate. Any material change in these variables may affect the economic outcome of current and future projects.

## PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

**Mining risks**
Mining operations are inherently risky. These operations are subject to all hazards and risks encountered in exploration, development and production. These include but are not limited to formation pressures, seismic activity, rock bursts, fires, power outages, cave-ins, flooding, explosions and other conditions involved in the drilling and removal of material. Any of these events could result in serious damage to the mine and other infrastructure, damage to life or property, environmental damage and possible legal liability.

The Group has all necessary permits in place to continue with the current operation. As expansion plans progress, the Group will be required to submit revised plans for approval. There can be no guarantee that these revised plans will be agreed to or approved in a timely manner.

The Group's profitability will depend, in part, on the economic returns and actual costs of developing its mining projects, which may differ from the estimates made by the Group.

**Credit risk**
The Group is exposed to credit risk, which is the risk that one party of a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Exposure to credit risk arises primarily from trade receivables.

The Group has developed procedures to ensure that the sale of goods is made only to customers with an appropriate credit history. Customers who do not meet the Group's credit requirements may only conduct transactions with the Group on a prepayment basis.

**Production risk**
Production risk relates to the possibility that the Group output levels will be lower than expected. Factors affecting production include adverse weather conditions and failure of equipment and machinery. Mining of the Product continues throughout the year with maximum capacity (within permitted mining limits) during the summer, dry months of the year. Regular inspection and service of equipment and machinery is carried out to ensure they are in full working order.

**Expected Market Potential of the Product**
The Product is a new product without an established market. Substantial investment may be required to develop the market in Brazil and, if relevant, internationally. Although an established market for potassium-based fertilizers already exists, there is no assurance that the Group's market development efforts will result in the sales of the Product.

**Uncertainty of Acquiring Necessary Permits**
The Group's current and future operations will require approvals and permits from various federal, state and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. There is no assurance that delays will not occur in connection with obtaining all necessary renewals of such approvals and permits for the existing operations or additional approvals or permits for any possible future changes to operations. Prior to any development on any of its properties, the Group must receive permits from appropriate governmental authorities. There can be no assurance that the Group will continue to hold all permits necessary to develop or continue operating at any particular property or obtain all the required permits on reasonable terms or in a timely basis. The Group has been successful in obtaining environmental and mining licences for small scale production and continues to apply for the appropriate licences to meet future production in line with its expansion plans.

## PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

**Uninsurable Risks**
The development and production of mineral properties involves numerous risks including unexpected or unusual geological operating conditions such as rock bursts, cave-ins, fires, flooding and earthquakes. Insurance may not be available to cover all of these risks, may only be available at economically unacceptable premiums or may be inadequate to cover any resulting liability. Any uninsured liabilities that arise would have a material adverse effect on the Group's business and results of operations.

**Operations in a Foreign Country and Regulatory Requirements**
All the Group's properties are located in Brazil and mineral exploration and mining activities as well as project development may be affected in varying degrees by changes in political, social and financial stability, inflation and changes in government regulations relating to the mining industry. Any changes in regulations or shifts in political, social or financial conditions are beyond the control of the Group and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and mine safety. Brazil's status as a developing country may make it more difficult for the Group to obtain any financing required for the exploration and development of its properties due to real or perceived increased investment risk.
Currently there are no restrictions on the repatriation from Brazil on the earnings of foreign entities. Capital investments registered with the central bank in Brazil may similarly be repatriated. There can be no assurance that restrictions on repatriation of earnings and capital investments from Brazil will not be imposed in the future.

**Competition**
The Group competes with other mining companies as well as other companies producing agricultural products, many of which have greater financial and technical resources and experience, particularly with respect to the potash industry and the limited number of mineral opportunities available in South America. Competition in the mining industry is primarily for properties which can be developed and can produce economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. In addition, many competitors not only explore for and mine potash, but conduct refining and marketing operations on a world-wide basis. Such competition may result in the Group being unable to acquire desired properties on terms acceptable to the Group, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. The Group's inability to compete with other mining companies for these resources would have a material adverse effect on the Group's business and results of operations.

The Group also competes with other potash mining and/or marketing companies, many of which have greater marketing, financial and technical resources and experience, in exporting and marketing its potash or potassium-based products. The Group is vulnerable to increases in the supply of potash beyond market demand either from the opening of new potash mines or the expansion of existing potash mines by the Group's competitors, which could depress prices and have a material adverse effect on the Group's business, financial condition and results of operation.

**Title Matters**
While the Group has diligently investigated title to all mineral properties and, to the best of its knowledge, title to all properties is in good standing; this should not be construed as a guarantee of title. The properties may be affected by undetected defects in title, such as the reduction in size of the mineral claims and other third party claims affecting the Group's priority rights, at the discretion of the ANM. The Group's interests in mineral properties are comprised of exclusive rights under government licences and contracts to conduct operations in the nature of exploration and, in due course if warranted, development and mining, on the licence areas. Maintenance of such rights is subject to ongoing compliance with the terms of such licences and contracts.

## PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

**Uncertainty of Additional Capital**
In the past, the Group has relied on sales of equity securities to meet its capital requirements. The Group plans to use predominately production revenue to cover costs going forward with a small amount of bank financing. There is no assurance that the Group will be successful in obtaining the required financing.

The ability of the Group to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions as well as the business performance of the Group. The development of the Group's projects may require substantial additional financing. Failure to obtain such financing may result in delaying or indefinite postponement of exploration, development or production on any or all of the Group's projects or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Group. If the Group, through the issuance of securities from treasury, raises additional financing, control of the Group may change and security holders may suffer additional dilution.

**Government Royalties**
The Federal Government of Brazil collects royalties on mineral production, with up to half of such royalties being paid to surface rights owners. The current Brazilian federal royalty applicable to fertilizer production is a 2% net smelter return ("NSR") and a 3% NSR in the case of potash. This level and the level of any other royalties, payable to the Brazilian government in respect of the production of minerals may be varied at any time as a result of changing legislation, which could materially adversely affect the Group's results of operations.

**Market Factors and Volatility of Commodity Prices**
The Group's future profitability and long-term viability will depend, in large part, on the global market price of minerals produced and their marketability. The marketability of mineralized material, which may be acquired or discovered by the Group, will be affected by numerous factors beyond the control of the Group. These factors include market fluctuations in the prices of minerals sought, which are highly volatile, inflation, consumption patterns, speculative activities, international political and economic trends, currency exchange fluctuations, interest rates, production costs and rates of production. The effect of these factors cannot be accurately predicted, but may result in the Group not receiving an adequate return on invested capital. Prices of certain minerals have fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the control of the Group. Future mineral prices cannot be accurately predicted. A severe decline in the price of a mineral being produced or expected to be produced by the Group would have a material adverse effect on the Group, and could result in the suspension of mining operations by the Group.

**Cyclical Industry**
The market for potash tends to move in cycles. Periods of high demand, increasing profits and high capacity utilization lead to new plant investment and increased production. This growth increases supply until the market is over-saturated, leading to declining prices and declining capacity utilization until the cycle repeats. This cyclicality in prices can result in supply/demand imbalances and pressures on potash prices and profit margins, which may impact the Group's financial results, and common share prices. The potash industry is dependent on conditions in the economy generally and the agriculture sector. The agricultural sector can be affected by adverse weather conditions, cost of inputs, commodity prices, animal diseases, the availability of government support programs and other uncertainties that may affect sales of fertilizer products.

## PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

**Exchange Rate Fluctuations**
Exchange rate fluctuations may adversely affect the Group's financial position and results. The Group's financial results are reported in Canadian dollars and its costs are incurred primarily in Canadian dollars and Brazilian Reais. The appreciation of the Brazilian real against the Canadian dollar could increase the actual capital and operating costs of the Group's mineral exploration projects and materially adversely affects the results presented in the Group's financial statements. Currency exchange fluctuations may also materially adversely affect the Group's future cash flow from operations, its results of operations, financial condition and prospects. The Group does not currently have in place a policy for hedging against foreign currency risks. The Group manages foreign currency risk by regularly reviewing the balances held in currencies other than the functional currency.

**Dependence on Key Executives and Technical Personnel**
The Group is currently dependent on the services of a relatively small management team. Locating mineral deposits and successfully bringing them into production in Brazil depends on a number of factors, not the least of which is the technical skill of the personnel involved. Due to the relatively small size of the Group, the loss of members of the management team or the Group's inability to attract and retain additional highly skilled employees may materially adversely affect its business and future operations. The Group does not currently carry any "key man" life insurance on any of its executives. The non-executive directors of the Group devote only part of their time to the affairs of the Group.

**Lack of Hedging Policy**
The Group does not have a resource hedging policy and has no present intention to establish one. Accordingly, the Group has no protection from declines in mineral prices. The Group will explore the merits of hedging foreign currency reserves against foreign currency exchange rate fluctuations.

**History of Earnings**
The Group generated operating revenue of C$9,167,000 and achieved an operating profit of C$1,126,000 for the year ended 31 December 2020. Management anticipates that the Group will generate net profits going forward. However, there is no assurance the Group will generate sufficient earnings, operate profitably, or provide a return on investment in the future.

**Dilution**
The Group currently has 50,364,858 Ordinary Shares outstanding and 54,214,430 on a fully diluted basis. The Group currently has no warrants outstanding. To the extent the Group should, in future, issue any additional warrants, additional options, convertible securities or other similar rights, the holders of such securities will have the opportunity to profit from a rise in the market price of the Ordinary Shares with a resulting dilution in the equity interest of any persons who become holders of Ordinary Shares. The Group's ability to obtain additional financing during the period such rights are outstanding may be adversely affected and the existence of the rights may have an adverse effect on the price of the Ordinary Shares. The holders of warrants, options and other rights may exercise such securities at a time when the Group would, in all likelihood, be able to obtain any needed capital by a new offering of securities on terms more favourable than those provided by the outstanding rights.
In some circumstances, the increase in the number of Ordinary Shares issued and outstanding and the possibility of sales of such shares may have a depressive effect on the price of the Ordinary Shares. In addition, as a result of such additional Ordinary Shares, the voting power of the Group's existing shareholders may be diluted.

**Officers and Directors of the Group Own a Significant Number of Ordinary Shares and Can Exercise Significant Influence**
The officers and directors of the Group, as a group, beneficially own, on a non-diluted basis, approximately 21.33% of the outstanding Ordinary Shares. The officers and directors, as shareholders, will be able to exert significant influence on matters requiring approval by shareholders, including the election of directors and the approval of any significant corporate transactions.

## PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

**Future Sales of Ordinary Shares by Existing Shareholders**
Sales of a large number of Ordinary Shares in the public markets, or the potential for such sales, could decrease the trading price of the Ordinary Shares and could impair the Group's ability to raise capital through future sales of Ordinary Shares.

**Conflicts of Interest**
Directors of the Group are or may become directors of other reporting companies or have significant shareholdings in other mining companies and, to the extent that such other companies may participate in ventures in which the Group may participate, the directors of the Group may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The Group and its directors attempt to minimize such conflicts. In the event that such a conflict of interest arises at a meeting of the directors of the Group, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In appropriate cases the Group will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. The directors of the Group are required to act honestly, in good faith and in the best interests of the Group. In determining whether or not the Group will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Group, the degree of risk to which the Group may be exposed and its financial position at that time.

**The Cerrado Verde Project is Managed by a Subsidiary**
The material operating subsidiary for the Cerrado Verde Project is Verde Fertilizantes. The managers ("administradors") of Verde Fertilizantes are Felipe Paolucci CFO and Elton Golçaves, Mining Engineer, but the ultimate control of Verde Fertilizantes is with Cristiano Veloso, Director and Chairman.  Despite the controls that the Group has put in place, there may be risks associated with ensuring that the corporate actions of Verde Fertilizantes reflect the decisions of the Board of Directors and management of the Group.

## DIRECTORS' SECTION 172 STATEMENT

The following disclosure describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) and forms the Directors' statement required under section 414CZA of The Companies Act 2006. This reporting requirement is made in accordance with the new corporate governance requirements identified in The Companies (Miscellaneous Reporting) Regulations 2018, which apply to group reporting on financial years starting on or after 1 January 2019.

The matters set out in section 172(1) (a) to (f) are that a Director must act in the way he or she considers, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term.
(b) the interests of the Group's employees.
(c) the need to foster the Group's business relationships with suppliers, customers and others.
(d) the impact of the Group's operations on the community and the environment.
(e) the desirability of the Group maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly between members of the Group.

In the above Strategic Report section of this Annual Report, the Group has set out the short to long term strategic priorities and described the plans to support their achievement. We have split our analysis into two distinct sections, the first to address Stakeholder engagement, which provides information on stakeholders, issues and methods of engagement, disclosed by the stakeholder group. The second section addresses principal decisions made by the Board and focuses on how the regard for stakeholders influenced decision-making.

**Section 1. Stakeholder mapping and engagement activities within the reporting period.**
The Group continuously interacts with a variety of stakeholders important to its success, such as equity investors, joint venture partners, debt providers, workforce, government bodies, local community, vendor partners and offtake partners. The Group strives to strike the right balance between engagement and communication. Furthermore, the Group works within the limitations of what can be disclosed to the various stakeholders with regards to maintaining confidentiality of market and/or commercially sensitive information.

| Key Stakeholder groups | Why is it important to engage this group of stakeholders | How Verde Agritech Plc engaged with the stakeholder group | What came out of the engagement |
|---|---|---|---|
| **Equity investors** | The long-term success of the Group has been a result of capital investment. This has allowed the Group to successfully complete the exploration and evaluation stage and start commercial production. This has been key to the success of the project without which the Group cannot create value to the investors and a return on investment. | *Substantial Shareholders*<br>• Regular meetings with the Chairman, CEO and CFO.<br><br>*Prospective and existing investors*<br>• The AGM and Annual and Interim Reports.<br>• Investor roadshows and presentations.<br>• Regular news and project updates.<br>• Social media accounts e.g. Twitter (@verdeagritech) Linkedin (Verde AgriTech Investors)<br>Website (www.investor.verde.ag) | In March 2019, the Group received C$1,692,068 in an oversubscribed Private Placement of which 59% was from outside investors. |
| **Debt providers**<br><br>**Loans from BNDES Finame, Banco Santander and Banco Bradesco banks in Brazil** | Access to capital is of vital importance to the long-term success of our business to be able to expand the Cerrado Verde Project. Ongoing support from Debt providers is crucial to enable the construction of the plant. | • One-on-one meetings with the CEO and CFO.<br>• Monthly reporting on project progress.<br>• Ad hoc discussions with management as required. | In the period, the Group agreed seven new loans which allowed them to buy new equipment for the processing plant. |
| **Workforce**<br><br>**The Group has over 98 employees including its directors. One of the Directors is a UK resident. Both the CEO and CFO are based in Brazil. The rest of the Group's workforce is based in Brazil.** | The vast majority of its employees are based in Brazil. The Directors consider workforce issues for the Group as a whole. The Group's long-term success is predicated on the commitment of our workforce to our vision and the demonstration of our values on a daily basis. | *General Workforce:*<br>• The Group maintains an open line of communication between its employees, senior management and Board of Directors.<br><br>*UK Directors*<br>• The CEO and CFO report regularly to the Board, including the provision of board information. Key members of the finance team are invited to some of the audit committee meetings. | *Brazil*<br>The team are trained in aspects of corporate policies and procedures to engender a positive corporate culture aligned with the Group code of conduct.<br><br>Meetings are held with staff to provide project updates and ongoing business objectives.<br><br>Efforts to focus on plant safety have yielded significant improvements in safety performance. |

| | | | |
|---|---|---|---|
| **Workforce (Continued)** | | • There is a formalised employee induction into the Group's corporate governance policies and procedures.<br>*Brazil*<br>• There is a Brazil HR department.<br>• Senior management regularly visit the operations in São Gotardo and engage with employees through one-on-one and staff meetings, employee events, project updates, etc. | |
| **Governmental bodies**<br><br>**The Group is impacted by local governmental organisations in the UK and Brazil.** | The Group is restricted to relevant licences and permits from government to mine. | • The Group provides general corporate presentations regarding the Cerrado Verde project development as part of ongoing stakeholder engagement with the Brazilian state government, São Gotardo local government and Brazilian federal government. The Group continues to maintain good relations with the respective government bodies and frequently communicates its progress.<br><br>• The Group engages with the relevant departments of the Brazilian government in order to progress the operational licences it will require. | To date, the Group has received its requisite environmental and mining permits. With this in place, the Group is now focused on increasing these permits. |
| **Community**<br><br>**The local community at the mine town and the surrounding area.** | We need to engage with the local community to build trust. Having the community's trust will mean it is more likely that any fears that the community has can be assuaged and our plans and strategies are more likely to be accepted. Community engagement will inform better decision making.<br><br>The local community in Sao Gotardo and wider Belo Horizonte will provide | The Group has identified all key stakeholders with the local community within the reporting period.<br><br>Verde Agritech Plc has open dialogue with the São Gotardo local government and community leaders regarding the project development. | The Group has ongoing engagements with the local community as part of the development of its sustainability initiatives. |

| | | | |
|---|---|---|---|
| **Community (Continued)** | employees to the mine and our suppliers.<br><br>The Group will in due course have a social and economic impact on the local community and surrounding area. The Group is committed to ensuring sustainable growth minimising adverse impacts. The Group will engage these stakeholders as appropriate. | | |
| **Suppliers**<br><br>**At a local level, the Group also partner with a variety of smaller companies, some of whom are independent or family run businesses.** | Our suppliers are fundamental to ensuring that the Group can meet its targets on time and on budget. Using quality suppliers ensures that as a business we meet the high standards of performance that we expect of ourselves and vendor partners. | One on one meetings between management and suppliers.<br><br>Assist local suppliers to address liquidity challenges. | Smaller local vendors are engaged at a broader level to better align with Group objectives. |

## DIRECTORS' SECTION 172 STATEMENT (CONTINUED)

**Section 2. Principal decisions by the board during the period.**

We define principal decisions as both those that have long-term strategic impact and are material to the Group, but also those that are significant to our key stakeholder groups. In making the principal decisions, the Board considered the outcome from its stakeholder engagement and, the need to maintain a reputation for high standards of business conduct.

On behalf of the board:

C Veloso, Chairman
30 March 2021

# VERDE AGRITECH PLC

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors present their report with the audited financial statements of Verde Agritech Plc and its subsidiaries ("the Group" or "Verde") for the year ended 31 December 2020. The financial statements are presented in Canadian Dollars.

### DIRECTORS

The Directors during the period under review were:

Cristiano Veloso
Alysson Paolinelli
Getulio Fonseca
Renato Gomes
Paulo Machado Ribeiro
Michael St Aldwyn

### DIVIDENDS

No dividends will be distributed for the year ended 31 December 2020 (2019: $nil).

### SUBSTANTIAL SHARE INTERESTS

At 30 March 2021 Verde Agritech Plc was aware of the following substantial share interests:

| | Number of Ordinary Shares | % of Share Capital |
|---|---|---|
| Cristiano Veloso | 9,451,547 | 18.77% |

### FINANCIAL INSTRUMENTS

The Group uses financial instruments comprising cash, liquid resources and items such as short-term debtors and creditors that arise from its operations. These financial instruments are the sole source of finance for the Group's operations. The principal risks relate to currency exposure and liquidity (see note 25 to the consolidated financial statements).

The majority of the Group's cash resources are held in Canadian Dollars. Exchange rate fluctuations may adversely affect the Group's financial position and results. The Group's financial results are reported in Canadian Dollars and its costs are primarily incurred in Canadian Dollars and Brazilian Reais. The appreciation of the Brazilian Real against the Canadian Dollar could increase the actual capital and operating costs of the Group's mineral exploration projects and materially adversely affect the results presented in the Group's financial statements.

The policy in relation to the translation of foreign currency assets and liabilities is set out in note 2.2 'Significant Accounting policies; Foreign currency transactions' to the consolidated financial statements.

Cash balances in Brazilian Reais are kept under constant review.

# VERDE AGRITECH PLC

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

The Group has chosen, in accordance with Section 414C of the Companies Act 2006, to set out the likely future developments in the business of the Group which would otherwise be required to be contained in the Director's report within the Strategic report on pages 2 to 11.

The Board of Directors determines, as required, the degree to which it is appropriate to use financial instruments and hedging techniques to mitigate risks. The main risks for which such instruments may be appropriate are foreign exchange risk, liquidity risk, credit risk and interest rate risk, each of which is discussed in note 25 to the financial statements.

### STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

Each of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditor for the purposes of their audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

### AUDITOR

BDO LLP resigned as auditor and PKF Littlejohn LLP were appointed to act as the Group and Company's auditor during the period. A resolution to reappoint PKF Littlejohn LLP will be put forward at the Annual General Meeting.

On behalf of the board:

C Veloso, Chairman
30 March 2021

## 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 Group and Company financial statements in accordance with international accounting standards in conformity with the Companies Act 2006. 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 Group and Company and of the profit or loss of the Group and 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 they have been prepared in accordance with international accounting standards in conformity with the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- 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 requirements of 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.

**Website publication**

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

# VERDE AGRITECH PLC

## CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

In formulating the Group's corporate governance procedures the Board of Directors takes due regard of the principles of good governance set out in The UK Corporate Governance Code issued by the Financial Reporting Council and the size and development of the Group. The Group also has regard to but does not comply with the Quoted Companies Alliance Guidelines on Corporate Governance for Smaller Companies.

The Board of Verde Agritech Plc is made up of one executive director and five non-executive directors. C Veloso is the Group's Chief Executive Officer and Chairman of the Board. It is the Board's policy to maintain independence by having at least half of the Board comprising non-executive directors. The structure of the Board ensures that no one individual or group dominates the decision-making process.

The Board corresponds regularly via email and telephone and meets via teleconference at least quarterly, thus providing effective leadership and overall control of the Group's affairs through the schedule of matters reserved for its decision. This includes the approval of the budget and business plan, major capital expenditure, risk management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the directors in a timely manner, prior to Board meetings. The Board delegates certain of its responsibilities to Board committees, which have clearly defined terms of reference. Between Board meetings, the executive director, non-executive directors and key operations personnel meet on a regular basis to review and discuss progress.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that all Board procedures are followed. Any director may take independent professional advice at the Group's expense in the furtherance of his duties.

The Audit Committee meets no less than quarterly and considers the Group's financial reporting (including accounting policies) and internal financial controls. The members of the Audit Committee are Messrs. Renato Gomes, Michael St Aldwyn, and Getulio Fonseca. The Audit committee receives reports from management and from the Group's auditor. The Group has in place a series of procedures and controls designed to identify and prevent the risk of loss. These procedures are formally documented and are reported on regularly. The Audit Committee has reviewed the systems in place and considers these to be appropriate.

The Compensation Committee meets at least once a year and is responsible for making decisions on directors' and senior executive remuneration packages. The members of the Compensation Committee are Messrs. Renato Gomes, Michael St Aldwyn, and Getulio Fonseca.

Remuneration of executive directors is established by the Compensation Committee with reference to the remuneration of executives of equivalent status both in terms of time commitment, level of responsibility of the position and by reference to their job qualifications and skills. The Compensation Committee will also have regard to the terms which may be required to attract an executive of equivalent experience to join the Board from another company. Such packages include performance related bonuses and the discretionary grant of share options.

The Corporate Governance and Nominating Committee is responsible for regularly reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board with regard to any changes. The members of the Corporate Governance and Nominating Committee are Messrs. Renato Gomes, Michael St Aldwyn, and Paulo Sérgio Ribeiro Machado.

The Group's principal communication with its shareholders is through the Annual General Meeting and through the annual report and accounts, news releases and interim statements.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VERDE AGRITECH PLC

**Opinion**

We have audited the financial statements of Verde AgriTech Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit and parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Separate opinion in relation to IFRSs as issued by the IASB**

As explained in note 2.1 to the group financial statements, the group, in addition to complying with its legal obligation to apply international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements give a true and fair view of the consolidated financial position of the group as at 31 December 2020 and of its consolidated financial performance and its cash flows for the year then ended in accordance with IFRSs as issued by the IASB.

**Basis for opinion**

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

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included an evaluation of management's assessment and a review of management's budget and cash flow forecasts prepared. This included an analysis of qualitative and quantitative aspects within management's assessments. Based on the phased approach to extraction activities, it is noted that a continuous increase in extraction and production activities is expected for the foreseeable future.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or parent 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.

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

**Our application of materiality**

The scope of our audit was influenced by our application of materiality. The quantitative and qualitative thresholds for materiality determine the scope of our audit and the nature, timing and extent of our audit procedures. Group materiality was $400,000 for balances at year-end and $80,000 for transactions during the year, with parent company materiality being $180,000 for balances at year-end and $38,000 for transactions during the year. These metrics were based on 1.5% of gross assets for balances at year-end and 1% of turnover for transactions during the period. From a group perspective the key benchmark is considered gross assets, given that current and potential investors will be most interested in the asset base of the group, although as production increases, revenue is also a key benchmark to consider.

Component materiality for all entities within the group was set lower than our overall group materiality and ranged from $180,000 to $240,000 for balances at year-end and $32,000 to $51,000 for transactions during the year. Performance materiality for the group, and all significant components, was set at 60% of overall materiality, reflecting the increased risk due to the current year being our first year of engagement with the group and parent company.

We agreed with the audit committee that we would report all audit differences identified during the course of our audit in excess of $20,000 for balances at year-end and $4,000 for transactions within the year as well as differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material.

**Our approach to the audit**

Our audit is risk based and is designed to focus our efforts on the areas at greatest risk of material misstatement, aspects subject to significant management judgement as well as greatest complexity, risk and size.

In designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. The recoverability of intangible assets, investments and the valuation of share-based payments were assessed as areas which involved significant accounting estimates and judgements by management. We also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud. All significant and / or material components were audited, some with the assistance of component auditors. We used PKF Brazil, a firm within our network, to perform the component audit work in accordance with our group audit instructions. We were actively involved in their audit process, and reviewed their working papers and their findings to ensure that their approach and conclusions were consistent with the approach we would have taken and the conclusions we would have reached. Regular meetings and calls were held between the group audit team and component auditor during the planning, execution and completion phases.

**Key audit matters**

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

| Key Audit Matter | How our scope addressed this matter |
| --- | --- |
| **Revenue Recognition** | |
| **There is a presumption of fraud risk related to revenue recognition under UK and international auditing standards.**<br><br>**Verde Agritech commenced commercial production of its multinutrient potassium fertiliser in 2018 with year on year revenue growth since that date. Revenue is recognised when control of the product sold is transferred to the customer, which is when the goods are shipped to the customer.**<br><br>**Revenue needs to be recognised and recorded accurately in accordance with the terms of the underlying sales agreements and performance obligations with customers in accordance with IFRS15. This is consistent with the Group's accounting policy as per note 2.18.** | Our work in this area included:<br><br>▪ Gaining an understanding of the controls over revenue recognition.<br>▪ Obtaining and reviewing the sales agreements with significant customers and assessing the terms and conditions of the agreement for their impact on performance obligations and revenue recognition.<br>▪ Assessing whether or not revenue has been recognised in line with the Group's accounting policy and ensuring that policy complies with IFRS15.<br>▪ Testing completeness of revenue by ensuing all inventory shipped has a corresponding sales invoice.<br>▪ Obtaining a sales listing and verifying occurrence and accuracy of transactions by agreeing to supporting documentation.<br>▪ Performing testing on sales transactions before and after the year-end to ensure recognition in the correct period.<br><br>From the testing performed, no misstatements were noted and no control deficiencies reported. |
| **Carrying value of mineral properties** | |
| **As at 31 December 2020, the Group's mineral properties totalled $20.329m and details of these assets and the related critical judgements and estimates are disclosed in notes 2.11, 2.19 and 12.**<br><br>**Management is required to assess annually whether there is any indication that the Group's mineral properties may be impaired, and consider whether the carrying value exceeds the recoverable amount through value in use calculations involving future discounted cash flows.**<br><br>**Calculation of the recoverable amount is dependent on various significant judgements and estimates, including the life of mine plan, potash price, production margins and discount rates.**<br><br>**The subjectivity of the judgements and estimates, together with significant carrying value of mineral properties, make this area a key focus for the audit.** | Our work in this area included:<br>▪ Critically assessing whether there are any indicators of impairment and, if so, assessing the impairment model prepared by management.<br>▪ Reviewing relevant licensing and permitting, including those in process, to ensure consistent with forecast operational performance and plans.<br>▪ Searching Departamento Nacional de Produção Mineral ("DNPM") website and agree ownership and expiry of licences held by the group.<br>▪ Comparing actual production against planned production under the pre-feasibility study performed in 2017.<br>▪ Obtaining Management's discounted cash flow model and assessing the reasonableness of the inputs included in the models, including likely sensitivities which could remove the headroom. |

| | |
|---|---|
| | <ul><li>Obtaining Management's discounted cash flow model and assessing the reasonableness of the inputs included in the models, in relation to external data and those applied within the pre-feasibility study.</li><li>Reviewing budgets, forecasts and strategic plans to consider the extent to which Management's judgement regarding future planned activity are supported by those plans and actual performance achieved to date.</li><li>Considering publicly available information and other information obtained during our work in order to assess whether there were any other potential indicators of impairment that have not been identified by Management.</li><li>Reviewing appropriateness of the disclosures made in the financial statements.</li></ul>Based on the procedures performed, we consider management's estimates and judgements to be reasonable and the related disclosures appropriate. |

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the group and parent company 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 or conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 group and parent company 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 group and parent company financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

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

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:

- We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, as well as the application of cumulative audit knowledge and experience of the sector.
- We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from the Companies Act 2006, IFRS accounting standards, and the operating terms set out in the mining licenses, as well as local laws and regulations.
- We designed our audit procedures to ensure the audit team considered whether there were any indications of noncompliance by the group and parent company with those laws and regulations. These procedures included, but were not limited to specific enquiries of management, reviewing board minutes and any legal or regulatory compliance correspondence.
- We also identified the risks of material misstatement of the financial statements due to fraud at both the group and parent company level. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, whether key accounting estimates and judgements could include management bias. We addressed these risks by challenging the assumptions and judgements made by management when auditing significant accounting estimates.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business, as well as discussions with management where relevant.

- The audit team noted no non-compliance at parent level and the component auditor reported no non-compliance at the local operating level. The audit team discussed the possibility of non-compliance with Those Charged with Governance, as well as with Component Auditors, and through audit procedures performed, no instances were noted.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: *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.

David Thompson

**David Thompson (Senior Statutory Auditor)**
**For and on behalf of PKF Littlejohn LLP**
**Statutory Auditor**

*30 March 2021*

15 Westferry Circus
Canary Wharf
London E14 4HD

# INDEPENDENT AUDITOR'S REPORT FOR CANADIAN FILING PURPOSES

**Opinion**

We have audited the financial statements of Verde Agritech Plc and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2020 and 31 December 2019 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, 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.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How our scope addressed this matter |
|---|---|
| **Revenue Recognition** | |
| **There is a presumption of fraud risk related to revenue recognition under international auditing standards.**<br><br>**Verde Agritech commenced commercial production of its multinutrient potassium fertiliser in 2018 with year on year revenue growth since that date. Revenue is recognised when control of the product sold is transferred to the customer, which is when the goods are shipped to the customer.**<br><br>**Revenue needs to be recognised and recorded accurately in accordance with the terms of the underlying sales agreements and performance obligations with customers in accordance with IFRS15. This is consistent with the Group's accounting policy as per note 2.18.** | Our work in this area included:<br><br>▪ Gaining an understanding of the controls over revenue recognition.<br><br>▪ Obtaining and reviewing the sales agreements with significant customers and assessing the terms and conditions of the agreement for their impact on performance obligations and revenue recognition.<br><br>▪ Assessing whether or not revenue has been recognised in line with the Group's accounting policy and ensuring that policy complies with IFRS15.<br><br>▪ Testing completeness of revenue by ensuing all inventory shipped has a corresponding sales invoice. |

| | |
|---|---|
| | ▪ Obtaining a sales listing and verifying occurrence and accuracy of transactions by agreeing to supporting documentation.<br>▪ Performing testing on sales transactions before and after the year-end to ensure recognition in the correct period.<br><br>From the testing performed, no misstatements were noted and no control deficiencies reported. |
| **Carrying value of mineral properties** | |
| **As at 31 December 2020, the Group's mineral properties totalled $20.329m and details of these assets and the related critical judgements and estimates are disclosed in notes 2.11, 2.19 and 12.**<br>**Management is required to assess annually whether there is any indication that the Group's mineral properties may be impaired, and consider whether the carrying value exceeds the recoverable amount through value in use calculations involving future discounted cash flows.**<br>**Calculation of the recoverable amount is dependent on various significant judgements and estimates, including the life of mine plan, potash price, production margins and discount rates.**<br>**The subjectivity of the judgements and estimates, together with significant carrying value of mineral properties, make this area a key focus for the audit.** | Our work in this area included:<br>▪ Critically assessing whether there are any indicators of impairment and, if so, assessing the impairment model prepared by management.<br>▪ Reviewing relevant licensing and permitting, including those in process, to ensure consistent with forecast operational performance and plans.<br>▪ Searching Departamento Nacional de Produção Mineral ("DNPM") website and agree ownership and expiry of licences held by the group.<br>▪ Comparing actual production against planned productions under the pre-feasibility study performed in 2017.<br>▪ Obtaining Management's discounted cash flow model and assessing the reasonableness of the inputs included in the models, including likely sensitivities which could remove the headroom.<br>▪ Obtaining Management's discounted cash flow model and assessing the reasonableness of the inputs included in the models, in relation to external data and those applied within the pre-feasibility study.<br>▪ Reviewing budgets, forecasts and strategic plans to consider the extent to which Management's judgement regarding future planned activity are supported by those plans and actual performance achieved to date.<br>▪ Considering publicly available information and other information obtained during our work in order to assess whether there were any other potential indicators of impairment that have not been identified by Management. |

| | |
|---|---|
| | ▪ Reviewing appropriateness of the disclosures made in the financial statements.<br><br>Based on the procedures performed, we consider management's estimates and judgements to be reasonable and the related disclosures appropriate. |

**Other information**

The other information comprises the information included in the report of the directors and audited financial statements and the management discussion and analysis, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

**Responsibilities of directors**

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation and fair presentation of the financial statements, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is David Thompson.

PKF Littlejohn LLP

**PKF Littlejohn LLP**
**Chartered Accountants**
**London, UK**

*30 March 2021*

15 Westferry Circus
Canary Wharf

London E14 4HD

# VERDE AGRITECH PLC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 31 December 2020**

All amounts expressed in Canadian Dollars.

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Revenue | 3 | **9,167** | 6,029 |
| Production costs | | **(3,515)** | (3,166) |
| **Gross Profit** | | **5,652** | 2,863 |
| | | | |
| Sales and distribution expenses | | **(2,270)** | (1,303) |
| General and administrative expenses | | **(2,256)** | (2,344) |
| **Operating Profit / (Loss)** | 5 | **1,126** | (784) |
| Finance income | 7 | **121** | 13 |
| Finance costs | 8 | **(367)** | (150) |
| **Net Profit / (Loss) before tax** | | **880** | (921) |
| Corporation tax | 9 | **(330)** | (186) |
| **Net Profit / (Loss)** | | **550** | **(1,107)** |

**Other comprehensive income**

Items that may be reclassified subsequently to profit or loss:

| | | | |
|---|---|---|---|
| Exchange differences on translating foreign operations | | **(4,490)** | (1,565) |
| | | | |
| **Total comprehensive loss for the year attributable to equity holders of the parent** | | **(3,940)** | (2,672) |

| **Earnings / (Loss) per share ($)** | *10* | **2020** | 2019 |
|---|---|---|---|
| Basic earnings / (loss) per share | | **0.0116** | (0.0244) |
| Diluted earnings / (loss) per share | | **0.0115** | (0.0244) |

## STATEMENTS OF FINANCIAL POSITION

**As at 31 December 2020**
All amounts expressed in Canadian Dollars.

| Assets | Note | 2020 Group (\$'000) | 2020 Company (\$'000) | 2019 Restated Group* (\$'000) | 2019 Company (\$'000) |
|---|---|---|---|---|---|
| Property, plant and equipment | 11 | **2,429** | **-** | 2,113 | - |
| Mineral properties | 12 | **20,329** | **5,690** | 24,455 | 5,705 |
| Intangible assets | 13 | **-** | **-** | - | - |
| Investments | 14 | **-** | **46,060** | - | 45,948 |
| **Total non-current assets** | | **22,758** | **51,750** | **26,568** | **51,653** |
| Inventory | 15 | **567** | **-** | 293 | - |
| Trade and other receivables | 16 | **3,170** | **75** | 1,638 | 249 |
| Cash and cash equivalents | 17 | **2,237** | **165** | 666 | 482 |
| **Total current assets** | | **5,974** | **240** | **2,597** | **731** |
| **Total assets** | | **28,732** | **51,990** | **29,165** | **52,384** |
| | | | | | |
| **Equity attributable to the equity holders of the parent** | | | | | |
| Issued capital | 18 | **19,699** | **19,699** | 18,752 | 18,752 |
| Share premium | | **47,243** | **47,243** | 47,128 | 47,128 |
| Warrant reserve | 19 | **431** | **431** | 431 | 431 |
| Merger reserve | | **(4,557)** | **-** | (4,557) | - |
| Translation reserve | | **(16,147)** | **-** | (11,657) | - |
| Accumulated losses | | **(25,529)** | **(16,037)** | (26,185) | (14,630) |
| **Total equity** | | **21,140** | **51,336** | **23,912** | **51,681** |
| | | | | | |
| **Liabilities** | | | | | |
| Interest-bearing loans and borrowings | 19 | **2,529** | **-** | 286 | - |
| Provisions | 20 | **2,716** | **-** | 3,450 | - |
| **Total non-current liabilities** | | **5,245** | **-** | **3,736** | **-** |
| | | | | | |
| Trade and other payables | 18 | **1,406** | **654** | 1,207 | 703 |
| Interest-bearing loans and borrowings | 19 | **941** | **-** | 310 | - |
| **Total current liabilities** | | **2,347** | **654** | **1,517** | **703** |
| **Total liabilities** | | **7,592** | **654** | **5,253** | **703** |
| **Total equity and liabilities** | | **28,732** | **51,990** | **29,165** | **52,384** |

***** See note 27 for details regarding the restatement as a result of an error.

As permitted by section 408 of the Companies Act 2006, the statement of comprehensive income of the parent company is not presented as part of these financial statements. The parent Company's loss for the financial year was $1,513,000 (2019: $1,586,000).

On behalf of the board:

**C Veloso**
Chairman

Approved and authorised for issue by the Board on 30 March 2021.

# VERDE AGRITECH PLC

## STATEMENTS OF CASH FLOWS

**For the Year Ended 31 December 2020**

All amounts expressed in Canadian Dollars.

| Cash flows from operating activities | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Group** | **Company** | Group | Company |
| | **$'000** | **$'000** | $'000 | $'000 |
| Operating profit / (loss) | 1,126 | (1,636) | (784) | (1,585) |
| Dividends received | - | 123 | - | - |
| Depreciation | 165 | - | 91 | - |
| Loss on disposal of property, plant and equipment | 58 | - | - | - |
| Amortisation of mineral property | 65 | 15 | 37 | 8 |
| Foreign exchange differences | (116) | - | 480 | - |
| Share-based payments | 106 | 106 | 787 | 787 |
| (Increase)/Decrease in inventories | (275) | - | 22 | - |
| (Increase)/Decrease in receivables | (1,532) | 174 | (812) | 28 |
| (Decrease)/Increase in payables | 1,964 | 1,013 | (391) | 501 |
| **Cash generated / (utilised) in operations** | **1,561** | **(205)** | **(570)** | **(261)** |
| Interest paid | (258) | **-** | (57) | - |
| Taxation paid | (241) | **-** | (92) | - |
| **Net cash generated / (utilised) in operating activities** | **1,062** | **(205)** | **(719)** | **(261)** |
| | | | | |
| **Cash flows from investing activities** | | | | |
| Interest received | 120 | - | 13 | - |
| Acquisition of mineral property assets | (230) | - | (149) | - |
| Acquisition of property, plant and equipment | (1,357) | - | (1,342) | - |
| Investment in subsidiary | - | (112) | - | (1,561) |
| **Net cash utilised in investing activities** | **(1,467)** | **(112)** | **(1,478)** | **(1,561)** |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Bank loan received | 2,081 | - | 217 | - |
| Proceeds from issue of shares | - | - | 1,863 | 1,863 |
| **Net cash generated from financing activities** | **2,081** | **-** | **2,080** | **1,863** |
| | | | | |
| Net increase/(decrease) in cash and cash equivalents | 1,676 | (317) | (117) | 41 |
| Cash and cash equivalents at beginning of period | 666 | 482 | 836 | 441 |
| Effect of exchange rate fluctuations on cash held | (105) | - | (53) | - |
| **Cash and cash equivalents at end of period** | **2,237** | **165** | **666** | **482** |

## VERDE AGRITECH PLC

### Consolidated Statement of Changes in Equity

All amounts expressed in Canadian Dollars.

| Group | Share capital ($'000) | Share premium ($'000) | Share warrant reserve ($'000) | Merger reserve ($'000) | Translation reserve ($'000) | Accumulated losses ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2019 | 17,417 | 46,146 | 777 | (4,557) | (10,093) | (25,865) | 23,825 |
| **Comprehensive loss** | | | | | | | |
| Loss for the year | - | - | - | - | - | (1,107) | (1,107) |
| Foreign exchange translation differences | - | - | - | - | (1,564) | - | (1,564) |
| Total comprehensive loss for the year | - | - | - | - | (1,564) | (1,107) | (2,671) |
| **Transactions with owners** | | | | | | | |
| Issue of share capital | 1,335 | 205 | 431 | - | - | - | 1,971 |
| Expiry of share warrants | - | 777 | (777) | - | - | - | - |
| Share-based payments | - | - | - | - | - | 787 | 787 |
| Total transactions with owners | 1,335 | 982 | (346) | - | - | 787 | 2,758 |
| Balance at 31 December 2019 | 18,752 | 47,128 | 431 | (4,557) | (11,657) | (26,185) | 23,912 |
| | | | | | | | |
| **Balance at 1 January 2020** | **18,752** | **47,128** | **431** | **(4,557)** | **(11,657)** | **(26,185)** | **23,912** |
| **Comprehensive loss** | | | | | | | |
| Profit for the year | - | - | - | - | - | 550 | 550 |
| Foreign exchange translation differences | - | - | - | - | (4,490) | - | (4,490) |
| **Total comprehensive profit / (loss) for the year** | **-** | **-** | **-** | **-** | **(4,490)** | **550** | **(3,940)** |
| **Transactions with owners** | | | | | | | |
| Issue of share capital | 947 | 115 | - | - | - | - | 1,062 |
| Share-based payments | - | - | - | - | - | 106 | 106 |
| **Total transactions with owners** | **947** | **115** | **-** | **-** | **-** | **106** | **1,168** |
| **Balance at 31 December 2020** | **19,699** | **47,243** | **431** | **(4,557)** | **(16,147)** | **(25,529)** | **21,140** |

## VERDE AGRITECH PLC

### COMPANY STATEMENT OF CHANGES IN EQUITY

All amounts expressed in Canadian Dollars.

| Company | Share capital ($'000) | Share premium ($'000) | Share warrant reserve ($'000) | Accumulated losses ($'000) | Total ($'000) |
|---|---|---|---|---|---|
| Balance at 1 January 2019 | 17,417 | 46,146 | 777 | (13,832) | 50,508 |
| **Comprehensive loss** | | | | | |
| Loss for the year | - | - | - | (1,585) | (1,585) |
| Total comprehensive loss for the year | - | - | - | (1,585) | (1,585) |
| **Transactions with owners** | | | | | |
| Issue of share capital | 1,335 | 205 | 431 | - | 1,971 |
| Expiry of share warrants | - | 777 | (777) | - | - |
| Share-based payments | - | - | - | 787 | 787 |
| Total transactions with owners | 1,335 | 982 | (346) | 787 | 2,758 |
| Balance at 31 December 2019 | 18,752 | 47,128 | 431 | (14,630) | 51,681 |
| | | | | | |
| **Balance at 1 January 2020** | **18,752** | **47,128** | **431** | **(14,630)** | **51,681** |
| **Comprehensive loss** | | | | | |
| Loss for the year | - | - | - | (1,513) | (1,513) |
| **Total comprehensive loss for the year** | **-** | **-** | **-** | **(1,513)** | **(1,513)** |
| **Transactions with owners** | | | | | |
| Issue of share capital | 947 | 115 | - | - | 1,062 |
| Share-based payments | - | - | - | 106 | 106 |
| **Total transactions with owners** | **947** | **115** | **-** | **106** | **1,168** |
| **Balance at 31 December 2020** | **19,699** | **47,243** | **431** | **(16,037)** | **51,336** |

# NOTES TO THE GROUP FINANCIAL STATEMENTS

## 1. Nature of operation and going concern

The Directors have prepared cash flow forecasts for the Group covering a period through to the end of March 2022 which shows income from revenue supporting capital, operating and administrative expenses throughout the period with only a small financing loan. As at December 31, 2020, the Group had current assets of $5,974,000 and current liabilities of $2,347,000 providing a working capital surplus of $3,627,000. Having prepared budgets and cash flow forecasts based on current resources, and assessing the financial resources available through trading activities and borrowing facilities, the Directors believe the Group has sufficient resources to meet its obligations for a period of at least 12 months from the date of approval of these financial statements.

The cash forecast to March 2022 is based on the ramp up of production to 350,000 tpy and the Group being able to achieve similar pricing for the Product as demonstrated in 2020. Based on the Group's experience and saleability of the products, along with forward orders taken, the Directors consider that the mine in full operation will generate sufficient cash flows to continue its operational existence for the foreseeable future and continue to adopt the going concern basis in preparing the annual financial statements.

The group has complied with all borrowing terms and covenants as set by lenders.

As at 31 December 2020, Covid-19 (Coronavirus) remains an ongoing risk for all businesses worldwide. It is not clear for how long the pandemic will last or how more extensive it will become, or the further measures that will be taken by governments and others to seek to control the pandemic and its impact.

At the date of signing this report, the globe is already showing signs of recovery following the development of multiple vaccines.

The Group's trade agriculture continues to fall under the food chain category and as such, the Brazilian government have confirmed there will be no restriction on trade. During 2020, the factory remained open and was in full operation. Office staff worked from home.

Management has considered the risk to the supply chain and consider this low due to the simplicity of the operations. The Group can manage the on-site risk at the production facility if the employees were to get ill and have contingency plans in place. Management and the directors have stress tested the cashflow forecast for a worse case scenario if the operation shut down for six months and have demonstrated they would have necessary funds. Management and the directors consider this scenario to be a remote risk.

## 2. Significant accounting policies

Verde Agritech Plc (the "Company") is a company registered in England and Wales. The consolidated financial statements of the Group for the year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as the "Group").

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

### 2.1 Statement of compliance

The consolidated financial statements and company financial statements of Verde Agritech Plc have been prepared in accordance with international accounting standards in conformity with the Companies Act 2006 and with IFRSs as promulgated by the International Accounting Standards Board ("IASB") and their interpretations issued by the IFRIC.

## 2. Significant accounting policies (continued)

### 2.1 Statement of compliance (continued)

The Group has adopted all of the new and revised Standards and Interpretations issued by the IASB that are relevant to its operations and effective for accounting periods beginning 1 January 2020. The adoption of these new and revised Standards and Interpretations had no material effect on the profit or loss or financial position of the Group.

The Group has not adopted any Standards or Interpretations in advance of the required implementation dates. It is not expected that adoption of Standards or Interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

### 2.2 Basis of consolidation

The Group's financial statements consolidate the financial statements of Verde Agritech Plc (”Verde”) and its subsidiaries (the “Group”) for the year ended 31 December 2020.

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

The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

### 2.3 Foreign currency

The Group's presentation currency is Canadian Dollars. Management considers this to be most appropriate for a company that is listed on the Toronto Stock Exchange, raises funding and remunerates the board of directors in Canadian Dollars. The functional currency of the parent company is also considered to be Canadian Dollars.

Transactions in currencies other than the functional currency of the Company are recorded at a rate of exchange approximating to that prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the amounts prevailing at the balance sheet date and any gains or losses arising are recognised in profit or loss.

On consolidation, the assets and liabilities of the Group's overseas operations in Brazil that do not have a Canadian Dollar functional currency are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rate during the quarter when the transaction occurs. Exchange differences arising on the net investment in subsidiaries are recognised in other comprehensive income. At 31 December 2020 the closing rate of exchange of Canadian Dollars to one Brazilian Reais was 4.08 (2019: 3.09) and the average rate of exchange of Canadian Dollars to one Brazilian Reais for the year was 3.84 (2019: 2.97).

## 2. Significant accounting policies (continued)

### 2.4 Mineral property

When the technical and commercial feasibility of an area of interest has been demonstrated, financing has been secured and the appropriate permits have been issued, the area of interest enters its development phase. The accumulated costs are transferred from exploration and evaluation expenditure to mineral property.

At the point of transfer, an impairment test is required.

The mineral property is amortised on a unit of production method expected to amortize the cost including future forecast capital expenditure over the expected life of the mine based on the tonnes of ore expected to be extracted. Any changes to these estimates may result in an increase in the amortization charge with a corresponding reduction in the carrying value of the mineral property.

### 2.5 Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilized.

Deferred tax is determined using tax rates that are expected to apply in the periods in which the asset is realized or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Current and deferred tax is recognised in the statement of comprehensive income, except when the tax relates to items charged or credited directly in equity, in which case the tax is also recognised directly in equity.

## 2. Significant accounting policies (continued)

### 2.6 Cash and cash equivalents

Cash and cash equivalents include cash at bank, cash in hand and short-term highly liquid investments with an original maturity of three months or less.

For the purpose of the statements of cash flows, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts.

### 2.7 Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the item, as follows:

| | % | Method |
|---|---|---|
| Plant and equipment | 10 | Straight line |
| Computer equipment | 20 | Straight line |
| Furniture and fixtures | 10 | Straight line |

### 2.8 Inventory

Stockpiled ore is recorded at the lower of production cost and net realisable value. Production costs include all direct costs plus an allocation of fixed costs associated with the mine site.

Operating supplies are valued at the lower of cost and net realisable value.  Cost is determined on an average cost basis.

### 2.9 Trade and other receivables

Trade and other receivables are recorded at their nominal amount less provision for impairment.

The Group recognises a loss allowance for expected credit losses (“ECL”) on financial assets that are measured at amortised cost which comprise mainly trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL on trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

## 2. Significant accounting policies (continued)

### 2.10 Investments in and loans to subsidiaries (Company only)

Investments are stated at their cost less any provision for impairment (see accounting policy 2.11).

The Company expects loans to subsidiaries to be ultimately repaid from trading cash flows to be generated from its mining activities. Consideration is given at each reporting date as to whether the subsidiaries have sufficient liquid assets to repay the loans if demanded in order to determine the probability of default. Given the early stage of production the probability of default is considered to be 100% and as such the Company measures the lifetime expected credit loss by considering all the different recovery strategies and credit loss scenarios. The recovery strategy considered is a repay over time strategy as net trading cash flows are expected to repay the balances. Likely credit losses scenarios are dependent on the operating capability factors inherent in the successful operation of the mine which include the selling price of the products, future costs and availability of capital, operating costs and tax rates. Sensitivity analysis is performed on the various factors and expected credit losses recognised as appropriate.

### 2.11 Impairment

The carrying amount of the Group's non-current assets is compared to the recoverable amount of the assets whenever events or changes in circumstances indicate that the net book value may not be recoverable. The recoverable amount is the higher of value in use and the fair value less costs to sell.

Value in use is estimated by reference to the net present value of expected future cash flows of the relevant cash generating unit.

If the recoverable amount is less than the carrying amount of an asset, an impairment loss is recognised. The revised carrying amount is amortised in line with the Group's accounting policy.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. The reversal is recognised in the statement of comprehensive income and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in the previous reporting period.

### 2.12 Trade and other payables

Trade and other payables are stated at their amortised cost using the effective interest method.

### 2.13 Equity-settled share-based payments

Equity-settled share-based payments are measured at fair value at the date of the grant and expensed on a straight-line basis over the vesting period, based on an estimate of shares that will eventually vest. Fair values are determined through use of a Black-Scholes based model.

## 2. Significant accounting policies (continued)

### 2.14 Share warrants

Share warrants are measured at fair value at the date of the grant. No further adjustments to their valuation are made. Fair values are determined through the use of a Black-Scholes based model. Share warrants that have expired during the period are accounted for by recrediting the amount to the share premium account.

### 2.15 Loans and borrowings

Bank loans and other borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis except where the difference between cost and redemption value qualify to be capitalised as part of the cost of a qualifying asset.

### 2.16 Provisions

The Group records the present value of estimated costs of legal and constructive obligations required to restore mining and other operations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and revegetation of affected areas.

The Group records a provision against the eventual cost of closing the mine. The unwinding of the discount is charged to the income statement as an interest expense.

### 2.17 Operating segments

The Group complies with IFRS 8 Operating Segments, which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief operating decision maker to allocate resources to the segments and to assess their performance. The Group's chief operating decision maker is considered by Management to be the Board of Directors.

The Group's operations relate to the extraction of mineral deposits in a single geographical area – Brazil. The financial position and performance of the operating segment are therefore the same as that of the Group.

### 2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of sales tax.

The Company recognizes revenue when the amount of the revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met as described below.

## 2. Significant accounting policies (continued)

### 2.18 Revenue recognition (continued)

Revenue from the sale of the Product is recognised when control of the product sold is transferred to the Group's customers which is when the goods are shipped to the customer.

### 2.19 Critical judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.
The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about such judgements and estimates is contained in the accounting policies and/or the notes to the consolidated financial statements. Areas of judgement and sources of estimation uncertainty that have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

**Judgements**

- **Impairment of Mineral Property**

The Directors have assessed whether there are any indicators of impairment in respect of mineral property costs totalling $20.3 million. In making this assessment they have considered the Group’s business plan which includes resource estimates, future processing capacity, future exchange rates, the forward market and longer-term price outlook and assumptions regarding weighted average cost of capital.  Resource estimates have been based on the most recently filed pre-feasibility study NI 43 101 report and its opportunities economic model which includes resource estimates without conversion of its inferred resources. Management’s estimates of these factors are subject to risk and uncertainties affecting the recoverability of the Group’s mineral property costs. See note 12.

**Estimates**

- **Share-based payments**

The Group charges the consolidated statement of comprehensive income with the fair value of share options issued. This charge is not based on historical cost, but is derived based on assumptions input into an option pricing model. The model requires management to make several assumptions as to future events, including: an estimate of the average future hold period of issued stock options before exercise, expiry or cancellation; future volatility of the Group’s share price in the expected hold period (using

### 2.19 Critical judgements and sources of estimation uncertainty (continued)

historical volatility as a reference); and the appropriate risk-free rate of interest. The resulting value calculated is not necessarily the value that the holder of the option could receive in an arm's length transaction, given there is no market for the options and they are not transferable. The value derived from the option-pricing model is highly subjective and dependent entirely upon the input assumptions made. See note 20.

- **Closure costs**

The Group has an obligation to reclaim its properties after the minerals have been mined from the site, and has estimated the costs necessary to comply with existing reclamation standards. These estimates are recorded as a liability at their fair values in the periods in which they occur. If the estimate of reclamation costs proves to be inaccurate, the Group could be required to increase the provision for site closure and reclamation costs, which would increase the amount of future reclamation expense, resulting in a reduction in the Group's earnings and net assets.

### 3. Operating segments

The Group's operations relate to the mining and sale of mineral deposits in Brazil with support provided from the UK and as such, the Group has only one operating segment.

### 4. Revenue

| ($'000) | 2020 | 2019 |
|---|---|---|
| Sale of K-Forte® / Super Greensand® | 9,167 | 6,029 |

The geographic distribution of sales for the year was as follows:

| | 2020 | 2019 |
|---|---|---|
| | % | % |
| Brazil | 99.5 | 98.83 |
| USA | 0.09 | 0.68 |
| Rest of the world | 0.41 | 0.49 |
| | **100%** | **100%** |

### 5. Operating profit / (loss)

The operating profit / (loss) is stated after charging:

| ($'000) | 2020 | 2019 |
|---|---|---|
| Depreciation – owned assets | 164 | 90 |
| Amortization of mineral property (Note 12) | 65 | 42 |
| Loss on sale of property, plant and equipment | 18 | - |
| Directors' emoluments (see Note 26) | 1,027 | 476 |
| Share-based payments (see Note 20) | 106 | 787 |
| **Auditor remuneration payable to the Company's auditor and its associates** | | |
| Audit of the Group and Company financial statements | 60 | 92 |

## 6. Personnel expenses

| Employee costs ($'000) | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Directors' emoluments (See Note 26) | 1,027 | 1,027 | 476 | 476 |
| Salaries | 766 | - | 406 | - |
| Compulsory social security contributions | 178 | - | 62 | - |
| Share based payments | 106 | 106 | 787 | 787 |
| **Total** | **2,077** | **1,133** | 1,731 | 1,263 |

The average number of employees and directors of the Group and Company were as follows:

| Position | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Executive directors | 1 | 1 | 1 | 1 |
| Non-executive directors | 5 | 5 | 5 | 5 |
| Administration | 18 | - | 9 | - |
| Sales and marketing | 32 | - | 15 | - |
| Production | 42 | - | 39 | - |
| **Total** | **98** | **6** | **69** | **6** |

## 7. Finance Income

| ($'000) | 2020 | 2019 |
|---|---|---|
| Interest received | 92 | 13 |
| Foreign exchange gain | 29 | - |
| | **121** | **13** |

## 8. Finance costs

| ($'000) | 2020 | 2019 |
|---|---|---|
| Interest on bank overdrafts and loans | 262 | 58 |
| Unwinding of discount on mine closure provision | 105 | 92 |
| | **367** | **150** |

## 9. Income tax

### Recognised in the income statement

| Current tax | 2020 ($'000) | 2019 ($'000) |
|---|---|---|
| **Income tax charge** | **330** | **186** |

| **Reconciliation of effective tax rate** | | |
|---|---|---|
| Profit / (Loss) before tax | 880 | (921) |
| | | |
| Tax using the domestic Group tax rate of 19% (2019: 19%) | 167 | (192) |
| Effect of overseas tax rates | 378 | (151) |
| Non-deductible expenses | 132 | 155 |
| Origination of temporary differences on which no deferred tax has been recognised | (581) | (15) |
| Effect of tax losses not recognised | 234 | 389 |
| **Income tax charge for the year** | **330** | **186** |

### Factors that may affect future tax charges

The Group has UK tax losses of approximately $17,021,000 (2019: $14,775,000) and overseas tax losses of approximately $4,162,000 (BRL16,980,000) (2019: $5,486,000 (BRL16,980,000)) available to be carried forward and set off against future profits.

The Group companies in Brazil are currently under "presumed profit" taxation method, which is the most efficient method at this time. Under "presumed profit" method, it is not possible to utilise prior period losses to reduce corporation tax. When the Group switches to "real profit" method, these losses can be utilised.

No deferred tax asset has been recognised in the financial statements as the directors are not sufficiently certain that there will be future taxable profit to utilize these tax losses.

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | Balance 2020 ($'000) | Balance 2019 ($'000) | Balance 2020 ($'000) | Balance 2019 ($'000) | Balance 2020 ($'000) | Balance 2019 ($'000) |
| Property, plant and equipment | - | - | (819) | (718) | (819) | (718) |
| Intangible assets | - | - | (6,951) | (9,168) | (6,951) | (9,168) |
| Tax value of loss carry-forwards recognised | 7,770 | 9,886 | - | - | 7,770 | 9,886 |
| **Net tax assets/(liabilities)** | **7,770** | 9,886 | **(7,770)** | (9,886) | **-** | **-** |

## 9. Income tax (continued)

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| ($'000) | 2020 | 2019 |
|---|---|---|
| UK tax losses | 3,234 | 2,807 |
| Brazilian tax losses | - | 134 |
| **Total** | **3,234** | 2,941 |

### Movement in deferred tax assets and liabilities

| | Balance in 1 Jan 2019 | Recognised in income | Balance in 31 Dec 2019 |
|---|---|---|---|
| | ($'000) | ($'000) | ($'000) |
| Property, plant and equipment | 337 | 381 | 718 |
| Intangible assets | 7,621 | 1,547 | 9,168 |
| Tax value of loss carry-forwards | (7,958) | (1,928) | (9,886) |
| | | | |
| | **Balance in 1 Jan 2020** | **Recognised in income** | **Balance in 31 Dec 2020** |
| | **($'000)** | **($'000)** | **($'000)** |
| Property, plant and equipment | 718 | 101 | 819 |
| Intangible assets | 9,168 | (2,217) | 6,951 |
| Tax value of loss carry-forwards | (9,886) | (2,116) | (7,770) |

## 10. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share at 31 December 2020 was based on the profit attributable to ordinary shareholders of $550,000 (2019: loss $1,107,000) and a weighted average number of Ordinary Shares outstanding during the period ended 31 December 2020 of 47,444,803 (2019: 45,345,440) calculated as follows:

### Profit / (Loss) attributable to ordinary shareholders

| | 2020 | 2019 |
|---|---|---|
| Profit / (Loss) for the period ($'000) | 550 | (1,107) |
| Profit / (Loss) attributable to ordinary shareholders ($'000) | 550 | (1,107) |

### Weighted average number of ordinary shares

| | 2020 | 2019 |
|---|---|---|
| Number of shares in issue at beginning of year ('000) | 45,345 | 41,020 |
| Effect of shares issued during period ('000) | 2,238 | 4,325 |
| Weighted average number of ordinary shares in issue for the year ('000) | 47,583 | 45,345 |

Details of share warrants and share options that could potentially dilute earnings per share in future periods are set out in notes 19 and 20 respectively.

### 11. Property, plant and equipment – Group

| ($'000) | Land and buildings | Plant and equipment | Computer equipment | Furniture and fixtures | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 January 2019 | 127 | 856 | 88 | 186 | 1,257 |
| Additions | 516 | 627 | 2 | 196 | 1,341 |
| Effect of movements in foreign exchange | (31) | (88) | (5) | (23) | (147) |
| Balance at 31 December 2019 | 612 | 1,395 | 85 | 359 | 2,451 |
| Balance at 1 January 2020 | 612 | 1,395 | 85 | 359 | 2,451 |
| Additions | 654 | 651 | 46 | 6 | 1,357 |
| Transfer to mineral property | - | (259) | - | - | (259) |
| Disposals | - | (75) | - | - | (75) |
| Effect of movements in foreign exchange | (184) | (336) | (17) | (86) | (623) |
| **Balance at 31 December 2020** | **1,082** | **1,376** | **114** | **279** | **2,851** |

| | | | | | |
|---|---|---|---|---|---|
| **Depreciation and impairment losses** | | | | | |
| Balance at 1 January 2019 | - | 78 | 80 | 107 | 265 |
| Depreciation charge for the period | - | 60 | 1 | 28 | 89 |
| Effect of movements in foreign exchange | - | (2) | (4) | (10) | (16) |
| Balance at 31 December 2019 | - | 136 | 77 | 125 | 338 |
| Balance at 1 January 2020 | - | 136 | 77 | 125 | 338 |
| Depreciation charge for the year | - | 153 | 6 | 5 | 164 |
| Depreciation on disposals | - | (16) | - | - | (16) |
| Effect of movements in foreign exchange | - | (22) | (12) | (30) | (64) |
| **Balance at 31 December 2020** | **-** | **251** | **71** | **100** | **422** |

| | | | | | |
|---|---|---|---|---|---|
| **Carrying amounts** | | | | | |
| At 1 January 2019 | 127 | 778 | 8 | 79 | 992 |
| At 31 December 2019 | 612 | 1,257 | 8 | 234 | 2,113 |
| At 1 January 2020 | 612 | 1,257 | 8 | 234 | 2,113 |
| **At 31 December 2020** | **1,082** | **1,125** | **43** | **179** | **2,429** |

Plant and equipment of approx. $317,000 (BRL $1,292,000) was purchased during the year by way of bank loans from Santander, ABC Brazil and Bradesco bank. The loans are secured by a fixed charge over the equipment purchased.

### 11. Property, plant and equipment – Company

| | Computer Equipment |
|---|---|
| **Cost ($'000)** | |
| Balance at 1 January 2019 and 31 December 2019 | 105 |
| | |
| **Balance at 1 January 2020 and 31 December 2020** | **105** |

| | |
|---|---|
| **Depreciation and impairment losses** | |
| Balance at 1 January 2019 and 31 December 2019 | 105 |
| | |
| **Balance at 1 January 2020 and 31 December 2020** | **105** |

| | |
|---|---|
| **Carrying amounts** | |
| At 1 January 2019 | - |
| At 31 December 2019 | - |
| | |
| At 1 January 2020 | - |
| **At 31 December 2020** | **-** |

# NOTES TO THE GROUP FINANCIAL STATEMENTS

## 12. Mineral properties – Group

| | Total ($'000) |
|---|---|
| **Cost** | |
| Balance at 1 January 2019 | 28,676 |
| Prior period adjustment (note 27) | (2,437) |
| Balance at 1 January 2019 as restated | 26,239 |
| Additions | 149 |
| Effect of movements in foreign exchange | (1,861) |
| Balance at 31 December 2019 | 24,527 |
| | |
| Balance at 1 January 2020 | 24,527 |
| Additions | 230 |
| Transfer from property, plant and equipment | 259 |
| Effect of movements in foreign exchange | (4,571) |
| **Balance at 31 December 2020** | **20,445** |
| | |
| **Amortisation** | |
| Balance at 1 January 2019 | 35 |
| Amortisation charge for the year | 42 |
| Effect of movements in foreign exchange | (5) |
| Balance at 31 December 2019 | 72 |
| | |
| Balance at 1 January 2020 | 72 |
| Amortisation charge for the year | 65 |
| Effect of movements in foreign exchange | (21) |
| **Balance at 31 December 2020** | **116** |
| | |
| **Carrying amounts** | |
| At 1 January 2019 (as restated) | 26,204 |
| At 31 December 2019 (as restated) | 24,455 |
| | |
| At 1 January 2020 | 24,455 |
| **At 31 December 2020** | **20,329** |

### 12. Mineral properties – Company

| | Total ($'000) |
|---|---:|
| **Cost** | |
| Balance at 1 January 2019 | 5,713 |
| Balance at 31 December 2019 | 5,713 |
| | |
| Balance at 1 January 2020 | 5,713 |
| **Balance at 31 December 2020** | **5,713** |
| | |
| **Amortisation** | |
| Balance at 1 January 2019 | - |
| Amortisation charge for the year | 8 |
| Balance at 31 December 2019 | 8 |
| | |
| Balance at 1 January 2020 | 8 |
| Amortisation charge for the year | 18 |
| Effect of movements in foreign exchange | (3) |
| **Balance at 31 December 2020** | **23** |
| | |
| **Carrying amounts** | |
| At 1 January 2019 | 5,713 |
| At 31 December 2019 | 5,705 |
| | |
| At 1 January 2020 | 5,705 |
| **At 31 December 2020** | **5,690** |

**Consideration of impairment for the mineral property costs**

The Directors have assessed whether there are any indicators of impairment in respect of mineral property costs. See note 2.19. After consideration of those factors management concluded that no impairment triggers had been noted that would require a formal impairment test and no further impairment charge against in-production mining assets has been recorded.

### 13. Intangible assets - Group

| | Calcário Project ($'000) |
|---|---|
| **Cost** | |
| Balance at 1 January 2019 | 616 |
| Effect of movements in foreign exchange | (50) |
| Balance at 31 December 2019 | 566 |
| | |
| Balance at 1 January 2020 | 566 |
| Additions | - |
| Effect of movements in foreign exchange | (137) |
| **Balance at 31 December 2020** | **429** |

| | |
|---|---|
| Balance at 1 January 2019 | 616 |
| Effect of movements in foreign exchange | (50) |
| Balance at 31 December 2019 | 566 |
| | |
| Balance at 1 January 2020 | 566 |
| Effect of movements in foreign exchange | (137) |
| **Balance at 31 December 2020** | **429** |

| **Carrying amounts** | |
|---|---|
| At 1 January 2019 | - |
| At 31 December 2019 | **-** |
| | |
| At 1 January 2020 | - |
| **At 31 December 2020** | **-** |

The Calcário project was necessary for mining limestone which is necessary for the production of TK47®. Following the decision to produce the Product, the Company will retain title to this project and is considering various options for its future. A provision of $663,000 was made against the project in 2017. At the year end, at current exchange rates this provision has been revalued as $429,000.

### 14. Investments – Company

| ($'000) | Investment in subsidiaries | Loans | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 January 2019 | 40,230 | 4,157 | 44,387 |
| Additions | 1,561 | - | 1,561 |
| Balance at 31 December 2019 | 41,791 | 4,157 | 45,948 |
| | | | |
| Balance at 1 January 2020 | 41,791 | 4,157 | 45,948 |
| Additions | 112 | - | 112 |
| **Balance at 31 December 2020** | **41,903** | **4,157** | **46,060** |

The loans balance represents an amount of $4,157,000 due from GB10N Limited.It is considered by the directors to be for the long-term use of the subsidiary and, as there is no intention to demand repayment for the foreseeable future, the loan has been classified as an investment. The loan is interest free.

Verde Agritech Plc had the following wholly owned subsidiaries at 31 December 2020:

- GB10N Limited (registered in England and Wales at Salatin House, 19 Cedar Road, Sutton, Surrey SM2 5DA);
- Verde Fertilizantes Ltda (registered in Brazil); and
- FVS Mineração Ltda (registered in Brazil).

Verde Fertilizantes Ltda and FVS Mineração Ltda are indirectly owned and all the Brazilian subsidiaries are engaged in mineral extraction and sale of K Forte to the Brazilian market. The registered office is at Av. Álvares Cabral 1777, 2° andar, Lourdes - Belo Horizonte-MG, 30180-008

GB10N Limited is an intermediate holding company.

### 15. Inventory

| ($'000) | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Finished goods | 110 | - | 38 | - |
| Packaging | 195 | - | 206 | - |
| Stockpile ore | 262 | - | 49 | - |
| **Total** | **567** | **-** | **293** | **-** |

The cost of inventories recognised as an expense and included in production costs for the year amounted to $3,515,000 (2019: $3,166,000).

### 16. Trade and other receivables

| ($'000) | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Trade receivables | 2,106 | 21 | 664 | 146 |
| Other receivables | 870 | 23 | 336 | 28 |
| Prepayments | 194 | 31 | 638 | 75 |
| **Total** | **3,170** | **75** | **1,638** | **249** |

There are no credit losses to recognise as full recovery is expected on trade receivables.

### 17. Cash and cash equivalents

| ($'000) | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Cash at bank and in hand | 2,237 | 165 | 666 | 482 |
| **Total** | **2,237** | **165** | **666** | **482** |

### 18. Share capital

| ($'000) | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number | $'000 | Number | $'000 |
| Authorised - Ordinary Shares of $0.3918 each | 500,000,000 | 195,900,000 | 500,000,000 | 195,900,000 |
| | | | | |
| Issued - Ordinary Shares of $0.3918 each | 2020 | | 2019 | |
| | Number | $'000 | Number | $'000 |
| At 1 January | 46,028,766 | 18,752 | 42,619,690 | 17,417 |
| 4 March 2019 for $0.63 each | - | - | 173,548 | 68 |
| 4 March 2019 for $0.40 each | - | - | 159,076 | 62 |
| 4 March 2019 for $0.425 each | - | - | 169,800 | 66 |
| 12 March 2019 for $0.60 each | - | - | 2,820,114 | 1,105 |
| 30 August 2019 for $0.425 each | - | - | 25,000 | 10 |
| 30 August 2019 for $0.40 each | - | - | 61,538 | 24 |
| 14 February 2020 for $0.40 each | 899,999 | 353 | - | - |
| 1 July 2020 for $0.50 each | 766,038 | 300 | - | - |
| 1 July 2020 for $0.425 each | 750,000 | 294 | - | - |
| **At 31 December** | **48,444,803** | **19,699** | **46,028,766** | **18,752** |

During the year share capital increased by $947,000 and share premium increased by $115,000, totalling $1,062,000 as shown in the statement of changes in equity. Of this, $743,000 was payment in lieu of services received by the board of directors and key management and $319,000 was in lieu of bonuses to the board to exercise share options.

The Group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern so that it can continue to increase the value of the entity for the benefit of shareholders. Given the nature of the Group's current activities the entity will remain dependent on equity funding in the short to medium term until such time as the Group becomes self-financing from the commercial production of mineral resources.

## 18. Share capital (continued)

### Merger reserve

The merger reserve arose from the acquisition of GB10N Limited by Verde Agritech PLC in a prior period. As Verde was a newly incorporated entity which acquired a group by way of issue of shares to the existing shareholders of GB10N Limited the transaction was not a business combination within the meaning of IFRSs. The transaction was effectively treated as a group reorganization and the consolidated financial statements are presented in a way that reflects the continuation of the GB10N Limited Group resulting in the creation of a merger reserve.

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of group entities which have a different functional currency from the presentation currency. Exchange differences arising are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period of disposal of the operation.

## 19. Share warrant reserve

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Number | $'000 | Number | $'000 |
| Balance at beginning of year | 1,410,057 | 431 | 1,727,075 | 777 |
| Fair value of warrants issued during year | - | - | 1,410,057 | 431 |
| Warrants expired during year | - | - | (1,727,075) | (777) |
| **Balance at end of year** | **1,410,057** | **431** | **1,410,057** | **431** |

1,410,057 Ordinary Share purchase warrants were issued on 12 March 2019, at a fair value of $0.31 each. The warrants are exercisable to purchase half an Ordinary Share at an exercise price of $1.00 until the second anniversary of the closing of the Placement. The Warrants are unlisted. The fair value of the share purchase warrants were measured using the Black-Scholes model assuming an expected volatility of 97%, a risk-free interest rate of 1.65% and a contractual life of the warrant of 2 years. The fair value of services received in return for the warrants issued is measured by reference to the fair value of the warrants issued in the absence of information on the fair value of the services provided.

The share warrant reserve reflected the value of outstanding share warrants based on the fair value of the share warrants at the time of issue.

### 20. Share-based payments

During the year the Group granted share options to key personnel to purchase shares in the entity.

The number and weighted average exercise prices of share options are as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Weighted average exercise price | Number of options | Weighted average exercise price | Number of options |
| Outstanding at the beginning of the period | $0.70 | 3,738,923 | $0.61 | 3,634,460 |
| Granted during the period | $0.40 | 380,375 | $0.55 | 983,876 |
| Exercised during the period | $0.425 | (750,000) | $0.43 | (415,413) |
| Forfeited during the period | $0.28 | (169,583) | $0.79 | (299,000) |
| Expired during the period | - | - | $0.28 | (165,000) |
| **Outstanding at the end of the period** | **$0.58** | **3,199,715** | **$0.70** | **3,738,923** |
| **Exercisable at the end of the period** | **$0.72** | **2,316,614** | **$0.78** | **2,934,922** |

The options outstanding at 31 December 2020 have an exercise price in the range of $0.40 to $1.05 (2019: $0.40 to $1.05) and a weighted average remaining contractual life of 8.7 years (2019: 6.9 years). Two option awards were granted in 2020. Both options will vest in six tranches, 10% immediately with an additional 10% vest in years two to five. At the sixth year from grant, the remaining 50% of the options vest. At 31 December 2020, 2,316,614 of the options had vested (31 December 2019: 2,934,922).

| **Fair value of share options and assumptions ($'000)** | 2020 | 2019 |
|---|---|---|
| Weighted average fair value of options granted during the year | 0.24 | 0.45 |
| Weighted average share price | 0.41 | 0.63 |
| Weighted average exercise price | 0.40 | 0.63 |
| Expected volatility (expressed as weighted average volatility used | | |
| in the modelling under Black-Scholes model) | 77% | 99% |
| Option life | 5 | 5 |
| Expected dividends | - | - |
| Risk-free interest rate (based on national government bonds) | 0.1% | 0.2% |

The expected volatility is based on the historic volatility of the share price (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. There are no market conditions associated with the share option grants.

| | 2020 | 2019 |
|---|---|---|
| **Total expense recognised as employee and consultants' costs ($'000)** | 106 | 787 |

# NOTES TO THE GROUP FINANCIAL STATEMENTS

## 20. Share-based payments (continued)

Details of share options outstanding at 31 December 2020 are as follows:

| Number of options | | | | | | | | Exercisable period | |
|---|---|---|---|---|---|---|---|---|---|
| Outstanding at beginning of period | Granted | Expired | Forfeited | Exercised | Outstanding at end of period | Exercisable at end of period | Option price ($) | Grant date | Expiry date |
| 1,039,200 | - | - | - | (750,000) | 289,200 | 289,200 | $0.425 | 10 Dec 2014 | 10 Dec 2024 |
| 20,000 | - | - | - | - | 20,000 | 20,000 | $0.40 | 12 Nov 2015 | 12 Nov 2025 |
| 50,000 | - | - | - | - | 50,000 | 50,000 | $0.40 | 10 Dec 2015 | 10 Dec 2025 |
| 61,538 | - | - | - | - | 61,538 | 61,538 | $0.40 | 31 Jan 2017 | 31 Jan 2027 |
| 144,000 | - | - | - | - | 144,000 | 24,000 | $0.40 | 9 Feb 2017 | 9 Feb 2027 |
| 200,000 | - | - | - | - | 200,000 | 40,000 | $1.02 | 30 May 2018 | 30 May 2028 |
| 1,244,308 | - | - | - | - | 1,244,308 | 1,244,308 | $0.61 | 24 Sept 2018 | 24 Sept 2028 |
| 125,000 | - | - | - | - | 125,000 | - | $0.61 | 24 Sept 2018 | 24 Sept 2028 |
| 328,876 | - | - | - | - | 328,876 | 328,876 | $0.63 | 1 March 2019 | 1 March 2029 |
| 455,000 | - | - | (5,000) | - | 450,000 | 222,000 | $0.63 | 1 March 2019 | 1 March 2029 |
| 10,000 | - | - | (5,000) | - | 5,000 | 1,000 | $0.64 | 31 May 2019 | 31 May 2029 |
| 61,000 | - | - | (10,500) | - | 50,500 | 10,500 | $0.67 | 1 Sept 2019 | 1 Sept 2029 |
| - | 334,862 | - | (149,082) | - | 185,780 | 20,641 | $0.40 | 14 Feb 2020 | 14 Feb 2030 |
| - | 45,513 | - | - | - | 45,513 | 4,551 | $0.40 | 25 Mar 2020 | 25 Mar 2030 |
| **3,738,922** | **380,375** | **-** | **(169,582)** | **(750,000)** | **3,199,715** | **2,316,614** | | | |

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model.

## 21. Trade and other payables

| Category ($'000) | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Trade payables | 262 | 95 | 179 | 126 |
| Income tax | 156 | - | 94 | - |
| Other payables | 265 | 1 | 160 | 7 |
| Amounts owed to Group undertakings | - | 157 | - | 21 |
| Accruals and deferred income | 723 | 401 | 774 | 549 |
| | **1,406** | **654** | **1,207** | **703** |

## 22. Interest-bearing loans and borrowings

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| **Non-current liabilities ($'000)** | | | | |
| Bank loans | 2,529 | - | 286 | - |
| **Current liabilities ($'000)** | | | | |
| Bank loans | 941 | - | 310 | - |
| **Total** | **3,470** | **-** | **596** | **-** |

The Group received seven loans during the year from various banks totaling $2,081,000 (BRL $10,292,000).

**Summary of Interest-bearing loans and borrowings**

| Lender (security ref) | Loan start date | Purpose | Grace period (months) | Term (months) | Value (BRL $'000) | Repayable by | Total interest payable* |
|---|---|---|---|---|---|---|---|
| Santander [1] | Oct, 2020 | Equipment and working capital | 01 | 36 | 2,000 | Oct, 2023 | 11.11% |
| ABC Brazil [2] | Aug, 2020 | Equipment and working capital | 01 | 36 | 2,000 | Aug, 2023 | 10.54% |
| Santander [3] | July,2020 | Equipment | 06 | 18 | 359 | July,2022 | 14.86% |
| Bradesco [1] | July,2020 | Equipment and working capital | 06 | 60 | 5,000 | July, 2025 | 10.95% |
| Bradesco [3] | Mar, 2020 | Vehicle | 01 | 48 | 119 | Apr, 2024 | 12.49% |
| Santander [3] | Jan, 2020 | Equipment | 06 | 36 | 364 | June, 2023 | 12.72% |
| Bradesco [3] | Jan, 2020 | Equipment | 00 | 48 | 450 | Feb, 2024 | 13.31% |
| Bradesco | Oct, 2019 | Working capital | 03 | 15 | 450 | Feb, 2021 | 14.03% |
| Santander [3] | Apr,2019 | Equipment | 01 | 36 | 73 | Oct, 2022 | 11.54% |
| Santander [3] | Apr,2019 | Equipment | 01 | 36 | 150 | Oct, 2022 | 11.54% |
| Santander [3] | May, 2018 | Equipment | 12 | 60 | 1,040 | May, 2023 | 11.55% |

* - Inc Variable interest (IPCA) - Broad Consumer Price Index, a measure of the average price needed to buy consumer goods and services

Following the Covid-19 (CoronaVirus) outbreak during 2020, a number of banks gave a six month grace period from making repayments. At the year end, the Group had recommenced repayment on all these loans.

Bank loans are secured as follows;
Indicator [1] - Covid-19 loans - 80% of loan value guaranteed by the Brazilian government
Indicator [2] – 20% of the loan value secured by trade receivables
Indicator [3] – Fixed charge over the equipment purchased

Repayment analysis of the bank loan is as follows:

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Less than one year ($'000) | 2 – 4 years ($'000) | Greater than 4 years ($'000) | Less than one year ($'000) | 2 – 4 years ($'000) | Greater than 4 years ($'000) |
| Bank loans | 940 | 1,927 | 603 | 310 | 250 | 36 |

## 23. Provisions

| Mine closure provision | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| Opening balance | 5,887 | 6,308 |
| Prior period adjustment (note 27) | (2,437) | (2,437) |
| **Opening balance as restated** | **3,450** | **3,871** |
| Unwinding of discount | 99 | 92 |
| Effect of movements in foreign exchange | (833) | (513) |
| **Total** | **2,716** | **3,450** |

The mine closure provision has been made in respect of costs of land restoration and rehabilitation expected to be incurred at the end of the mine's expected useful life of 36 years. The provision has been calculated based on the present value of the expected future cash flows associated with closure activities.

## 24. Commitments and contingent liabilities

### Commitments

The Group has the following exploration and development capital expenditure commitments in respect of its projects:

| | **2020**<br>**$'000** | 2019<br>$'000 |
|---|---|---|
| Amount payable within one year | 62 | 65 |
| Amounts payable after more than one year and less than five years | 47 | 62 |
| After five years | 246 | 341 |
| **Total** | **355** | **468** |

In addition, there is a commitment to rebuild a small house and a commitment of $5,335 (BRL $15,000) per hectare for damage to land caused during mining which is expected to be up to 35 hectares. The Group only makes payments on a per hectare basis at the time of impact.

The total commitments under non-cancellable operating leases in respect of land and buildings were as follows:

| | **2020**<br>**$'000** | 2019<br>$'000 |
|---|---|---|
| Amount payable within one year | 12 | 16 |
| Amounts payable after more than one year and less than five years | 20 | 42 |
| **Total** | **32** | **58** |

### Contingent liabilities

In 2018, the Group received an unfavourable arbitration in a dispute with a private Brazilian consultancy company that performed environmental studies and now claims an amount of approximately $488,000. The Group had successfully appealed similar arbitration decisions on two different occasions. The latest ruling against the Group came in March 2020, a decision that can still be appealed and thereby postpone any financial obligation until the appellate court rules on the matter. A final decision by the appellate court would be expected sometime between 1.5 to 5 years from now, if the Group appeals. Therefore, though the Group considers that the payment might be ultimately mandated in the future, given its due date, no such provision has been made.

### 24. Commitments and contingent liabilities (continued)

Brazilian labour law entitles a former employee to lodge complaints up to two years after leaving the company. Claims are usually for alleged unpaid remuneration and compensation in the event of dismissal. The Company, whilst contesting each claim, notes that should a claim be successful future liability may arise.

### 25. Financial instruments

The Board of Directors determines, as required, the degree to which it is appropriate to use financial instruments and hedging techniques to mitigate risks. The main risks for which such instruments may be appropriate are foreign exchange risk, interest rate risk and liquidity risk each of which is discussed below. There is no perceived credit risk as the Group and Company have minimal other financial receivables and bank deposits are made with financial institutions considered to have strong credit ratings. There were no derivative instruments outstanding as of 31 December 2020.

**Foreign currency risk**

The Group's cash resources are mainly held in Canadian Dollars and Brazilian Reais. Exchange rate fluctuations may adversely affect the Group’s financial position and results. The Group’s financial results are reported in Canadian Dollars and its costs are primarily incurred in Canadian Dollars and Brazilian Reais.

The appreciation of Brazilian Reais against the Canadian Dollar could increase the actual capital and operating costs of the Group’s mineral exploration projects and materially adversely affect the results presented in the Group’s financial statements. Currency exchange fluctuations may also materially adversely affect the Group’s future cash flows from operations, its results of operations, financial condition and prospects. The Group has a general policy of not hedging against foreign currency risks. The Group manages foreign currency risk by regularly reviewing the balances held in currencies other than the functional currency to match expected expenditure in foreign currency.

The Group and Company had the following short term deposits and cash and cash equivalents in various currencies including its presentational currency. The amounts are stated in Canadian Dollar equivalents:

| Currency ($’000) | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| Canadian Dollars | 83 | 83 | 329 | 329 |
| Brazilian Reais | 2,072 | - | 184 | - |
| American Dollars | 81 | 81 | 93 | 93 |
| British Pounds | 1 | 1 | 60 | 60 |
| **Total** | **2,237** | **165** | **666** | **482** |

The Brazilian Reais deposits are held as interbank deposit certificates, with no maturity date and track Brazil’s short term interest rate which is currently 2%.

The policy in relation to the translation of foreign currency monetary assets and liabilities is set out in note 2.2, 'Accounting policies, foreign currency ' to the consolidated financial statements.

### 25. Financial instruments (continued)

Foreign currency risk sensitivity analysis showing a 10% weakening/strengthening of the Brazilian Real against the Canadian Dollar with all other variables held constant is set out below. 10% represents managements' assessment of the reasonable possible exposure

| | Equity ($'000) | |
|---|---|---|
| | 2020 | 2019 |
| 10% weakening of Brazilian Real | (203) | (99) |
| 10% strengthening of Brazilian Real | 249 | 121 |

**Liquidity risk**

To date the Group and Company have relied on shareholder funding to finance its operations. As the Group and Company have finite cash resources and no material income, the liquidity risk is significant and is managed by controls over expenditure and cash resources. The Group and Company have borrowings, trade and other payables with a maturity of less than one year with borrowings and a provision greater than one year. Further details of the liquidity position are explained in note 1 regarding going concern.

**Interest rate risk**

The Group's policy is to retain its surplus funds in the most advantageous term of deposit available up to twelve month's maximum duration. Given that the directors do not consider that interest income is significant in respect of the Group's operations no sensitivity analysis has been provided in respect of any potential fluctuations in interest rates.

The Group's current loan rates vary from 10.95% to 14.86% per annum. The Brazilian Government long term bond rate is currently 7.5% per annum. The Group's last loan rates are an average 3% higher than the government bonds, which management considers to be competitive.

**Credit risk**

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Group generates revenue from the sale of products. Where credit is extended to customers this results in trade receivables which may be subject to default. This risk is mitigated by credit control procedures.

The Group's cash is held in major Canadian and Brazilian banks, and as such the Group is exposed to the risks of those financial institutions. Under Standard & Poor's short term credit ratings, the Group's cash balance is held in institutions with the following ratings:

| | 2020 | 2019 |
|---|---|---|
| | $'000 | **$'000** |
| A+ | 165 | 482 |
| BB- | 2,063 | 173 |
| Not rated | 9 | 11 |
| **Total** | **2,237** | **666** |

### 25. Financial instruments (continued)

In addition, the company has a credit risk relating to subsidiary investments. The Company expects loans to subsidiaries to be ultimately repaid from trading cash flows to be generated from its mining activities. Consideration is given at each reporting date as to whether the subsidiaries have sufficient liquid assets to repay the loans if demanded in order to determine the probability of default. Given the early stage of production the probability of default is considered to be 100% and as such the Company measures the lifetime expected credit loss by considering all the different recovery strategies and credit loss scenarios. The recovery strategy considered is a repay over time strategy as net trading cash flows are expected to repay the balances. Likely credit losses scenarios are dependent on the operating capability factors inherent in the successful operation of the mine which include the selling price of the products, future costs and availability of capital, operating costs and tax rates. Sensitivity analysis is performed on the various factors and expected credit losses recognised as appropriate.

**Financial assets**
The floating rate financial assets comprise interest earning bank deposits at rates set by reference to the prevailing LIBOR or equivalent to the relevant country.

**Fair values**
In the Directors' opinion there is no material difference between the book value and fair value of any of the Group's and Company's financial instruments.

**Classes of financial instruments**
The classes of financial instruments are the same as the line items included on the face of the statement of financial position and have been analysed in more detail in the notes to the financial statements. All of the Group's and Company's financial assets are categorised as loans and receivables and all financial liabilities are measured at amortised cost.

### 26. Related party transactions

Key management compensation was as follows:

**Year ended 31 December 2020**

| | Fees | Short term employment benefits | Bonuses | Share-based payments | 2020 Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| C Veloso | - | 420 | 551 | 4 | 975 |
| R Gomes | 12 | - | - | - | 12 |
| G Fonseca | 11 | - | - | - | 11 |
| A Paolinelli | 11 | - | - | - | 11 |
| P M Ribeiro | 11 | - | - | 7 | 18 |
| M St Aldwyn | 11 | - | - | 29 | 40 |
| **Directors' total** | **56** | **420** | **551** | **40** | **1,067** |
| Other key management | 103 | 76 | 60 | 28 | 267 |
| **Total** | **159** | **496** | **611** | **68** | **1,334** |

### 26. Related party transactions (continued)

C Veloso and all other board of directors compensation to 30 June 2020 was settled by issue of shares in the Group.

On 31 December 2020, C Veloso and all other board of directors were owed $49,000 (2019: $470,000). Other key management personnel were owed $18,000 (2019: $18,000).

Year ended 31 December 2019

| | Fees | Short term employment benefits | Share-based payments | 2019 Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| C Veloso | - | 420 | 508 | 928 |
| R Gomes | 12 | - | 61 | 73 |
| G Fonseca | 11 | - | 61 | 72 |
| A Paolinelli | 11 | - | 74 | 85 |
| P M Ribeiro | 11 | - | 33 | 44 |
| M St Aldwyn | 11 | - | 40 | 51 |
| **Directors' total** | **56** | **420** | **777** | **1,253** |
| Other key management | - | 104 | 48 | 152 |
| **Total** | **56** | **524** | **825** | **1,405** |

Share-based payment charge relates to options granted in 2012, 2013 and 2014 based on valuations made under the Black Scholes method as described in note 17 above and relate to options exercisable at prices significantly in excess of the current share price.

Share options granted to directors and key management were as follows:

**Year ended 31 December 2020**

| | Outstanding at beginning of period | Granted | No longer key management | Exercised | Outstanding at end of period |
|---|---|---|---|---|---|
| C Veloso | 1,992,308 | - | - | (750,000) | 1,242,308 |
| R Gomes | 226,538 | - | - | - | 226,538 |
| G Fonseca | 226,538 | - | - | - | 226,538 |
| A Paolinelli | 226,538 | - | - | - | 226,538 |
| P M Ribeiro | 200,000 | - | - | - | 200,000 |
| M St Aldwyn | 200,000 | - | - | - | 200,000 |
| **Directors' total** | **3,071,922** | **-** | **-** | **(750,000)** | **2,321,922** |
| Other key management | 336,000 | - | (61,000) | - | 275,000 |
| **Total** | **3,407,922** | **-** | **(61,000)** | **(750,000)** | **2,657,922** |

# NOTES TO THE GROUP FINANCIAL STATEMENTS

## 26. Related party transactions (continued)

**Year ended 31 December 2019**

| | Outstanding at beginning of period | Granted | Forfeited | Exercised | Outstanding at end of period |
|---|---|---|---|---|---|
| C Veloso | 1,992,308 | 150,000 | - | (150,000) | 1,992,308 |
| R Gomes | 226,538 | 71,438 | - | (71,438) | 226,538 |
| G Fonseca | 226,538 | 71,438 | - | (71,438) | 226,538 |
| A Paolinelli | 226,538 | 165,000 | (165,000) | - | 226,538 |
| P M Ribeiro | 200,000 | 36,000 | - | (36,000) | 200,000 |
| M St Aldwyn | 200,000 | - | - | - | 200,000 |
| **Directors' total** | **3,071,922** | **493,876** | **(165,000)** | **(328,876)** | **3,071,922** |
| Other key management | 147,538 | 275,000 | - | (86,538) | 336,000 |
| **Total** | **3,219,460** | **768,876** | **(165,000)** | **(415,414)** | **3,407,922** |

The transactions between the parent Company and its subsidiary GB10N Limited are disclosed in note 14.

## 27. Prior period adjustment

During the period ended March 31, 2020, the Group identified a prior period adjustment in respect of an error in accounting for the mine closure provision. As such, the Group has retrospectively restated its previously reported consolidated financial statements to reflect the overstated amounts.

The carrying value of the mineral property and the mine closure provision have been reduced by $2,437,000 as at 1 January 2019 following a correction to the discount calculation of the provision. There was no material effect on the income statement.

| Restated 2019 ($'000) | As previously reported | 2019 adjustment | As restated |
|---|---|---|---|
| Mineral Property | 26,892 | (2,437) | 24,455 |
| Mine closure provision | (5,887) | 2,437 | (3,450) |

There was no effect on the Consolidated Statements of Comprehensive Loss or Cash Flows or on net loss per share as a result of the restatement.

## 28. Subsequent events

In February 2021, the Group has been certified as a Great Place to Work® ("GPTW"). The GPTW acknowledgment is an annual certification granted to companies that have most of its employees with a positive perception of its work environment.

In March 2021, 1,385,057 warrants issued pursuant to the March 2019 private placement were exercised generating $1,385,057 proceeds for the Group.