

Company Registration No: 11143400



# Annual Report

and Accounts for the year  
ended 31 December 2022



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## Highlights

### Key developments during the 2022 financial year

#### Corporate

- Kropz plc (“Kropz” or the “Company”) issued 6,700,000 ordinary shares, at an exercise price of £0.001 an ordinary share, in the Company to key members of the executive management team, including certain Persons Discharging Managerial Responsibilities in January 2022. The issue of ordinary shares was due to awards vesting that had been issued under the Company’s Long-Term Incentive Plan of 31 July 2020, announced on 4 August 2020;
- The fifth and final drawdown on the US\$ 5 million equity facility with the ARC Fund, Kropz’s major shareholder (“Further Equity Facility”), as announced on 26 February 2021, occurred on 10 March 2022 for US\$ 200,000;
- The third and fourth final drawdowns on the ZAR 200 Million Equity Facility with the ARC Fund (“ZAR 200 Million Equity Facility”), as announced on 29 September 2021, occurred on 25 March 2022 for ZAR 40 million and on 26 April 2022 for ZAR 33 million;
- As announced on 27 April 2022, Kropz Elandsfontein entered into an agreement with the ARC Fund for a ZAR 25 million (approximately US\$ 1.60 million) bridge loan facility (“Loan 1”) to meet cash requirements in respect of Kropz Elandsfontein and the drawdown of Loan 1 took place on 28 April 2022. Loan 1 was unsecured, repayable on demand, with no fixed repayment terms and was repayable by Kropz Elandsfontein on no less than two business days’ notice. Interest was payable on Loan 1 at 14% nominal per annum and compounded monthly;
- As announced on 11 May 2022, Kropz entered into a new conditional convertible equity facility of up to ZAR 177 million (approximately US\$ 11 million) (“ZAR 177 Million Equity Facility”) with the ARC Fund to fund Elandsfontein to first revenues from bulk concentrate sales - this was approved by Kropz shareholders and became unconditional on 1 June 2022; and
  - The first drawdown on the ZAR 177 Million Equity Facility occurred on 2 June 2022 for ZAR 103.5 million (approximately US\$ 7 million). After set-off against Loan 1, Kropz received an amount of ZAR 78.5 million (approximately US\$ 5 million);
  - The second drawdown on the ZAR 177 Million Equity Facility was made on 7 July 2022 for ZAR 60 million (approximately US\$ 4 million);
  - On 9 August 2022, a final drawdown on the ZAR 177 Million Equity Facility was made for ZAR 13.5 million (approximately US\$ 0.9 million);
- As announced on 20 July 2022, Mark Summers expressed his intention to leave the Company and he resigned as Chief Executive Officer (“CEO”) and Executive Director of the Company in January 2023;
- As announced on 9 August 2022, Kropz, Kropz Elandsfontein and ARC Fund agreed to a further ZAR 121.5 million (approximately US\$ 7.3 million) bridge loan facility (“Loan 2”) to meet immediate cash requirements at Kropz Elandsfontein. A draw down of ZAR 60 million (approximately US\$ 3.6 million) on Loan 2 was made on 9 August 2022. Loan 2 was unsecured, repayable on demand, with no fixed repayment terms and was repayable by Kropz Elandsfontein on no less than two business days’ notice. Interest was payable on Loan 2 at the South African prime overdraft interest rate plus 6%, nominal per annum and compounded monthly;
  - The second drawdown on Loan 2 was made on 1 September 2022 for ZAR 47 million (approximately US\$ 2.8 million). The third and final draw down of ZAR 14.5 million on Loan 2 was made on 29 September 2022;
- As announced on 14 September 2022, Machiel Reyneke retired as a non-executive director of the Company and was replaced by Gerrit Duminy, as non-executive director and representative of the ARC Fund;
- As announced on 30 September 2022, Kropz, Kropz Elandsfontein and ARC Fund agreed to a further ZAR 126 million (approximately US\$ 7 million) bridge loan facility (“Loan 3”) to meet immediate cash requirements at Kropz Elandsfontein. A draw down of ZAR 60.5 million (approximately US\$ 3.4 million) on Loan 3 was made on 6 October 2022. Loan 3 was unsecured, repayable on demand, with no fixed repayment terms and was repayable by Kropz Elandsfontein on no less than two business days’ notice. Interest was payable on Loan 3 at the South African prime overdraft interest rate plus 6%, nominal per annum and compounded monthly;
  - The second and final drawdown on Loan 3 was made on 28 October 2022 for ZAR 65.5 million (approximately US\$ 3.7 million);

## Highlights (continued)

- As announced on 14 November 2022, Kropz entered into a new conditional convertible equity facility of up to ZAR 550 million (approximately US\$ 31.6 million) ("ZAR 550 Million Equity Facility") with ARC Fund to progress the ramp-up of operations at Elandsfontein and provide working capital to the Company for general corporate purposes and further funding of early site works, at the Hinda project in the Republic of Congo - which was approved by Kropz shareholders and became unconditional on 30 November 2022;
- The first drawdown on the ZAR 550 Million Equity Facility occurred on 1 December 2022 for ZAR 307.5 million (approximately US\$ 18.1 million). After set-off of Loan 2 and Loan 3 of ZAR 247.5 million, Kropz received an amount of ZAR 60 million (approximately US\$ 3.5 million);
  - The second drawdown on the ZAR 550 Million Equity Facility of ZAR 135 million (approximately US\$ 7.9 million) occurred on 22 December 2022; and
- As announced on 7 December 2022, Michelle Lawrence resigned as chief operating officer of Kropz and as an executive director of Kropz Elandsfontein with effect from 1 January 2023. Mark Maynard was appointed chief operating officer with effect from 1 January 2023.

## Elandsfontein

- The focus at the Elandsfontein project continued to be the production ramp-up of the mine and beneficiation plant;
- BNP released the ZAR 77 million (approximately US\$ 5 million) restricted cash in the bank account of Elandsfontein on 10 January 2022 upon satisfaction of BNP's requirement for Kropz to bridge the funding shortfall in respect of Kropz Elandsfontein as announced on 1 September 2021;
- During 2022, further delays were experienced in the commissioning ramp up of operations at Elandsfontein resulting in further funding shortfalls due to:
  - The requirement to re-engineer parts of the fine flotation circuit as proposed by the vendor;
  - The lack of operator expertise and experience; and
  - Mining rates and associated delivery of ore to the plant being compromised due to the presence of competent banks of hard material within the orebody, that were previously unknown. Subsequently, the vendor has provided design changes which were implemented at the plant, additional operator training was conducted and new equipment was brought to site to facilitate mechanical breaking which has been effective to date, but alternative methods are being considered;
- To quantify and assess the impact of this hard material on the future mine plan, an infill drilling programme was undertaken;
- Independent geological consultants were commissioned which provided an updated JORC (2012) compliant Mineral Resource Estimate ("MRE"):
  - Updated MRE now caters for improved geotechnical characteristics of the ore in addition to the grade characteristics;
  - Increase in total phosphate resources at Elandsfontein to 106.58 million tonnes ("Mt");
  - Downgrade of much of the previously Measured resource to Indicated, and downgrade of previously Indicated resources to Inferred. Total Measured and Indicated resource tonnage has reduced by approximately 76%. The updated resource considered core recovery, average drill hole spacing and sample count;
  - Grade has improved, with the refined lithological contacts and improved estimates from the infill drilling and pit sampling programme. This correlates well with the current pit intersections; and
  - Proven reserve of 7.31 Mt at 10.71% P<sub>2</sub>O<sub>5</sub>.

## Hinda

- Since 31 December 2021, management has been reviewing the Hinda Updated FS and financial model as prepared by Hatch;
- Various capital cost optimisation initiatives have been identified for investigation ahead of detailed design;
- Development alternatives are being considered and potential funding options investigated; and
- Potential funding solutions for the development of Hinda are being evaluated and considered.

## Highlights (continued)

### Key developments post the financial year end

#### Corporate

- As announced on 16 January 2023, Kropz appointed Louis Loubser to the board of the Company as Chief Executive Officer (“CEO”) and executive director;
- The third drawdown on the ZAR 550 Million Equity Facility of ZAR 60 million (approximately US\$ 3.5 million) occurred on 25 January 2023;
- The fourth drawdown on the ZAR 550 Million Equity Facility of ZAR 40 million (approximately US\$ 2.2 million) occurred on 27 February 2023; and
- Management is in the process of refinancing the BNP facility (outstanding amount US\$ 18,750,000) and currently expects that a replacement loan will be in place in the third quarter of 2023 before the expiry of the facility.

#### Elandsfontein

- First bulk shipment and sale of 33,000 tonnes of phosphate concentrate from Kropz Elandsfontein was announced on 23 January 2023;
- A second shipment and sale of 20,000 tonnes of phosphate concentrate from Kropz Elandsfontein was announced on 14 March 2023;
- During April 2023 two further shipments of 33,000 tonnes and 11,000 tonnes were sold and a further 33,000 tonnes in June 2023;
- As announced on 14 March 2023, Kropz, Kropz Elandsfontein and ARC Fund agreed to further ZAR 285 million (approximately US\$ 15.5 million) bridge loan facilities (“Loan 4”) to meet immediate cash requirements at Kropz Elandsfontein. A first draw down of ZAR 25 million (approximately US\$ 1.4 million) on Loan 4 was made on 14 March 2023. Loan 4 is unsecured, repayable on demand, with no fixed repayment terms and is repayable by Kropz Elandsfontein on no less than two business days’ notice. Interest is payable on Loan 4 at the South African prime overdraft interest rate plus 6%, nominal per annum and compounded monthly; and
- A second draw down on Loan 4 for an amount of ZAR 90 million was made on 28 March 2023, a third drawdown of ZAR 30 million was made on 25 April 2023 and a fourth draw down of Loan 4 was made on 23 June 2023.

#### Hinda

- Potential funding solutions for the development of Hinda are being evaluated and considered;
- Continued engagement with local government regarding project development; and
- Reduced sized project is currently being assessed to propose a fit-for-purpose low capex project to prove the concept of producing phosphate concentrate in the Congo and exporting it.



## Chairman's Statement

Dear shareholder,

In the course of 2022, we faced significant challenges in achieving desired production levels at Elandsfontein. Thanks to our major shareholder, African Rainbow Capital ("ARC") additional funding was provided to meet these challenges.

On 16 January 2023, we were delighted to announce that appointment of Louis Loubser, a very experienced mining operations executive, as the Chief Executive Officer of the Company. In March 2023 also ARC agreed to provide a ZAR 285 million bridge loan facility to Kropz Elandsfontein.

Since early 2023, production has improved at Elandsfontein, though not yet to planned levels, and we were delighted to announce the first bulk shipment of phosphate rock was made in January as well as a further 5 shipments that have been made in 2023 to date. The focus now is on achieving further sustainable increases in production and grade.

The Board thanks all the members of the executive, management, the teams on the ground, contractors, auditors and advisers for all their efforts and assistance during the year. I would also like to thank Mark Summers, the former CEO, for his service to the Company and wish him well for his future endeavours. We once again want to thank our major shareholder, ARC, for their further commitment and continued support.



**Lord Robin William Renwick of Clifton**  
**Non-executive Chairman**

28 July 2023

## Strategic Report for the year ended 31 December 2022

### Market overview

Phosphate rock prices have dropped significantly since their peak in 2022 following the invasion of Ukraine on 24 February 2022. As of 2023, the market for phosphate rock has remained relatively stable, with modest price increases observed in the first few months of the year. The demand for phosphate continues to be strong from the agricultural sector, particularly from key markets such as the US, Brazil, China and India. There is a growing need for increased food production in India, China and especially Africa. However, there are still concerns around supply constraints impacted by the war in Ukraine and other geopolitical events. Lastly, the US is expected to become an increased importer of phosphate rock as supplies dwindle in central Florida and North Carolina. As a result, some price volatility is expected to continue over the near term. However, considering the macro economic drivers, the overall market is expected to remain relatively stable with modest price increases over the medium to long term.

Elandsfontein rock concentrate is expected to be able to enjoy a slight premium in pricing due to its low cadmium, low calcium and  $P_2O_5$  ratio as well as advantageous freight to Asia, Australia and New Zealand.

### Significant changes in the state of affairs

#### *Share issues*

The issued share capital at 31 December 2021 was 909,571,975 ordinary shares (2020: 558,627,558).

On 18 January 2022, Kropz announced the issue of 6,700,000 ordinary shares, at an exercise price of £0.001 an ordinary share, in the Company to key members of the executive management team, including certain Persons Discharging Managerial Responsibilities. The issue of ordinary shares was due to awards vesting that had been issued under the Company's Long-Term Incentive Plan of 31 July 2020 as announced on 4 August 2020.

On 7 March 2022, Kropz announced the fifth and final drawdown of US\$ 200,000 on the US\$ 5 million equity facility with the ARC Fund, Kropz's major shareholder ("Further Equity Facility"), and this was settled by the issue of 3,474,536 new ordinary shares at the issue price of 4.20 pence per share to ARC on 10 March 2022. In addition, in accordance with the Original Equity Facility, any fees associated with the bank guarantee provided by ARC, would be settled by the issue of new ordinary shares to ARC. ARC notified the Company that the final guarantee fees due to ARC amounted to US\$ 311,733 and was settled by the issue of 3,971,712 new ordinary shares at the issue price of 6.75 pence per share to ARC on 10 March 2022.

The issued share capital at 31 December 2022 was 923,718,223 ordinary shares (2021: 909,571,975).

### Projects

#### Elandsfontein overview

Elandsfontein hosts the second largest phosphate deposit in South Africa, after Foskor's operation at Phalaborwa. Elandsfontein has been developed with the capacity to produce circa one million tonnes per annum ("Mtpa") of phosphate rock concentrate from a shallow mineral resource which is expected to be sold on both local and international markets. The Company owns 74% of the issued share capital of Kropz Elandsfontein, the company which owns the Elandsfontein project.

Elandsfontein's geographic location and proximity to logistics infrastructure are advantageous and allow for easy access to both local and international markets.

## Strategic Report for the year ended 31 December 2022 (continued)

Prior to 2022, in excess of US\$ 170 million was spent at Elandsfontein on project capital expenditure to construct the original and optimisation phases of the processing plant and infrastructure, initial mining and capitalised working capital. Following a suspended commissioning process in 2017, Kropz Elandsfontein conducted further geological drilling and a metallurgical test programme to define a robust process circuit, to cater for the increased variability of ore present within the Elandsfontein resource. As a result of competent banks of hard material encountered in the pit, further drilling was conducted in 2022 and consequently a revised mineral resource estimate was produced as further discussed below.

### Activity for the year ended 31 December 2022

The 2021 construction activities at Elandsfontein had largely been completed and mining activities which recommenced in October 2021 resulted in first ore being introduced into the plant in December 2021 with first production of phosphate rock concentrate ("Concentrate") being achieved in March 2022. The focus for the 2022 financial year, which continued into 2023, was to fully commission the plant, remove bottlenecks and establish specific operating parameters for the production ramp up phases towards steady state capacity.

### Mining and geology

Delays were experienced in the ramp-up of operations at Elandsfontein, largely being driven by continued ore variability in the current mining area. Mining rates and associated delivery of ore to the plant were compromised due to the presence of competent banks of hard material within the orebody that were previously unknown.

Following additional infill drilling, relogging of historical cores and mapping of ore exposures as intersected within the current mining horizon, an updated JORC (2012) compliant Mineral Resource Estimate ("MRE") was announced on 10 January 2023.

Based on the current mining conditions, on-site learnings and revised geological interpretations, it was considered prudent that the mineral resource be reclassified.

The updated Elandsfontein resource is defined below, on a total (gross) and net attributable basis.

ELANDSFONTEIN RESOURCE STATEMENT AS OF 15 DECEMBER 2022								
CLASS	TONNES (Mt)	P <sub>2</sub> O <sub>5</sub> (%)	SiO <sub>2</sub> (%)	Al <sub>2</sub> O <sub>3</sub> (%)	MgO (%)	Fe <sub>2</sub> O <sub>3</sub> (%)	CaO (%)	CON- TAINED P <sub>2</sub> O <sub>5</sub> (Mt)
Measured	9.40	11.21	65.58	1.13	0.16	0.90	16.10	1.05
Indicated	9.62	7.90	75.21	1.17	0.12	0.86	11.24	0.76
<b>Total Measured &amp; Indicated</b>	<b>19.02</b>	<b>9.54</b>	<b>70.45</b>	<b>1.15</b>	<b>0.14</b>	<b>0.88</b>	<b>13.64</b>	<b>1.81</b>
Inferred	87.56	7.68	73.92	1.20	0.16	1.03	11.15	6.72
<b>Total Resources</b>	<b>106.58</b>	<b>8.01</b>	<b>73.30</b>	<b>1.19</b>	<b>0.16</b>	<b>1.00</b>	<b>11.59</b>	<b>8.54</b>
NETT ATTRIBUTABLE (74% TO THE COMPANY)								
Measured	6.96	11.21	65.58	1.13	0.16	0.90	16.10	0.78
Indicated	7.12	7.90	75.21	1.17	0.12	0.86	11.24	0.56
<b>Total Measured &amp; Indicated</b>	<b>14.07</b>	<b>9.54</b>	<b>70.45</b>	<b>1.15</b>	<b>0.14</b>	<b>0.88</b>	<b>13.64</b>	<b>0.67</b>
Inferred	64.79	7.68	73.92	1.20	0.16	1.03	11.15	4.98
<b>Total Resources</b>	<b>78.87</b>	<b>8.01</b>	<b>73.30</b>	<b>1.19</b>	<b>0.16</b>	<b>1.00</b>	<b>11.59</b>	<b>6.32</b>
<i>Note: All numbers are reported to two significant figures. Rounding may cause minor discrepancies to the numbers reported in this table.</i>								

The resource estimate was updated after including the geological information contained in 30 additional sonic boreholes with recoveries above 90%. The additional drillholes have provided significant insight in terms of the



## Strategic Report for the year ended 31 December 2022 (continued)

geological interpretation, mineralised lithologies and data confidence. Differences are further seen in the elevation with regards to the top contact of mineralisation. The 2022 modelling further utilised implicit modelling which created additional refined contacts between lithologies. The optimised modelling has contributed to improved grades over the more accurately estimated areas and will improve planning in terms of anticipating mineralised horizons, and lithology types which are not always visibly distinguishable.

DIFFERENCE 2018 VS 2022 RESOURCE DECLARATION								
CLASS	TONNES (Mt)	P <sub>2</sub> O <sub>5</sub> (%)	SiO <sub>2</sub> (%)	Al <sub>2</sub> O <sub>3</sub> (%)	MgO (%)	Fe <sub>2</sub> O <sub>3</sub> (%)	CaO (%)	CON-TAINED P <sub>2</sub> O <sub>5</sub> (Mt)
Total Measured and Indicated 2022	19.02	9.54	70.45	1.15	0.14	0.88	13.64	1.81
Total Measured and Indicated 2018	77.80	8.30	74.90	1.17	0.17	0.93	11.86	3.60
<b>Difference Measured and Indicated</b>	<b>-58.78</b>	<b>1.24</b>	<b>-4.45</b>	<b>-0.02</b>	<b>-0.03</b>	<b>-0.05</b>	<b>1.78</b>	<b>-1.79</b>
Inferred 2022	87.56	7.68	73.92	1.20	0.16	1.03	11.15	6.72
Inferred 2018	23.30	5.48	82.50	1.15	0.13	0.95	7.50	1.28
<b>Difference Inferred</b>	<b>64.26</b>	<b>2.20</b>	<b>-8.58</b>	<b>0.05</b>	<b>0.03</b>	<b>0.08</b>	<b>3.65</b>	<b>5.44</b>
Note: All numbers are reported to two significant figures. Rounding may cause minor discrepancies to the numbers reported in this table.								

The 2022 reserve estimate was impacted by the reclassification of the resource estimate. Reserves are estimated at 17.42 Mt at a P<sub>2</sub>O<sub>5</sub> grade of 9.19% of which 7.31 Mt is proven at 10.71% P<sub>2</sub>O<sub>5</sub>, where previously no proven tonnes were stated in 2018.

ELANDSFONTEIN RESERVE STATEMENT AS AT 15 DECEMBER 2022			
CLASSIFICATION	TONNES (Mt)	P <sub>2</sub> O <sub>5</sub> (%)	CONTAINED P <sub>2</sub> O <sub>5</sub> (Mt)
Proven	7.31	10.71	0.78
Probable	10.11	8.09	0.82
<b>Total Reserve</b>	<b>17.42</b>	<b>9.19</b>	<b>1.60</b>
NETT ATTRIBUTABLE (74% TO THE COMPANY)			
Proven	5.41	10.71	0.58
Probable	7.48	8.09	0.61
<b>Total Reserve</b>	<b>12.89</b>	<b>9.19</b>	<b>1.18</b>

There is a 46 Mt difference between the 2018 and 2022 estimates, which is mainly due to the downgrade in the measured and indicated resource categories in the 2022 resource estimate.

**Strategic Report for the year ended 31 December 2022 (continued)**

<b>DIFFERENCE 2018 VS 2022 RESERVE DECLARATION</b>			
<b>RESOURCE CLASSIFICATION</b>	<b>TONNES (Mt)</b>	<b>P<sub>2</sub>O<sub>5</sub> (%)</b>	<b>CONTAINED P<sub>2</sub>O<sub>5</sub> (Mt)</b>
Total Proven 2022	7.31	10.71	0.78
Total Proven 2018	-	-	-
Total Probable 2022	10.11	8.09	0.82
Total Probable 2018	63.63	9.60	6.11
Total Proven and Probable 2022	17.42	9.19	1.60
Total Proven and Probable 2018	63.63	9.60	6.11
<b>Difference Proven and Probable</b>	<b>-46.21</b>	<b>-0.41</b>	<b>-4.51</b>
Note: All numbers are reported to two significant figures. Rounding may cause minor discrepancies in this table			

**Plant and processing**

Hot commissioning (C4) activities and production ramp up was undertaken during 2022. Plant stability was difficult to achieve due to the influence of varying quantities of ultra fine material contained in the ore and poor flotation conditioning.

Despite power generation issues in South Africa causing intermittent load shedding, we were able to mitigate the adverse effects on our production by utilizing emergency backup generators on several occasions. However, it is important to note that this has led to increased operating costs.

**Environmental Management Programme (“EMPr”)**

The Department of Mineral Resources and Energy (“DMRE”) approved the Kropz EMPr on 20 November 2015. Due to transitional provisions in terms of Section 12 (5) of the National Environmental Act (“NEMA”), as amended, DMRE directed Kropz during 2016 to amend its EMPr to bring it into line with amendments in NEMA. Since there was an appeal against the DMRE having approved the Mining Right, this only became possible after the Minister of the DMRE dismissed the appeal against the Mining Right on 14 December 2017.

The amendments to the EMPr were subsequently made during 2020. The updated EMPr was submitted to the DMRE in September 2020. On 26 March 2021, management received the approved updated EMPr for the Elandsfontein project from the DMRE. The updated EMPr strongly emphasizes the adherence to the required rehabilitation measures.

**Offsets**

In November 2019, the DMRE directed Kropz to carry out a further Offset Study to be done by an independent specialist which was subjected to a thirty-day public participation process (“PPP”).

In July 2020, Kropz Elandsfontein submitted a revised Offset Study to the DMRE. Herein, Management put forward its objections regarding the 2015 Offset Study originally submitted to the DMRE and contended that the 2015 Offset Study did not adequately consider Kropz’s effective innovative rehabilitation measures already demonstrated.

Following due consideration of all the comments and responses received during the thirty-day public participation period, management received notification from the DMRE on 4 March 2021 that the conditions required to cater for the offsets of land will be removed from the Elandsfontein EMPr.

It is understood that several appeals against the DMRE’s decision were lodged with the Department of Forestry, Fisheries and the Environment, and the outcome of this matter remains pending.

## **Strategic Report for the year ended 31 December 2022 (continued)**

### **Water use licence (“WUL”)**

An appeal against the Elandsfontein WUL was heard from 1 to 4 February 2021. Following four sittings on the matter, where final evidence was presented to the Water Tribunal, it was announced on 9 September 2021, that the appeal was dismissed.

Dewatering of the aquifer continued in accordance with the updated ground water management plan and monitoring activities remain in line with the WUL conditions.

### **Safety, health and environment**

As at 31 December 2022, the Lost Time Injury Frequency Rate (“LTIFR”), per 200,000 man hours, was 1.290 (2021 - 0.698). The increase in LTIFR is related to four Lost Time injuries as compared to three in the previous reporting period of which one was a reportable injury. No major environmental incidents were reported during the year. Kropz Elandsfontein held various wellness campaigns during 2022, which included a blood donation drive, HIV and AIDS awareness and general health (i.e., blood pressure).

### **Corporate social responsibility (“CSR”) and sustainability**

The execution of the five-year Social and Labour Plan (“SLP”), aligned with the 2018 South African Mining Charter, and approved by the DMRE, remains on track. During the reporting period, Kropz Elandsfontein has commenced with the development of the next iteration of the SLP and submitted it in Q4 of 2022. The DMRE requested minor amendments, which were submitted in March 2023 for final approval. The plan includes progressive improvements to obtain compliance on the employment equity and procurement objectives of the South African Mining Charter scorecard.

The following strategic focus areas have been identified for the updated SLP:

- Education;
- Social wellness;
- Local economic development; and
- Urban reconstruction and infrastructure upgrades.

Through collaboration with the local community forum, the execution of various community development projects continued during 2022 and the selection of new projects formed part of the 2022 - 2026 SLP. The Saldanha Bay Municipality (“SBM”) confirmed alignment with their Infrastructure Development Plan (“IDP”) and has endorsement of the various SLP projects.

### **SLP LED Projects**

#### **Education support**

During 2022 Kropz Elandsfontein continued to support the Hopefield Primary School teacher’s programme. Infrastructure upgrades were done at two Early Childhood Development (“ECD”) centres in Hopefield. One of the upgrades was required to enable final registration of the ECD centre. For the 2022-2026 SLP, Education will remain a key focus area.

#### **Disabled project**

During 2022, with the assistance of a local NGO, a needs analysis was carried out for various disabled individuals in Hopefield. This identified necessary infrastructure upgrades which included the installation of handrails, wheelchair pathways etc. Fourteen recipients within the Hopefield community benefited from this project.

## **Strategic Report for the year ended 31 December 2022 (continued)**

### **Hopefield Thusong community centre upgrade**

The infrastructure upgrade of the community centre included the addition of two new rooms, a kitchen and bathroom facilities. The handover of the Thusong Centre took place at an official handover ceremony with the SBM mayor during 2022.

### **Ad-Hoc CSR Projects**

Through engagements with various stakeholders, Kropz Elandsfontein supported the following initiatives and organizations:

- 1) Schools ECO Club (Annual Science camp and ECO awards)
- 2) Silwerblare pensioners social club
- 3) Universal Rugby club (Infrastructure and annual awards)
- 4) Mfesane (Disabled day)
- 5) All saints Anglican church (Annual event)

### **Stakeholder Engagement**

Kropz Elandsfontein continues to engage with the local community on a regular basis and held a community meeting during 2022 to provide an update on the state of the business and various other issues. Kropz Elandsfontein also issued quarterly newsletters to the community to keep them updated on the business as well as various initiatives and projects.

### **Post reporting period events**

#### **Transport and logistics**

As announced on 23 November 2021, Transnet provided Kropz Elandsfontein with a draft port access agreement to support the long-term export of Elandsfontein's phosphate rock through the port of Saldanha. Final contract negotiations are underway. An interim agreement, with tariffs and a forecast of export quantities, is in place while the agreement is being finalised. Exports through Cape Town will potentially be required for no more than 350,000 tonnes of Elandsfontein's eventual production of approximately 1 million tonnes per annum, if capacity through the port of Saldanha is unavailable for a limited period of time.

#### **Sales**

The first bulk shipment and sale of 33,000 tonnes of phosphate concentrate from Kropz Elandsfontein was announced on 23 January 2023 with a second shipment and sale of 20,000 tonnes of phosphate concentrate as was announced on 14 March 2023. During April 2023, two further shipments of 33,000 tonnes and 11,000 tonnes were sold and a further 33,000 tonnes in June 2023. These exports occurred through the port of Saldanha.

#### **Hinda**

The Hinda project, currently 100% owned by Cominco S.A., is believed to be one of the world's largest undeveloped phosphate reserves. Ownership is expected to be diluted to 90% through the participation of the Republic of Congo ("RoC") government. Hinda consists of a sedimentary hosted phosphate deposit located approximately 40 km northeast of the city of Pointe-Noire. The project is fully permitted.

Prior to acquisition by Kropz, more than US\$ 40 million was spent on project development, including drilling, metallurgical test work and feasibility studies. Since its acquisition by Kropz, a further US\$ 4.7 million has been spent.

## Strategic Report for the year ended 31 December 2022 (continued)

### Activity for the year ended 31 December 2022

Kropz has been reviewing the Hinda Updated Feasibility Study ("Updated FS") and the financial model as prepared by Hatch.

#### Highlights of the Updated FS

- The phased approach studied will initially deliver 1 Mtpa phosphate rock concentrate through the existing Port of Pointe-Noire ("Phase 1"), expanding to 2 Mtpa phosphate rock concentrate through a new port facility at Pointe Indienne ("Phase 2");
- The phased approach is intended to reduce up-front execution capital requirements by making use of existing port facilities, thus limiting the first phase to 1 Mtpa phosphate rock concentrate;
- The Hinda Updated FS demonstrates low technical and mining risk and attractive project economics;
- The mineral resource is unchanged from the 2018 Competent Persons Report, with 201 million tonnes of measured mineral resource at 11.6% P<sub>2</sub>O<sub>5</sub> and 381 million tonnes of indicated mineral resource at 9.8% P<sub>2</sub>O<sub>5</sub>;
- The Hinda Updated FS delivers a minimum 28-year life of mine ("LOM"), extracting 31 million tonnes of ore in Phase 1 and 214 million tonnes of ore in Phase 2;
- Estimated Phase 1 capital cost is US\$ 355 million, Phase 2 capital cost is US\$ 310 million (in real 2021 terms), with a nominal, peak funding requirement of US\$ 392 million, as the first phase cash flows supports the subsequent Phase 2 expansion capital expenditure;
- Phase 1 operating cost on a free-on-board ("FOB") basis is US\$ 63 per tonne phosphate rock concentrate, and Phase 2 operating cost is US\$ 70 per tonne phosphate rock concentrate, inclusive of mining royalties;
- Using a December 2021 price forecast received from CRU on a FOB Pointe-Noire basis, the real LOM earnings before interest and taxation margin is US\$ 65 per tonne of phosphate rock concentrate;
- There is an estimated three-year execution schedule; and
- Base case, nominal internal rate of return ("IRR") of 19.2% and base case, ungeared, nominal net present value ("NPV") (at 11.1% discount rate) of US\$ 397 million.

The Hinda Updated FS included detailed engineering of the open pit mine, associated mine dewatering and surface water management, the beneficiation plant and all associated infrastructure, tailings storage facilities and water storage dam, a gas fired power plant and gas supply pipeline, a 30 kV overhead line ("OHL") to support construction and early works, mine access roads, an accommodation camp and port infrastructure. Costs and schedules associated with procurement, construction management and commissioning are also included.

Hatch delivered a robust execution strategy, which provides high confidence in achieving execution success. The beneficiation plant employs standard and proven technologies, and the design is based on extensive laboratory and pilot-scale test work completed between 2013 and 2016.

#### Further Opportunities

A mine plan was run scheduling the immediate commencement of Phase 2 production, i.e. 2 Mtpa of phosphate rock concentrate to be exported through a new port facility. This opportunity led to a conservative increase in ungeared NPV (at 11.1% discount rate) to US\$ 543 million with an IRR of 21%. The estimated capital cost for the immediate commencement of Phase 2 is US\$ 618 million, based on the study work completed. If this option is studied further, it will be possible to further optimise both capital and operating costs. Collaboration with other market players to share in costs of infrastructure such as port, power and roads are also an opportunity to consider.

Further opportunities also exist to enter into a long-term power purchase agreement with one of several companies already established in-country. The capital cost of the gas fired power plant would therefore be removed from the estimate, although this would be offset by an increase in power costs.

## Strategic Report for the year ended 31 December 2022 (continued)

A number of other capital cost optimisation initiatives have been identified for investigation ahead of detailed design which should further improve project economics.

### Updated ESIA

The project has an approved environmental compliance certificate issued in April 2020, valid for 25 years. As a result of the modifications to the project in the Hinda Updated FS, the ESIA has been updated to comply with local regulations. The RoC Ministry of Environment has approved the Updated ESIA and the project has a valid environmental compliance certificate.

### Mining Investment Agreement (“MIA”)

The MIA, which sets out the legal and fiscal framework under which Cominco S.A. would invest and operate within the RoC was signed by all parties on 10 July 2018 and ratified by the RoC Government on 27 December 2021.

### Déclaration d’Utilité Publique (“DUP”)

The Ministry of Land Tenure and Public Domain is responsible for managing land tenure and legal land rights in RoC. The land commission has evaluated the land usage requirements of the Hinda Project and liaises with legal property owners and traditional land users to determine, based on the legislation, a baseline for land use to be used for compensation and relocation.

The main declaration of public utility (DUP) process has covered an area of 30 km<sup>2</sup>. Public consultations were organized by Cominco and CM2E. Land surveys were carried out from end of November 2020 until mid-January 2021, followed by an optimisation session in line with the Updated FS. The final report is still to be finalised.

The MIA states that expropriation costs and compensations are to be borne by the government of the RoC and that Cominco can prefinance some or all of the costs.

### Mineral resources

The Hinda resource is defined below, on a total (gross) and net attributable basis. No additional drilling was conducted in 2022.

#### Mineral Resource Statement, as declared by SRK on 31 August 2018

Class	Quantity (Mt)	Grade (%P <sub>2</sub> O <sub>5</sub> )	Grade (%Al <sub>2</sub> O <sub>3</sub> )	Grade (%MgO)	Grade (%Fe <sub>2</sub> O <sub>3</sub> )	Grade (%CaO)	Grade (%SiO <sub>2</sub> )	Contained P <sub>2</sub> O <sub>5</sub> (Mt)
<b>Gross</b>								
Measured	200.5	11.6	3.7	3.8	1.4	21.8	42.7	23.3
Indicated	380.9	9.8	5.0	3.3	1.8	17.6	48.5	37.3
Inferred	94.4	7.5	4.8	3.6	1.7	15.8	52.2	7.1
<b>Total</b>	<b>675.8</b>	<b>10.0</b>	<b>4.6</b>	<b>3.5</b>	<b>1.7</b>	<b>18.6</b>	<b>47.3</b>	<b>67.7</b>
<b>Net Attributable (90% attributable to the Company)</b>								
Measured	180.5	11.6	3.7	3.8	1.4	21.8	42.7	20.9
Indicated	342.8	9.8	5.0	3.3	1.8	17.6	48.5	33.6
Inferred	85.0	7.5	4.8	3.6	1.7	15.8	52.2	6.4
<b>Total</b>	<b>608.3</b>	<b>10.0</b>	<b>4.6</b>	<b>3.5</b>	<b>1.7</b>	<b>18.6</b>	<b>47.3</b>	<b>60.9</b>



## **Strategic Report for the year ended 31 December 2022 (continued)**

### **Safety, health and environment**

No environmental or safety incidents were reported during the year.

### **Sustainability**

In line with the MIA and its commitments, Cominco S.A. continued its interactions with the local communities associated with the Hinda project. On-going projects include the usage of project site manpower, the funding of teachers at local schools, educational support for vulnerable children, specific projects for woman, water boreholes and food security projects through the establishment of orchards, vegetable gardens and small-scale agriculture projects.

### **Post reporting period events**

Prior to commencing Phase 1, a reduced sized test project is currently being assessed to propose a fit-for-purpose low capex project to prove the concept of producing phosphate concentrate in the Congo and exporting it. The project will focus on the mining and processing the section of the resource which does not require flotation.

### **Strategy**

The Company's long-term strategy is to build a portfolio of high-quality phosphate mines and to be a major player within the sub-Saharan African plant nutrient sector. Its priority is to bring Elandsfontein to steady-state production and profitability whereafter the development of Hinda will be prioritised.

### **Business model**

The Company's business model is to source high-quality resources and to bring them into production to contribute to the Company's strategic competitiveness and profitability.

Once production has commenced at Elandsfontein and Hinda, the Company may consider acquiring additional assets and/or adding downstream beneficiation opportunities, where the Board believes shareholder value could be increased.

### **Objectives and outlook for the year ahead**

#### **Objectives**

##### **Kropz**

Kropz's overriding objective is to deliver strong shareholder and stakeholder returns over the long term.

##### **Elandsfontein**

The primary focus of the year ahead will be to further increase the ramp-up of operations to achieve steady state while optimising process recoveries and mining costs. Optimised production capacity is expected to be determined over the next 12 months and will be based on the maximum profitability.

##### **Hinda**

Further to the completion of the Hinda Updated FS in December 2021, management is working to secure funding to commence with project development in accordance with the MIA.

## Strategic Report for the year ended 31 December 2022 (continued)

### Outlook

Kropz's Elandsfontein project delivered first production in early 2022. The Company is confident in the inherent value contained within each of its core assets. Global phosphate rock demand and pricing is robust, and the work being carried out will provide Kropz with direction for the next phase of its development, subject to short-term challenges being managed. The year ahead should provide the Company with a solid foundation for its future development.

### Financial review for the year ended 31 December 2022

Summary of key financial indicators for the year:

- Impairment in the value of mine property, plant and equipment and inventory at Kropz Elandsfontein of US\$ 93 million;
- Cash and cash equivalents of US\$ 2 million (2021: US\$ 2 million)
- Various equity and debt raises as set out in "Highlights" on page 1;
- Trade and other payables of US\$ 7 million (2021: US\$ 4 million); and
- Property, plant, equipment and development and exploration assets, after the impairment above, of US\$ 111 million (2021: US\$ 180 million).

### Key performance indicators

The Company is a mining and development entity whose assets comprise a mine and plant in the ramp-up phase in South Africa and an exploration asset in the RoC. Currently, minor revenues have been generated from local sales in South Africa during 2022 with first bulk sale in January 2023. The key performance indicators for the Company will be achieving steady state production and the advancement of the Hinda project.

### Principal risks and uncertainties

The Company and its subsidiaries ("the Group") are subject to various risks relating to political, economic, legal, social, industry, business and financial conditions. The following risk factors, which are not presented in any order of priority, do not purport to be a complete list or explanation of all the risks involved in the Company or the Group's activities.

#### Access to financing

The ramp up at Elandsfontein, the capital expenditure plans of the Group and the further development and exploration of mineral properties in which the Group holds interests or which the Group may acquire, may depend upon the Group's ability to obtain financing through joint ventures, debt financing, equity financing or other means. No assurance can be given that the Group will be successful in obtaining any required financing as and when needed on acceptable terms or at all, which could prevent the Group from further development and exploration or additional acquisitions.

Failure to obtain additional financing on a commercial and timely basis may cause the Group to postpone its capital expenditure plans, forfeit its rights in properties or reduce or terminate operations. Reduced liquidity or difficulty in obtaining future financing could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's Projects may require greater investment than currently expected or suffer delays or interruptions, which could cause cost overruns. Any such delay, interruption or cost overruns in implementing the Group's planned capital investments could result in the Group failing to complete the Projects and a reduction in future production volumes, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. In addition, the Projects may not prove to be commercially viable upon completion.

## **Strategic Report for the year ended 31 December 2022 (continued)**

The Group's ability to obtain future financing will depend in part on its ability to achieve positive cash flows from its current operations within time and budget, an extended commissioning ramp-up period will have an adverse impact on the business and financial performance of the Group. Refer to note 2a to the Group financial statements which explains that the Group is reliant on revenue from production ramp up and expect to require additional financing and a material uncertainty exists that may cast significant doubt on the Group's ability as a going concern.

### **Dependence on maintenance of good relationship with regulatory and governmental departments**

The Group relies on the maintenance of good relationships with regulatory and governmental departments in South Africa and the RoC. Failure to maintain these relationships may adversely impact the Group's performance.

### **Ramp-up of Elandsfontein**

The Elandsfontein project may require further funding to achieve steady state operations in Q4 2023. Any delays in securing of additional funding will have an adverse impact on the business and financial performance of the operation. There can be no guarantee that implementation of the recently completed modifications identified by the Company and its technical consultants will result in a successful long-term operation of the mine. Failure to achieve ramp-up of the Elandsfontein project, or a significant delay in the completion of ramp-up, could result in a material adverse impact on the business, and the financial performance and position of the Group.

### **Access to infrastructure**

Mining, processing, development and exploration activities depend, to a significant degree, on adequate infrastructure. In the course of developing Hinda, the Group may need to construct and support the construction of infrastructure, which includes permanent water supplies, tailings storage facilities, power, logistics services and access roads.

Reliable roads, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could materially adversely affect the Group's operations, financial condition and results of operations. Any such issues arising in respect of the supporting infrastructure or on the Group's sites could materially adversely affect the Group's results of operations or financial condition.

Furthermore, any failure or unavailability of the Group's operational infrastructure (for example, through equipment failure, disruption to its transportation arrangements or reduced port capacity) could materially adversely affect the production output from its mines or development of a mine or project.

Limited or reduced port capacity at the Port of Saldanha, as well as the associated cost increase for procuring alternative logistics could have an adverse impact on the business and financial performance of the Group.

### **Operational targets**

The financial performance of the Group is subject to its ability to achieve a target concentrate specification and production efficiency at its Elandsfontein project, according to its pre-determined budget. Failure to do this may result in failure to achieve operational targets with a consequent material adverse impact on the business, operations and financial performance of the Group.

Excessive overburden stripping, non-economical mining of ore, ore losses and the dilution of feed grade to the processing facility could all have an adverse impact on the processing operations. Furthermore, high variability in the daily feed grades could also have an adverse impact on operations and financial performance of the Group.

## **Strategic Report for the year ended 31 December 2022 (continued)**

Any further unscheduled interruptions in the Group's operations due to mechanical, electrical or other failures or industrial relations related issues or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations. Furthermore, any interruption or disruption in the supply chain of key production chemicals sourced from international suppliers could materially adversely affect the production output from the mine.

### **New entrant risk**

Kropz Elandsfontein will, once production has been achieved of a commercial saleable grade product, be a new entrant in the global phosphate rock market, selling its products into a globally competitive and established market.

There can be no guarantee that the sales estimates set by Kropz Elandsfontein will be achieved until a successful track record has been achieved. Not achieving appropriate selling prices for its commercial grade products, would have a material adverse effect on the business, operations and financial performance of the Group.

### **Mining and mineral processing risks**

The business of mining and mineral processing involves a number of risks and hazards, including industrial accidents, labour disputes, community conflicts, activist campaigns, unusual or unexpected geological conditions, geotechnical risks, ore variability, equipment failure, changes in the regulatory environment, environmental hazards, ground water and weather and other natural phenomena such as earthquakes and floods. The Group may experience material mine or plant shutdowns or periods of reduced production as a result of any of the above factors. Such occurrences could result in material damage to, or the destruction of, mineral properties or production facilities, human exposure to pollution, personal injury or death, environmental and natural resource damage, delays in mining, monetary losses and possible legal liability, and may result in actual production differing, potentially materially, from estimates of production, whether expressly or by implication. There can be no assurance that the realisation of operating risks and the costs associated with them will not materially adversely affect the results of operations or financial conditions of the Group.

Geotechnical, ore variability, geological and hydrogeological risks could have a material adverse impact on the safety, business and financial performance of the Group's operation.

Failure to successfully dewater the mining area and maintain water levels in the mining area at the Elandsfontein project could have a material adverse impact on the operational performance, financial performance and financial condition of the Group.

### **Enforcement of contractual rights in the RoC**

The legal system in the RoC is based on the French civil law system (the Civil Code of the former French Equatorial Africa), which has enacted the Uniform Act to harmonise business law in Africa in order to guarantee legal and judicial security for investors and companies in its member states, as well as a Uniform Act on Arbitration Law, allowing recourse to a standard arbitration mechanism for the settlement of contractual disputes arising from civil or commercial contracts concluded in the RoC as an alternative to RoC courts for legal proceedings relating to contracts.

Under Congolese law, parties may enter into private contracts in the language of their choice, however, a French translation is always required for them to be used before any constituted authority in the RoC. In addition, enforcement of contracts concluded outside of Congo before an RoC court, administrations and other constituted authorities, requires their prior registration with the Office for Registration and Stamp Duties and, in the absence of a specific exemption, payment of the applicable registration fees and stamp duties.

Certain contracts concluded in the RoC (such as leases) must also be presented for registration with the Office for Registration and Stamp Duties, due to their nature and listing in the General Tax Code, Volume 2. Moreover,

## **Strategic Report for the year ended 31 December 2022 (continued)**

certain contracts (such as commercial leases) must also be notarised or authenticated by a notary if concluded as private deeds, prior being registered as described above.

If any of these processes are not strictly followed, the RoC courts and administrations may disregard the concerned contract and, as regards the requirement to register certain contracts with the Office for Registration and Stamp Duties, the tax administration may apply fines of 100% of the amount of registration fees due. Further, the tax administration tends to disregard any payment convention exemption for the purpose of applying these fines.

If any of the Group's contracts are deemed unenforceable, this could have a material adverse effect on the operations and financial results of the Group.

### **Commodity pricing**

The future profitability and viability of the Group's operations will be dependent upon the market price of phosphate rock to be sold by the Group. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities, the global level of demand from consumers and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. Commodity prices have fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations. A significant or sustained downturn in commodity prices would adversely affect the Group's available cash and liquidity and could have a material adverse effect on the business, results of operations and financial condition of the Group in the longer term.

In addition to adversely affecting the Group's reserve estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the Elandsfontein project and the Hinda project are ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

### **Environmental regulation and environmental compliance**

Mining operations have inherent risks and liabilities associated with damage to the environment and the disposal of waste products occurring as a result of mineral exploration and production. Environmental and safety legislation and regulation (e.g. in relation to reclamation, disposal of waste products, pollution and protection of the environment, protection of wildlife and otherwise relating to environmental protection) is frequently changing and is generally becoming more restrictive with a heightened degree of responsibility for companies and their Directors and employees and more stringent enforcement of existing laws and regulations. Future changes could impose significant costs and burdens on the Group (the extent of which cannot be predicted) both in terms of compliance and potential penalties, liabilities and remediation.

Breach of any environmental obligations could result in penalties and civil liabilities and/or suspension of operations, any of which could adversely affect the Group. Further, approval may be required for any material plant modifications or additional land clearing and for ground disturbing activities. Delays in obtaining such approvals could result in the delay to anticipated exploration programmes or mining activities.

There may also be unforeseen environmental liabilities resulting from mining activities, which may be costly to remedy. If the Group is unable to fully remedy an environmental problem, it may be required to stop or suspend operations or enter into interim compliance measures pending completion of the required remedy. The potential exposure may be significant and could have a material adverse effect on the Group. The Group has not purchased insurance for environmental risks (including potential liability for pollution or other hazards as a result

## **Strategic Report for the year ended 31 December 2022 (continued)**

of the disposal of waste products occurring from exploration and production) as it is not generally available at a price which the Group regards as reasonable.

In South Africa, the Regulations Pertaining to the Financial Provision for Prospecting, Exploration, Mining or Production Operations 2015 (R1147 of 20 Nov 2015) provides that the holder of a mining right must provide for rehabilitation and remediation costs, with particular reference to when the mine is decommissioned at the end of mining, or production operations. It is expected that mining operations at Elandsfontein will cease in year 2032. The under-provision of such a rehabilitation liability could result in future liabilities being payable, which could have a material adverse impact on the financial condition of the Group.

### **Government regulation and political risk**

The Group's operating activities are subject to laws and regulations governing expropriation of property, health and worker safety, employment standards, waste disposal, protection of the environment, mine development, land and water use, prospecting, mineral production, exports, taxes, labour standards, occupational health standards, toxic wastes, the protection of endangered and protected species and other matters. While the Directors believe that the Group is in compliance with all material current laws and regulations affecting its activities, future changes in applicable laws, regulations, agreements or changes in their enforcement or regulatory interpretation could result in changes in legal requirements or in the terms of existing permits and agreements applicable to the Group or its properties, which could have a material adverse impact on the Group's current operations or planned development projects. Where required, obtaining necessary permits and licences can be a complex, time-consuming process and the Group cannot assure whether any necessary permits will be obtainable on acceptable terms, in a timely manner or at all.

The costs and delays associated with obtaining necessary permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict the Group from proceeding with any future exploration or development of its properties. Any failure to comply with applicable laws and regulations or permits, even if inadvertent, could result in interruption or closure of exploration, development or mining operations or material fines, penalties or other liabilities.

The Group has operations located in South Africa and the RoC and the Group's activities may be affected in varying degrees by political stability and governmental regulations. Any changes in regulations or shifts in political attitudes in South Africa and the RoC are beyond the control of the Group and may adversely affect its operations.

### **Adverse sovereign action**

The Group is exposed to the risk of adverse sovereign action by the governments of South Africa and RoC. The mining industry is important to the economies of these countries and thus can be expected to be the focus of continuing attention and debate. In similar circumstances in other developing countries, mining companies have faced the risks of expropriation and/or renationalisation, breach or abrogation of project agreements, application to such companies of laws and regulations from which they were intended to be exempt, denials of required permits and approvals, increases in royalty rates and taxes that were intended to be stable, application of exchange or capital controls, and other risks.

### **Environmental, social and governance ("ESG") and climate change**

As the focus on ESG increases, there are increasing environmental, social and governance risks that may affect the Group's ability to raise capital; obtain permits; work with communities, regulators and Non-Governmental Organisations ("NGOs") and/or protect its assets from impairments.

At Kropz, we acknowledge that our business activities affect the society and environment around us, and that we have an opportunity and an implicit duty to ensure this impact is positive. We also believe that efficient and sustainable operations are a necessity for long-term value creation.



## Strategic Report for the year ended 31 December 2022 (continued)

We are committed to taking responsibility when conducting our business by integrating ESG factors into our investment decisions and operational processes. Given the stage of development of Kropz, social initiatives have been limited to those outlined above at Elandsfontein.

Climate change could potentially affect the demand for fertilisers by impacting global agricultural activity. This in turn could affect the demand for fertiliser feed materials, and could cause events such as prolonged droughts that could reduce the availability of water at the different project sites.

As the Kropz operations develop, more initiatives will be undertaken on the ESG front and progress on these will be reported on in the next annual report.

### Governance

The Board considers sound governance as a critical component of the Group's success and the highest priority. The Company has an effective and engaged Board, with a strong non-executive presence from diverse backgrounds, and well-functioning governance committees. Through the Group's compensation policies and variable components of employee remuneration, the Remuneration and Nomination Committee ("Remuneration Committee") of the Board seeks to ensure that the Company's values are reinforced in employee behaviour and that effective risk management is promoted.

More information on our corporate governance can be found in the Corporate Governance Report on pages 43 to 54.

### Directors' section 172 statement

The following disclosure describes how the Directors have had regard to the matters set out in section 172 and forms the Directors' statement required under section 414CZA of The Companies Act 2006. This reporting requirement is made in accordance with the corporate governance requirements identified in The Companies (Miscellaneous Reporting) Regulations 2018, which apply to company 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 they consider, in good faith, would be most likely to promote the success of the Company 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 Company's employees;
- c. the need to foster the Company's business relationships with suppliers, customers and others;
- d. the impact of the Company's operations on the community and the environment;
- e. the desirability of the Company maintaining a reputation for high standards of business conduct; and
- f. the need to act fairly between members of the Company.

The analysis is divided into two sections, the first to address stakeholder engagement, which provides information on stakeholders, issues and methods of engagement. 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 Company continuously interacts with a variety of stakeholders important to its success, such as equity investors, joint venture partners, debt providers, employees, government bodies, local community and vendor partners. The Company 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.

## Strategic Report for the year ended 31 December 2022 (continued)

Who are the key stakeholder groups	Why is it important to engage this group of stakeholders	How did Kropz engage with the stakeholder group	What resulted from the engagement
<p><b>Equity investors and equity partners</b></p> <p>All substantial shareholders that own more than 3% of the Company's shares are listed on page 37 of the Directors' Report.</p> <p>The Company owns 74% of Kropz Elandsfontein, the owner of the Elandsfontein project in South Africa. 26% is owned by ARC.</p> <p>The Company owns 70% of Elandsfontein Land Holdings (Pty) Ltd ("ELH"), the owner of the Elandsfontein mining property in South Africa. 30% is owned by ARC.</p> <p>Kropz Elandsfontein may require further funding to complete the ramp up at Elandsfontein. Cominco Resources requires further funding to develop Hinda.</p> <p>As such, existing equity investors and potential investment partners are important stakeholders.</p>	<p>Access to capital is of vital importance to the long-term success of the business to enable the development of Hinda. Equity partner involvement is vital to the success of the development of these projects, without which the Company cannot create value for its shareholders by producing phosphate rock concentrate and therefore a return on the investment.</p> <p>Through selected engagement activities, the Company strives to obtain investor buy-in into its strategic objectives detailed on page 13 and the execution thereof.</p> <p>The Company seeks to promote an investor base that is interested in a long-term holding in the Company and will support the Company in achieving its strategic objectives.</p> <p>During the course of 2022, the percentage of shares held in public hands decreased and the overall daily volume of shares traded increased.</p>	<p>The key mechanisms of engagement included:</p> <p><b>Substantial shareholders</b></p> <ul style="list-style-type: none"> <li>Both ARC and Kropz International have appointed Directors to the Board of Kropz; and</li> <li>The other existing substantial shareholders have regular meetings and interactions with the Chairman and/or CEO.</li> </ul> <p><b>Investment and equity partners</b></p> <ul style="list-style-type: none"> <li>ARC have representatives on the Kropz Elandsfontein and ELH Boards of Directors in terms of the respective shareholder's agreements; and</li> <li>Regular Board meetings are held.</li> </ul> <p><b>Prospective and existing investors</b></p> <ul style="list-style-type: none"> <li>The AGM and Annual and Interim Reports;</li> <li>Investor roadshows and presentations;</li> <li>One on one investor meetings with the Chairman and/or CEO;</li> <li>Access to the Company's broker and advisers;</li> <li>Regular news and project updates; and</li> <li>Social media accounts e.g. Twitter @Kropzplc;</li> <li>Site visits for potential cornerstone investors.</li> </ul>	<p>The Company engaged with investors on topics of strategy, governance, project updates and performance.</p> <p>Please see "Dialogue with shareholders" section of the Directors' report on page 37.</p> <p>The CEO presented at a number of investor roadshows, conferences and one on one meetings.</p> <p>During 2022, the Company secured the ZAR 177 Million Equity Facility, ZAR 121.5 million and ZAR 126 million bridge loans as well as a further ZAR 550 million Equity Facility with ARC.</p> <p>In terms of the ZAR 200 Million Equity Facility and the additional equity facilities, ARC will potentially be able to acquire a total further 8.3% interest in the Company, eventually taking its 83.2% interest at December 2022, to 91.5%.</p> <p>At the Company's general meeting held on 30 May 2022 all resolutions were duly passed with 100% of the votes cast in favour of resolutions proposed.</p> <p>At the Company's AGM held on 30 June 2022 all resolutions were duly passed.</p> <p>At the Company's general meeting held on 30 November 2022 all resolutions were duly passed with at least 98% votes in favour of resolutions proposed.</p>
<p><b>Funding providers</b></p> <p>Kropz Elandsfontein has a US\$30 million, fully utilised, debt facility with BNP that commenced in September 2016.</p>	<p>Access to funding is of vital importance to the long-term success of the business to be able to complete the Elandsfontein project. The debt facility was utilised in the construction of Elandsfontein.</p> <p>Various contractual conditions of the debt finance require regular</p>	<ul style="list-style-type: none"> <li>One on one meetings with the CEO and/or COO;</li> <li>Regular reporting on project progress;</li> <li>Ad hoc discussions with management, as required; and</li> <li>Tripartite discussions between Kropz Elandsfontein, ARC and management to ensure</li> </ul>	<p>In May 2020, the amended facility agreement was signed between Kropz Elandsfontein and BNP, thereby moving the first principal debt repayment to 31 December 2022. The first quarterly instalment of US\$ 3.75 million was made during December 2022.</p>

## Strategic Report for the year ended 31 December 2022 (continued)

	<p>updates on ongoing progress.</p> <p>Ongoing support from potential new debt providers is required to achieve the construction of Hinda.</p>	<p>there are no compliance matters outstanding in relation to the facility.</p>	
<p><b>Employees</b></p> <p>The Company has 14 South African, 2 UK and 5 RoC employees, including its Directors.</p> <p>Two of the Directors are UK residents, 1 Monegasque, 1 American and 2 are South African resident Directors.</p> <p>The CEO during the year under review was South Africa-based.</p>	<p>The majority of its employees going forward will be based in South Africa and the Directors consider workforce issues holistically for the Group as a whole.</p> <p>The Company's long-term success is predicated on the commitment of its workforce to its vision and the demonstration of its values on a daily basis.</p> <p>The Board have identified that reliance on key personnel is a known risk.</p>	<p><b>General employees</b></p> <ul style="list-style-type: none"> <li>The Company maintains an open line of communication between its employees, senior management and the Board.</li> <li>The CEO reports regularly to the Board;</li> <li>Key members of the executive team are invited to some of the audit and risk committee meetings;</li> <li>There is a formalised employee induction into the Company's corporate governance policies and procedures; and</li> <li>There is an HR function in the UK.</li> </ul> <p><b>South African employees</b></p> <ul style="list-style-type: none"> <li>There is an HR function in South Africa;</li> <li>Senior management regularly visit the operations in South Africa and engage with its employees through one on one and staff meetings, employee events, project updates, etc; and</li> <li>Staff safety committees continue to operate.</li> </ul> <p><b>Congo employees</b></p> <ul style="list-style-type: none"> <li>Senior management regularly visit the operations in RoC and engage with its employees through one on one and staff meetings, employee events, project updates, etc.</li> </ul>	<p><b>Employees</b></p> <p>The Board met with management to discuss the long-term remuneration strategy.</p> <p>Advisors were appointed to do the independent party review to examine non-executive Director and executive team remuneration in 2018 at the time of the AIM IPO.</p> <p>Board reporting has been optimised to include sections on engagement with employees.</p> <p><b>South African and Congo employees</b></p> <p>The team were trained in aspects of corporate policies and procedures to engender positive corporate culture aligned with the Company code of conduct.</p> <p>Meetings were held with staff to provide project updates and ongoing business objectives.</p>
<p><b>Governmental bodies</b></p> <p>The Company is impacted by national, regional and local governmental organisations in South Africa and the RoC.</p>	<p>Regular engagement with organs of state at national, regional and local levels is required to keep stakeholders informed and supportive of project developments.</p>	<p>The Company provides general corporate presentations regarding the Elandsfontein project development as part of ongoing stakeholder engagement with the South African government, Western Cape provincial government and local</p>	<p>Meetings have been held with various representatives of the national, regional and local government bodies, to discuss ongoing compliance and other regulatory matters relating to mining.</p> <p>The Company has received its South African requisite</p>

## Strategic Report for the year ended 31 December 2022 (continued)

		<p>municipal government. The Company maintained its good relations with the respective government bodies and frequently communicated progress.</p> <p>The Company engages with the relevant departments of the RoC government in order to progress the development of Hinda.</p>	<p>environmental and land use permits.</p> <p>In addition, the Company has received the required permits to develop Hinda, subject to securing funding for these activities.</p>
<p><b>Community</b> The local communities adjacent to Elandsfontein in South Africa and Hinda in the RoC.</p>	<p>The Company engages with the local community to obtain acceptance for future development plans.</p> <p>Community engagement will inform better understanding and decision making.</p> <p>The local community in Hopefield and the greater Saldanha Bay municipal area provides employees for Elandsfontein and its contractors for operations. Similarly, the communities surrounding Hinda will provide employees to the project and contractors during construction and operation.</p> <p>The Company will have a social and economic impact on the local communities. The Company is committed to ensuring sustainable growth, minimising adverse impacts. The Company will engage these stakeholders as is appropriate.</p>	<ul style="list-style-type: none"> <li>• The Company has community liaison officers in South Africa and RoC;</li> <li>• The Company has identified all key stakeholders within the local community in the reporting period;</li> <li>• Elandsfontein management has open dialogue with the local government and community leaders regarding the project development;</li> <li>• Similarly, Hinda management are actively engaging with local government and communities directly impacted by the Hinda project; and</li> <li>• The Company has existing Corporate Social Responsibility policies and management structure at corporate level. The Company will expand on these policies and structures at a local project level as the Company moves into production.</li> </ul>	<p>The Company has ongoing engagements with the local community as part of its sustainability initiatives.</p> <p>Stakeholder identification has enabled the Company to ensure that representatives of all stakeholder groups may participate in the community engagement programme.</p>
<p><b>Suppliers</b> During the Elandsfontein operations phase, the Company will be using key suppliers under commercial contracts for the operations of mine, plant, road and port logistic operators and laboratory service providers, all of whom are reputable and established service providers.</p> <p>The Company also relies on a number of supply and maintenance contracts to ensure ongoing operations. At a community level, the Company has also</p>	<p>Kropz's contractors and suppliers are fundamental to ensuring that the Company can meet the ramp-up and steady state operating objectives.</p> <p>Using quality suppliers ensures that as a business, the high performance targets can be met.</p>	<ul style="list-style-type: none"> <li>• Management continue to work closely with appointed contractors, consultants and suppliers to manage and optimise deliverables; and</li> <li>• One on one meetings between management and suppliers;</li> <li>• Vendor site visits and facility audits to ensure supplier is able to meet requirements; and</li> <li>• Contact with procurement department and accounts payable.</li> </ul>	<p>See page 10 of the strategic report for an update on the potential transport and logistics uncertainties facing the Group.</p> <p>Smaller local vendors were engaged at a broader level to better align with company objectives.</p>

## Strategic Report for the year ended 31 December 2022 (continued)

partnered with a number of SMME companies.			
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### Section 2: Principal decisions by the Board

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

#### During the financial year ending 31 December 2022

A third drawdown of ZAR 40 million occurred on 16 March 2022 and the fourth drawdown of ZAR 33 million occurred on 26 April 2022 of the ZAR 200 Million Equity Facility. The ZAR 200 Million Equity Facility is fully drawn at the date of this annual report.

#### Convertible loan facility for ZAR 177 million from ARC, entered into on 11 May 2022

As announced on 27 April 2022, a funding shortfall of approximately US\$ 11 million (approximately ZAR 177 million) was expected due to slower than expected progress in the ramp up of operations at Kropz Elandsfontein, production of sufficient phosphate rock concentrate for the first bulk sale would move to later than originally expected.

The ZAR 177 Million Equity Facility was in addition to the ZAR 200 Million Equity Facility, which ARC and the Company entered into in February 2021.

As announced on 27 April 2022, Kropz and ARC entered into a further ZAR 25 million (approximately US\$ 1.60 million) bridge loan facility (the "Loan 1") to meet immediate cash requirements at Elandsfontein at the end of April 2022. When the ZAR 177 Million Equity Facility became unconditional, Loan 1 was offset against it leaving ZAR 152 million available for future drawdown.

The ZAR 177 Million Equity Facility comprises a total commitment of up to ZAR 177 million provided by ARC, which was to be drawn down subject to ARC's discretion.

At any time during the term of the ZAR 177 Million Equity Facility, repayment of the ZAR 177 Million Equity Facility capital amount would, at the election of ARC, either be:

- In the form of the conversion into ordinary shares of 0.1 pence each in the Company and issued to ARC, at a conversion price of 9.256 pence per ordinary share each, representing the 30-day VWAP on 4 May 2022, and at a fixed exchange rate of ZAR 1 = GBP 0.0504 ("Further Conversion"); or
- Payable in cash by the Company at the end of the term of the ZAR 177 Million Equity Facility.

Following a Conversion, the Company will apply for the newly issued Ordinary Shares in the capital of the Company to be admitted to trading on AIM, a market operated by London Stock Exchange plc ("AIM").

The first drawdown of ZAR 103.5 million was made on 2 June 2022.

The ZAR 177 Million Equity Facility will bear interest at 14% per annum and will be compounded monthly and will be payable in cash to ARC by the Company.

The term of the ZAR 177 Million Equity Facility is from 2 June 2022 to the earlier of:

- Five years from 2 June 2022; or
- One year after the term loan facility provided by BNP Paribas to Kropz Elandsfontein (in the amount not exceeding US\$ 30 million), has been repaid;

The ZAR 177 Million Equity Facility is secured by the shares that Kropz holds in Cominco Resources Ltd.

## Strategic Report for the year ended 31 December 2022 (continued)

The ZAR 177 million Equity Facility was above the authorisation limits given at the Annual General Meeting in June 2021. Specific shareholder approval was required for the ZAR 177 Million Equity Facility, which shareholder approval was obtained on 30 May 2022. Ordinary shares to be issued to ARC in terms of the ZAR 177 Million Equity Facility, if so elected by ARC, would be a maximum of 96,378,566 ordinary shares.

### Convertible loan facility for ZAR 550 million from ARC, entered into on 14 November 2022

As announced on 14 November 2022, Kropz entered into a new convertible equity facility of up to ZAR 550 million ("ZAR 550 Million Equity Facility") (approximately US\$ 31.6 million), with ARC in order to progress the ramp-up of operations at the Elandsfontein project. In addition, the funding would also provide working capital to the Company for general corporate purposes and further funding, of approximately US\$ 1 million for working capital and early site works, at the Hinda project in the Republic of the Congo.

The ZAR 550 Million Equity Facility comprises a total commitment of up to ZAR 550 million provided by ARC, which can be drawn down at the discretion of Kropz, as follows:

- Loan 2 and Loan 3 were settled by way of a first advance under the New ZAR 550 Million Equity Facility, once approved and unconditional, leaving ZAR 302.5 million available for further drawdown over the facility term; and
- The remaining ZAR 302.5 million of the ZAR 550 Million Equity Facility was available from the date that all the conditions were met (the "Effective Date") and up to 15 December 2023. Each drawdown, however, remains subject to ARC's sole discretion.

At any time during the term of the ZAR 550 Million Equity Facility, the repayment of the ZAR 550 Million Equity Facility capital amount will, at the election of ARC, either be:

- In the form of the conversion into ordinary shares of 0.1 pence each ("Ordinary Shares") in the Company and issued to ARC, at a conversion price of 4.579 pence per Ordinary Share each, representing the 30-day VWAP on 21 October 2022, and at fixed exchange rate of ZAR 1 = GBP 0.048824 ("Conversion"); or
- Payable in cash by the Company at the end of the term of the ZAR 550 Million Equity Facility.

Following a Conversion, the Company will apply for the newly issued Ordinary Shares in the capital of the Company to be admitted to trading on AIM, a market operated by London Stock Exchange plc ("AIM").

The New ZAR 550 Million Equity Facility will bear interest at the South African prime overdraft interest rate plus 6 per cent., nominal per annum and compounded monthly ("Interest"). Interest will be payable in cash to ARC by the Company.

The term of the ZAR 550 Million Equity Facility will be from the Effective Date, to the earlier of:

- 5 years from the Effective Date; or
- 2 years after the term loan facility provided by BNP Paribas to Elandsfontein (in the amount not exceeding US\$ 30 million), has been repaid in full, or such later date as ARC may agree in writing;

The ZAR 550 Million Equity Facility will be available for drawdown until 15 December 2023.

The ZAR 550 Million Equity Facility is secured by the shares which Kropz holds in Cominco Resources Ltd ("Share Charge").

Approval from the South African Reserve Bank for the ZAR 550 Million Equity Facility was obtained on 17 November 2022 and shareholder approval on 30 November 2022.

The key stakeholder groups that could be materially impacted are existing shareholders and potential investors.

Existing shareholders may have conflicting interests with the ZAR 177 Million Equity Facility and ZAR 550 Million Equity Facility due to potential dilution of their shareholding. The Directors considered the impact of this and concluded that obtaining the convertible facility from ARC was the only funding opportunity available to the



## Strategic Report for the year ended 31 December 2022 (continued)

Company in order to secure funding for the delivery of the Elandsfontein project to first revenue. Various funding alternatives had been investigated by the Directors, in conjunction with its brokers and advisers, over the last year, both from an equity raise perspective and through possible project finance facilities. Equity markets were subdued and no new or existing equity investors were prepared to provide the required funding.

Due to the fact that Machiel Reyneke and Gerrit Duminy, the ARC representatives on the Board, and Mike Nunn, representing Kropz International are considered to be concert parties, they were not permitted to consider or vote on the approval of the proposed ZAR 177 Million Equity Facility and ZAR 550 Million Equity Facility by the Board. The independent, non-executive Directors, being Lord Robin Renwick, Linda Beal and Mike Daigle, and the CEO, Mark Summers, in consultation with the nominated adviser, considered the transaction to be fair and reasonable.

As a result of the ZAR 200 Million Equity Facility, ZAR 177 Million Equity Facility and the ZAR 550 Million Equity Facility, ARC could increase its interest in the Company by a further approximate 8.3%, taking its eventual interest in the Company to approximately 91.5%.

First drawdown of the ZAR 550 Million Equity Facility for ZAR 307.5 million (approximately US\$ 18.1 million) was made on 1 December 2022 which comprised:

- Set-off of Loan 2 and Loan 3 of ZAR 247.5 million;
- ZAR 10 million for the Company's general corporate purposes and funding of ongoing running costs of the Hinda Project; and
- ZAR 50 million in respect of working capital for Elandsfontein.

A second drawdown of ZAR 135 million (approximately US\$ 7.9 million) of the ZAR 550 Million Equity Facility was made on 22 December 2022.

### Post 31 December 2022

A third drawdown of ZAR 60 million (approximately US\$ 3.5 million) of the ZAR 550 Million Equity Facility was made on 25 January 2023 and a fourth drawdown of ZAR 40 million (approximately US\$ 2.2 million) on 27 February 2023.

As announced on 14 March 2023, Kropz, Kropz Elandsfontein and ARC Fund agreed to further ZAR 285 million (approximately US\$ 15.5 million) bridge loan facilities ("Loan 4") to meet immediate cash requirements at Kropz Elandsfontein. A first draw down of ZAR 25 million (approximately US\$ 1.4 million) on Loan 4 was made on 14 March 2023.

Loan 4 is unsecured, repayable on demand, with no fixed repayment terms and is repayable by Kropz Elandsfontein on no less than two business days' notice. Interest is payable on Loan 4 at the South African prime overdraft interest rate plus 6%, nominal per annum and compounded monthly.

A second draw down on Loan 4 for an amount of ZAR 90 million was made on 28 March 2023, a third drawdown of ZAR 30 million was made on 25 April 2023 and a fourth drawdown of ZAR 80 million was made on 23 June 2023.

This Strategic Report was approved by the Board of Directors.



**Louis Loubser**  
**Chief Executive Officer**  
28 July 2023

## **Directors' Report for the year ended 31 December 2022**

The Board of Directors ("Board") present their fifth Annual Report for Kropz plc ("the Company") and the Kropz plc Group ("Group") for the year ended 31 December 2022.

### **Directors**

The names of Directors of the Company in office at any time during or since the end of the 31 December 2022 financial year are:

Lord Robin Renwick of Clifton	Non-executive Chairman
Louis Ronald Loubser	Chief Executive Officer (appointed 16 January 2023)
Mark Robert Summers	Chief Executive Officer (resigned 16 January 2023)
Gerrit Jacobus Duminy	Non-executive Director (appointed 16 September 2022)
Linda Janice Beal	Non-executive Director
Michael Albert Daigle	Non-executive Director
Michael John Nunn	Non-executive Director
Machiel Johannes Reyneke	Non-executive Director (resigned 16 September 2022)

### **Company secretary**

Fusion Corporate Secretarial Services (Pty) Ltd.

### **Cautionary statement**

The review of the business and its future development in the Strategic Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for these strategies to succeed. It should not be relied on by any other party for any other purpose. The review contains forward-looking statements which are made by the Directors in good faith based on information available to them up to the time of the approval of the reports and should be treated with caution due to the inherent uncertainties associated with such statements.

### **Principal activities and significant changes in nature of activities**

Kropz is an emerging plant nutrient producer and developer with a phosphate mine and plant in the ramp-up phase in South Africa and an exploration asset in the RoC.

### **Business review and future developments**

Details of the business activities and future developments can be found in the Strategic Report on pages 5 to 14.

### **Operating Results**

The net loss after tax of the Company for the year ended 31 December 2022 amounted to US\$ 97.8 million (2021: US\$ 18.3 million).

### **Dividends paid or recommended**

In respect of the year ended 31 December 2022 no dividends were paid or declared and the Directors do not recommend the payment of a dividend (2021: no dividends paid or declared).

## **Directors' Report for the year ended 31 December 2022 (continued)**

### **Capital structure**

Details of the Company's share capital, together with details of the movements therein are set out in Note 12 to the Consolidated Financial Statements. The Company has one class of ordinary share which carries no right to fixed income.

### **Streamlined Energy and Carbon Reporting ("SECR")**

The new SECR framework, which came into force in April 2019 requires qualifying UK companies to report on their energy usage and provide information on the energy efficient action taken during the reporting period.

Kropz is exempt from these disclosures as it did not consume more than 40,000 kWh in the UK during the reporting period.

### **Significant changes in state of affairs**

Please refer to the Strategic Report.

### **Significant events subsequent to reporting date**

Details of the Group's significant events subsequent to the reporting date are included in the Strategic Report and Note 34 to the Consolidated Financial Statements.

### **Financial risks**

The Group's operations expose it to different financial risks including foreign exchange risk, credit risk, liquidity risk and interest rate risk. Details of the principal financial risks are set out in Note 31.

Kropz Elandsfontein has a fully drawn down project financing facility with BNP for US\$ 30 million, the full details which are set out in Note 16 of the Annual Financial Statements. In accordance with the repayment schedule the first quarterly instalment of US\$ 3.75 million was made in December 2022.

The Group has various outstanding convertible equity facilities with ARC as set out in Note 14 of the Annual Financial Statements.

The Group has a risk management programme in place which seeks to manage the impact of these risks on the performance of the Group and it is the Group's policy to manage these risks in a non-speculative manner.

Refer to note 2a to the Group financial statements which explains that the Group is reliant on revenue from production during Elandsfontein's ramp up and on management's ability to secure additional funding in order to meet its obligation as they become due. A material uncertainty therefore exists that may cast significant doubt on the Group's ability as a going concern.

### **Political contributions and charitable donations**

During the year the Company did not make any political contributions or charitable donations (31 December 2021 – none).

### **Annual general meeting ("AGM")**

The AGM for the shareholders of the Company was held on 30 June 2023 at 1 p.m. for the purpose of considering and, if thought fit, passing five ordinary resolutions and two special resolutions as set out in the Notice of AGM that was sent to all shareholders on 7 June 2023.

## **Directors' Report for the year ended 31 December 2022 (continued)**

Shareholders have an opportunity at the AGM to meet the directors in attendance, to receive an update on the development of the business and to ask questions of the Board. The Group proposes a separate resolution for each substantially different item of business, giving shareholders the opportunity to vote on each issue.

### **External auditors**

BDO LLP ("BDO") continued in office as auditors for the Company in 2022.

### **Employment policies**

The Company is committed to promoting policies which ensure that high calibre employees are attracted, retained and motivated, to ensure the ongoing success for the business. Employees and those who seek to work within the Group are treated equally regardless of gender, age, marital status, creed, colour, race or ethnic origin.

### **Health and safety**

The Group continues to maintain a high standard of workplace safety. In order to execute this, there is a health, safety and environmental team in Kropz Elandsfontein to review the health and safety policy and risks of Kropz Elandsfontein and make recommendations to the Kropz Elandsfontein board. In addition, the Group also developed and maintained an internal management system and also provides training and support to employees and sets demanding standards for workplace safety.

### **Payment to suppliers**

The Group's policy is to agree terms and conditions with suppliers in advance; payment is then sought to be made in accordance with the agreement provided the supplier has met the terms and conditions. Under normal operating conditions, suppliers are generally paid within 30 days of receipt of invoice.

### **Future developments**

The Group will continue its mineral exploration activities with the objective of finding further mineralised resources, particularly the development of the Hinda project. The Group may also consider the acquisition of further prospective exploration interests and the development or acquisition of downstream beneficiation.

### **Environmental issues**

The Group operates within the resources sector and conducts business activities with respect for the environment while continuing to meet the expectations of government stakeholders, shareholders, employees and suppliers. In respect of the period under review, other than as set out in the Strategic Report, the Directors are not aware of any particular or significant environmental issues which have been raised in relation to the Group's operations. The Group holds a mining licence in South Africa and an exploitation licence in the RoC. The Group's operations are subject to environmental legislation in these jurisdictions in relation to its exploration and project development activities and remains committed to these requirements.

The Company pursues the development of quality rock phosphate exploration, mining and processing in support of the global fertiliser industry's contribution to food security, worldwide. The Board believes it is part of the Group's corporate responsibility to ensure its current and future operations are conducted in a responsible manner and in compliance with local and international environmental regulations and that integrating ESG matters into its operations is an important element to being a responsible corporate citizen.

## Directors' Report for the year ended 31 December 2022 (continued)

### Information on Directors

**Lord Renwick of Clifton**  
Non-executive Chairman  
(appointed 26 November 2018)

Lord Renwick of Clifton is a former diplomat and served as British Ambassador to South Africa and the United States. He served subsequently as Deputy Chairman of the merchant bank Robert Fleming, then for fifteen years as Vice Chairman of J.P. Morgan Europe. He has served on many boards including BHP Billiton, Fluor Corporation, SABMiller, British Airways and Harmony Gold. He is currently Chairman of the Advisory Board of Stonehage Fleming and Senior Adviser to Richemont and Appian Capital.

Interest in Ordinary Shares  
and Options

300,000 fully paid Ordinary Shares

**Louis Loubser**  
Chief executive officer  
(appointed 16 January 2023)

Louis Loubser is a B Comm graduate with an MBA cum laude, both from Stellenbosch University. He also holds a certificate in international quarry management from the University of Derby in the UK. From 2018 to 2022 Louis was chief executive at the Mooiplaats Colliery. Previously Louis led the due diligence and acquisition of Glen Douglas Mine, SA Block and Clinker and Infrasons Holdings for Afrimat Limited, where he was head of business development, prior to being appointed Managing Director of Infrasons, a position he held from 2013 to 2018.

Interest in Ordinary Shares  
and Options

None

**Linda Beal**  
Non-executive Director  
(appointed 26 November 2018)

Linda Beal is a Chartered Accountant and was a partner at PwC for sixteen years. She provided tax advice to natural resources clients on many transactions including IPOs, mergers and group restructurings. She was partner at Grant Thornton for two years to June 2016 where she led the global energy and natural resources group. Linda is currently non-executive director at Orca Energy Group Inc and i3 Energy Plc.

Interest in Ordinary Shares  
and Options

None

**Michael (Mike) Daigle**  
Non-executive Director  
(appointed 26 November 2018)

Mike Daigle is a chemical engineer by qualification and has 40 years of experience in the phosphate fertilizer industry. He worked at the Mosaic Company from 2004 until 2016 where he served as a senior Director responsible for Research and Development, Production Planning and Business Development in the Phosphates Group, and was also in charge of Mosaic's Joint Venture in Saudi Arabia. Mike also served as VP Operations for IMC Phosphates, and worked for Cargill Fertilizer and Occidental Chemical. He is now a consultant to the Phosphate Industry, where he provides expertise in phosphate mining, fertilizer production, business development, as well as mergers and acquisitions.

Interest in Ordinary Shares  
and Options

None

**Gerrit Duminy**  
Non-executive Director  
(appointed 16 September 2022)

Gerrit Duminy is a qualified Chartered Accountant (SA) and a CFA Charter holder with over six years of experience in corporate finance and deals. He is currently employed as a deal executive at African Rainbow Capital. As a part of his responsibilities, he serves as a director on several of the ARC Fund's portfolio company boards where he actively tries to unlock growth and synergistic value. As a deal manager, Gerrit has oversight responsibility for the valuations of the R20bn investment portfolio. He also is responsible for the identification, analysis and execution of new investment opportunities. As one of seven deals executives at ARC, Gerrit

## Directors' Report for the year ended 31 December 2022 (continued)

	has portfolio and investment management responsibilities for a portion of the investment portfolio.
Interest in Ordinary Shares and Options	None
<b>Michael (Mike) Nunn</b> Non-executive Director (appointed 26 November 2018)	Mike Nunn is a South African mining entrepreneur and investor. Mike has founded and developed various businesses, primarily in and related to the mining industry in Africa. Mike is widely recognised as being the pioneer of the global tanzanite industry and was the founder of TanzaniteOne. Subsequent to his involvement in tanzanite, Mike established Amari in 2005, where he developed multiple mining businesses in various sub-Saharan African countries. These businesses included diamonds, gold, nickel, platinum, coal, manganese and mining engineering services.
	Mike established Kropz Elandsfontein with the objective of developing a world class fertilizer business with a sub-Saharan African focus. Mike has more than 25 years of mining experience.
Interest in Ordinary Shares and Options	54,933,474 fully paid Ordinary Shares

### Directors' service contracts

The CEO is employed on an ongoing basis, which may be terminated by either party giving six months' notice.

Non-executive Directors were appointed for an initial term of one year in 2018. During 2019 the terms were amended and the non-executive appointments were extended, until terminated by either party on three months' notice.

### Indemnifying Directors' and officers' liability insurance

The Company has agreed to indemnify the Directors of the Company, against all liabilities to another person that may arise from their position as Directors of the Company and the Group, except where the liability arises out of conduct involving a lack of good faith.

Appropriate insurance cover is maintained by the Company in respect of its Directors and officers. During the financial period the Company agreed to pay an annual insurance premium of US\$ 82,057 (2021: US\$ 128,397) in respect of Directors' and officers' liability and legal expenses insurance contracts, for Directors, officers and employees of the Company.

The insurance premium relates to cover for:

- Costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever the outcome; and
- Liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty.

### Share dealing code

The Company has adopted a share dealing code for Directors and applicable employees (within the meaning given in the AIM Rules for Companies) in order to ensure compliance with Rule 21 of the AIM Rules for Companies and the provisions of the Market Abuse Regulations ("MAR") relating to dealings in the Company's securities. The Board considers that the share dealing code is appropriate for a company whose shares are admitted to trading on AIM.



## Directors' Report for the year ended 31 December 2022 (continued)

### Remuneration report

This remuneration report sets out information about the remuneration of Kropz's key management personnel for the year ended 31 December 2022. The term 'key management personnel' ("KMP") refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group. The prescribed details for each person covered by this report are detailed below under the following headings:

- KMP of the Company and Group;
- Remuneration policy;
- Key terms of employment contracts and remuneration of KMP;
- Non-executive Director arrangements;
- KMP remuneration; and
- Share-based payments ("SBP") granted as compensation to KMPs.

The report of the Remuneration Committee is on pages 58 to 59.

### KMP of the Company and the Group

This report details the nature and amount of remuneration for the key management personnel of the Group. The KMP during the year were:

#### Executive Directors

Louis Loubser	Chief Executive Officer (appointed 16 January 2023)
Mark Summers	Chief Executive Officer and company secretary (appointed 10 January 2018 as CFO and appointed as CEO on 4 August 2020, resigned 16 January 2023)

#### Non-executive Directors

Lord Robin Renwick of Clifton	Non-executive Chairman (appointed 26 November 2018)
Linda Beal	Non-executive Director (appointed 26 November 2018)
Mike Daigle	Non-executive Director (appointed 26 November 2018)
Mike Nunn	Non-executive Director (appointed 26 November 2018)
Gerrit Duminy	Non-executive Director (appointed 14 September 2022)
Machiel Reyneke	Non-executive Director (appointed 26 November 2018, resigned 14 September 2022)

### Executives of the Company, Kropz Elandsfontein and Cominco Resources Limited

Michelle Lawrence	Chief Operating Officer (appointed 13 January 2014, resigned 31 December 2022)
Mark Maynard	Chief Operating Officer (appointed 31 December 2022)
Patrick Stevenaert	Managing Director – Cominco Resources (appointed 10 March 2017)

### Remuneration policy

The remuneration policy of the Company has been designed to align Director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Remuneration Committee makes recommendations to the Board in relation to the composition of the Board, the appointment of the CEO and succession planning, and remuneration for Directors and senior executives. The Board endeavours with its remuneration policy to attract and retain high calibre executives and Directors to run and manage the Group within the constraints of the financial position of the Group.

## Directors' Report for the year ended 31 December 2022 (continued)

The remuneration policy, setting the terms and conditions for the executive Directors and other senior executives, was developed by the Board. All executives receive a base salary. The Board reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The Board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain high calibre executives and reward them for performance that results in long-term growth in shareholder wealth. Executives may also be entitled to participate in the employee share and option arrangements.

The Board policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. During the 31 December 2018 period, independent external advice was sought on appropriate remuneration of Directors to better reflect market practice for comparable companies listed on AIM. Fees for non-executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company. The Board adopted the Kropz executive long term incentive plan aiming to create a stronger link between employee performance and reward and increasing shareholder value by enabling the participants of the plan to have a greater involvement with, and share in the future growth and profitability of the Company.

### Key terms of employment contracts and remuneration of KMP

Key terms of employment contracts for the financial year ending 31 December 2022:

Name	Base remuneration	Base remuneration US\$ *	Term of agreement	Notice period
Mark Summers (CEO) <sup>(i)</sup>	ZAR 3,227,653 and GBP 88,349	305,937	No fixed term	6 months
Michelle Lawrence (COO) <sup>(ii)</sup>	ZAR 3,828,230 and GBP 66,861	316,155	No fixed term	3 months
Patrick Stevenaert (Managing Director of Cominco Resources)	EUR 148,872	156,543	No fixed term	1 month

\* Converted to US\$ at the 31 December 2022 GBP exchange rate of 0.812, ZAR exchange rate of 16.373 and EUR exchange rate of 0.951.

- (i) Mark Summers was appointed as Chief Executive Officer on 4 August 2020 and resigned 16 January 2023.
- (ii) Michelle Lawrence was the Chief Operating Officer of Kropz Elandsfontein and resigned end of 2022.

Key terms of employment contracts for the financial year ending 31 December 2021:

Name	Base remuneration	Base remuneration US\$ *	Term of agreement	Notice period
Mark Summers (CEO)	ZAR 2,816,327 and GBP 77,869	297,528	No fixed term	6 months
Michelle Lawrence (COO)	ZAR 2,188,722 and GBP 48,745	215,035	No fixed term	3 months
Jan Steenkamp (non-executive Director of Kropz Elandsfontein)	ZAR 25,000 per working day	1,690 per working day	No fixed term	1 month
Patrick Stevenaert (Managing Director of Cominco Resources)	EUR 148,872	176,026	No fixed term	1 month

Since the end of 2021 Jan Steenkamp is no longer that closely involved with the day-to-day activities.

**Directors' Report for the year ended 31 December 2022 (continued)**

\* Converted to US\$ at the 31 December 2021 GBP exchange rate of 0.727, ZAR exchange rate of 14.789 and EUR exchange rate of 0.846.

**Non-executive Director arrangements**

Non-executive Directors receive a Board fee and fees for chairing Board committees (see table below). They do not receive performance-based pay or retirement allowances but do receive additional fees for chairing Board committees.

Fees are reviewed annually by the Board taking into account comparable roles and market data provided by the Board's independent remuneration adviser. The current base annual fees were set with effect from 26 November 2018 and remained unchanged (other than as noted below) during the 2021 and 2022 financial years:

	Base fees per annum GBP	Base fees per annum US\$*
Chairman	40,000	49,261
Non-executive Director	30,000	36,946
Additional Fees:		
Audit, Sustainability and Risk Committee – chairperson (Linda Beal)	5,000	6,158
Audit, Sustainability and Risk Committee – member	-	-
Remuneration and Nomination Committee – chairperson (Lord Robin Renwick)	-	-
Remuneration and Nomination Committee – member	-	-

\* Converted to US\$ at the 31 December 2022 exchange rate of 0.812.

All non-executive Directors enter into a letter of appointment with the Company. The letter summarises the Board's policies and terms, including remuneration, relevant to the office of Director. Directors with special responsibilities are disclosed within the various committee reports in the Corporate Governance Report.

Mike Daigle's non-executive Director fees increased to GBP48,000 (US\$ 59,113) per annum with effect from 1 January 2021.

**KMP remuneration**

The remuneration for each Director and KMP of the Group during the year to 31 December 2022 was as follows:

Name	Short-term benefits			Total US\$*
	Remuneration <sup>(i)</sup> US\$*	Bonus US\$*	Options <sup>(iii)</sup> US\$*	
<b>Executive Directors</b>				
Mark Summers <sup>(iii)</sup>	330,340	-	(185,750)	144,590
	<b>330,340</b>	<b>-</b>	<b>(185,750)</b>	<b>144,590</b>
<b>Non-executive Directors</b>				
Lord Robin Renwick	49,292	-	-	49,292
Linda Beal	47,689	-	-	47,689
Mike Daigle	59,150	-	-	59,150
Gerrit Duminy <sup>(iv)</sup>	-	-	-	-
Machiel Reyneke <sup>(iv) (v)</sup>	-	-	-	-
Mike Nunn <sup>(v)</sup>	-	-	-	-
	<b>156,131</b>	<b>-</b>	<b>-</b>	<b>156,131</b>
<b>Total Directors' remuneration</b>	<b>486,471</b>	<b>-</b>	<b>(185,750)</b>	<b>300,721</b>

**Directors' Report for the year ended 31 December 2022 (continued)**

<b>Executives</b>				
Michelle Lawrence <sup>(iii)</sup>	333,171	-	(93,829)	<b>239,342</b>
Patrick Stevenaert	158,586	31,541	17,139	<b>207,266</b>
	<b>491,757</b>	<b>31,541</b>	<b>(76,690)</b>	<b>446,608</b>

\* Converted to US\$ at the 31 December 2022 GBP exchange rate of 0.812, ZAR exchange rate of ZAR 16.373 and EUR exchange rate of 0.951.

- (i) Includes UK NIC, UK payroll tax and pension.
- (ii) Options as share-based payment arrangements under the ESOP, LTIP and other schemes are expensed over the vesting period. Mark Summers and Michelle Lawrence resigned and therefore their options are forfeited and were credited to profit and loss.
- (iii) Mark Summers and Michelle Lawrence resigned on 31 December 2022.
- (iv) Machiel Reyneke resigned on 16 September 2022 and Gerrit Duminy was appointed on 16 September 2022.
- (v) Machiel Reyneke, Gerrit Duminy and Mike Nunn receive no Director fees.

The remuneration for each Director and KMP of the Group during the year to 31 December 2021 was as follows:

Name	Short-term benefits			Total US\$*
	Remuneration <sup>(i)</sup> US\$*	Bonus US\$*	Options <sup>(ii)</sup> US\$*	
<b>Executive Directors</b>				
Mark Summers	310,631	232,108	277,814	<b>820,553</b>
	<b>310,631</b>	<b>232,108</b>	<b>277,814</b>	<b>820,553</b>
<b>Non-executive Directors</b>				
Lord Robin Renwick	55,012	-	-	<b>55,012</b>
Linda Beal	53,101	-	-	<b>53,101</b>
Mike Daigle	66,014	-	-	<b>66,014</b>
Machiel Reyneke <sup>(iii)</sup>	-	-	-	-
Mike Nunn <sup>(iii)</sup>	-	-	-	-
	<b>174,127</b>	-	-	<b>174,127</b>
<b>Total Directors' remuneration</b>	<b>484,758</b>	<b>232,108</b>	<b>277,814</b>	<b>994,680</b>
<b>Executives</b>				
Jan Steenkamp	60,011	-	-	<b>60,011</b>
Michelle Lawrence	222,611	153,961	243,618	<b>620,190</b>
Patrick Stevenaert	176,026	-	91,220	<b>267,246</b>
	<b>458,648</b>	<b>153,961</b>	<b>334,838</b>	<b>947,447</b>

\* Converted to US\$ at the 31 December 2021 GBP exchange rate of 0.727, ZAR exchange rate of ZAR 14.789 and EUR exchange rate of 0.846.

- (i) Includes UK NIC, UK payroll tax and pension.
- (ii) Options as share-based payment arrangements under the ESOP, LTIP and other schemes are expensed over the vesting period, which includes the years to which they relate and their subsequent vesting periods.
- (iii) Machiel Reyneke and Mike Nunn receive no Director fees.

**SBP granted as compensation to KMP***Employee Share Option Plan and Long-Term Incentive Plan*

Kropz operates an ownership-based scheme for executives and senior employees of the Group. In accordance with the provisions of the plans, executives and senior employees may be granted options to

## Directors' Report for the year ended 31 December 2022 (continued)

purchase parcels of ordinary shares at an exercise price determined by the Board based on a recommendation by the Remuneration Committee.

The following plans have been adopted by the Company:

- An executive share option plan which was used to grant awards on Admission of the Company to AIM (the "ESOP Awards") – a performance and service-related plan pursuant to which nominal-cost options can be granted; and
- An executive long-term incentive plan (the "LTIP Awards") – a performance and service-related plan pursuant to which conditional share awards, nominal-cost options and market value options can be granted (together, the "Incentive Plans").

The incentive plans will be used to recruit, retain and incentivise key executives and employees. The ESOP Awards were used to grant awards on Admission. The LTIP Awards have been used to grant awards following Admission and will be the main incentive plan used to grant awards following Admission.

Each ESOP and LTIP Award converts into one ordinary share of Kropz upon exercise. No amounts are paid or payable by the recipient on receipt of the option, aside from when the option is exercised, in which event a nominal amount per ordinary share is payable by the recipient. The options carry neither rights to dividends nor voting rights. Options may be exercised from time to time as stipulated in the award conditions prior to their expiry. Each employee performance right will be converted into one ordinary share of Kropz upon vesting conditions being met. No amounts are paid or payable by the recipient on receipt of the performance rights. The performance rights carry neither rights to dividends nor voting rights.

The options granted expire as determined by the Board based on a recommendation by the Remuneration Committee, or immediately following the resignation of the executive or senior employee, whichever is the earlier.

### *Summary information for options as SBP arrangements in existence at 31 December 2022*

#### **LTIP Awards**

As announced on 4 August 2020, 6,700,000 LTIP Awards were awarded to a Director and senior management. Of this total, 2,350,000 LTIP Awards were granted to each of Mark Summers and Michelle Lawrence and 1,000,000 to Patrick Stevenaert. These performance conditions which related to the initial commissioning of Elandsfontein, the completion of the Hinda Updated FS and being in employment at 31 December 2021 were considered by the Remuneration Committee based on a recommendation from the non-executive director of Kropz Elandsfontein that the Elandsfontein performance conditions had been met and the LTIP Awards vested on 31 December 2021. Consequently, 6,700,000 ordinary shares were issued on 24 January 2022, at an exercise price £0.001 an ordinary share, in the Company.

As announced on 2 July 2021, 7,800,000 LTIP Awards were awarded to a Director and senior management. Of this total, 2,400,000 LTIP Awards were granted to each of Mark Summers and Michelle Lawrence and 900,000 to Patrick Stevenaert. The LTIP options will vest on various dates from 30 June 2022 to 31 December 2024, subject to the terms of the LTIP Plan Rules (as set out in the Company's Admission Document), including financial and non-financial performance conditions. Mark Summers and Michelle Lawrence resigned and therefore forfeited their options.

These LTIP Awards have performance conditions aligned to implementing the Company's strategic plans, including appropriate weightings on the successful commissioning and ramp-up of the Elandsfontein project, completion of the development plan, fund raising and construction of the Hinda project.

## Directors' Report for the year ended 31 December 2022 (continued)

The LTIP Awards are £0.001priced options over a total of 3,000,000 ordinary shares are outstanding at 31 December 2022 and represent 0.3% of the Company's issued share capital at 31 December 2022.

Participants of the LTIP Awards need to remain employed by Kropz in order to exercise awards.

The Remuneration Committee will determine whether the performance condition has been met and to the extent performance conditions have not been achieved on or before the fifth anniversary of the date of grant.

LTIP Awards were valued using a Monte Carlo simulation model and are to be expensed over the respective vesting periods, being 17 months for LTIP Awards.

### ESOP Awards

ESOP options outstanding at 31 December 2021 were as follows:

Name	Expiry date	Exercise price (pence)	Number of ESOP Awards
Mark Summers	28 November 2028	0.1	3,362,609
Michelle Lawrence	28 November 2028	0.1	1,465,137
			<b>4,827,746</b>

During the financial year ended 31 December 2022, no ESOP Awards were issued as SBP.

Mark Summers and Michelle Lawrence resigned and therefore forfeit their options. Consequently, no ESOP Awards are outstanding at 31 December 2022.

### Shareholdings (ordinary shares)

The numbers of ordinary shares in the Company held during the financial year by KMP, including shares held by entities they control, are set out below.

Name	Balance – 1 January 2022	Received as remuneration	Options exercised	Other	Balance – 31 December 2022
Mike Nunn <sup>(i)</sup>	54,933,474	-	-	-	54,933,474
Robin Renwick	300,000	-	-	-	300,000
Mark Summers	414,889	-	2,350,000	-	2,764,889
Michelle Lawrence	-	-	2,350,000	-	2,350,000
Patrick Stevenaert	-	-	1,000,000	-	1,000,000

(i) Mike Nunn's beneficial interest in Ordinary Shares is held through Kropz International.

The numbers of ordinary shares in the Company held during the year ended 31 December 2021 by KMP, including shares held by entities they control, are set out below.

Name	Balance – 1 January 2021	Received as remuneration	Options exercised	Other	Balance – 31 December 2021
Mike Nunn <sup>(i)</sup>	54,933,474	-	-	-	54,933,474
Robin Renwick	300,000	-	-	-	300,000
Mark Summers	414,889	-	-	-	414,889

## Directors' Report for the year ended 31 December 2022 (continued)

Other than as indicated above, no other KMP held any ordinary shares in the Company during the financial year.

### Holdings of equity warrants over equity instruments

During the year ended 31 December 2020, 121,837 warrants were issued to H&P Advisory Limited. These warrants were issued at 6.75 pence per ordinary share and expired on 4 August 2022.

### Other transactions with KMP during the year ended 31 December 2022

No KMP has entered into a material contract (apart from employment contracts) with the Company and the Group. No amount of remuneration is outstanding at 31 December 2022.

There were no other transactions with KMP and related parties.

### Substantial shareholdings

The Directors are aware of the following substantial interests or holdings in 3% or more of the Company's ordinary shares as at 26 July 2023.

Major Shareholder	No of Shares	Percentage of Issued Share Capital *
ARC	768,339,330	83.2%
Kropz International	54,933,474	5.9%

\* Issued share capital – 923,718,223 ordinary shares at 31 December 2022

### Statement of disclosure of information to auditors

As at the date of this report the serving Directors confirm that:

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

### Dialogue with Shareholders

#### All investors

The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. General communication with shareholders is co-ordinated by the Chairman and/or CEO. In addition, the independent Directors provide a further avenue for engagement with investors.

The Company publishes on its website the following information, which the Board believes plays an important part in presenting all shareholders with an assessment of the Group's position and prospects:

- Updated investor presentations;
- The Company's most up to date technical reports on each of its projects;
- All annual and interim financial statements going back to the Company's original inception in 2018;
- All Company press releases issued under the RNS service going back to the IPO on AIM in 2018;
- Details on the proxy voting results of all resolutions put to a vote at the most recent AGM; and

## **Directors' Report for the year ended 31 December 2022 (continued)**

- Contact details including a dedicated email address [info@kropz.com](mailto:info@kropz.com) through which investors can contact the Company.

The Company's AGM was held on 30 June 2023. The AGM was held at the offices of Memery Crystal, 165 Fleet Street, London, EC4A 2DY.

### **Institutional investors**

In general, the Board maintains a regular dialogue with its major institutional investors, providing them with such information on the Company's progress as is permitted within the guidelines of the AIM rules, MAR and requirements of the relevant legislation. The Company typically holds meetings with institutional investors and other large shareholders following the release of interim and year-end financial results.

The Company has had increased contact with both current and prospective institutional shareholders as part of the fund-raising initiatives during the year under review.

### **Private investors**

The Company acknowledges that the majority of its private investors hold their shares via nominee shareholders and may not be able to fully exploit their shareholder rights effectively. Accordingly, the Company is committed to engaging with all shareholders and not just institutional shareholders.

As the Company is too small to have a dedicated investor relations department, the CEO is responsible for reviewing all communications received from shareholders and determining the most appropriate response. The CEO works in conjunction with the Company's PR advisers to facilitate engagement with its shareholders.

### **Board review**

The Board as a whole is kept informed of the views and concerns of major shareholders by briefings from the CEO, Chairman and the Company's broker. Any significant investment reports from analysts are also circulated to the Board.

### **Going concern**

During the year ended 31 December 2022, the Group incurred a loss of US\$ 97.8 million (2021: US\$ 18.3 million) after impairment losses and experienced net cash outflows from operating activities. Cash and cash equivalents totalled US\$ 2.1 million as at 31 December 2022 (2021: US\$ 2.5 million).

Elandsfontein is currently the Group's only source of operating revenue. As Elandsfontein is still busy ramping up its operations an operating loss is therefore also expected in the year following the date of these accounts. The Group is consequently dependent on future fundraisings to meet any production costs, overheads, future development and exploration requirements and quarterly repayments on the BNP loan that cannot be met from existing cash resources and sales revenue.

The Company did not reach project completion as stipulated in the BNP facility agreement by 31 December 2022. Considering the delay in achieving sales, the Company also failed to fund the debt service reserve account as required. BNP have, to date, waived these requirements, preventing the Company from falling in default of its loan terms, by means of several waivers since December 2022 to 30 September 2023.

At the end of the waiver period, the bank has the contractual right to request the immediate repayment of the outstanding loan amount of US\$ 18,750,000. Management is in the process of refinancing the loan and expects that a replacement loan will be in place in the third quarter of 2023.



## Directors' Report for the year ended 31 December 2022 (continued)

### *Operational cash flows and impairment loss*

An impairment loss of US\$ 92.7 million has been recognised as at 31 December 2022 in relation to the Elandsfontein mine based on the 5-year forecast and the latest life of mine (LOM) plans following the downgrade of the resource per an updated MRE as announced on 10 January 2023 and set out in the Strategic report. Please refer to Note 25 for some key assumptions and sensitivity analysis. The recoverable amount of the Elandsfontein mine was estimated based on discounted cashflows expected to be generated from the continued use of the cash generating unit (CGU) using market-based commodity prices and exchange rate assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements and its eventual disposal based on the CGU's 5 year and latest LOM plans. These calculations include a number of estimates which if the actual outcome were different could have a significant impact on the financial outcome of the Elandsfontein mine operations and the Group's funding needs.

The going concern assessment was performed using the Group's 18-month forecast. The Group's going concern and forecast cash flows are largely driven by Elandsfontein, as the Group's only operating asset. Elandsfontein's forecast cashflows are based on its updated mine plan, considering the downgrade of the resource per an updated MRE as announced on 10 January 2023 and set out in the Strategic report and utilises the model which was used for impairment purposes. Please refer to Note 25 for some key assumptions and sensitivity analysis.

Elandsfontein's forecast cashflows were estimated using market-based commodity prices, exchange rate assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements over an 18-month period. As with the impairment assessment, the going concern assessment only considered Elandsfontein's resources defined as "measured" and "indicated" per the updated MRE. The resource classified as "inferred" was not considered part of the mine plan for purposes of the going concern and impairment assessments.

The forecast cashflows include a number of estimates which if the actual outcome were different could have a significant impact on the financial outcome of the Elandsfontein mine operations and the Group's funding needs.

The 18-month forecast assumes the refinancing of the BNP loan facility in September 2023.

The critical estimates in the LOM plan and forecast cashflows expected to be generated are as follows:

- Phosphate rock prices and grade;
- Phosphate recoveries;
- Operating costs;
- Foreign exchange rates; and
- Discount rates.

The going concern assessment and forecast cashflows are highly sensitive to these estimates.

*Phosphate rock prices and grade:* Forecast phosphate rock prices are based on management's estimates of quality of production and selling price and are derived from forward price curves and long-term views of global supply and demand in a changing environment, particularly with respect to climate risk, building on past experience of the industry and consistent with external sources.

The first bulk shipment and sale of 33,000 tonnes of phosphate concentrate from Kropz Elandsfontein occurred in January 2023. A second shipment and sale of 20,000 tonnes of phosphate concentrate from Kropz Elandsfontein was recorded 14 March 2023. During April 2023 two bulk sales were achieved of 33,000 tonnes and 11,000 tonnes respectively. A further sale of 33,000 tonnes was recorded in June 2023.

Kropz is a new entrant to the phosphate market and has to date sold its shipments at a discount to market prices as it firstly establishes itself in the market and secondly works to improve its product grade.

## Directors' Report for the year ended 31 December 2022 (continued)

In relation to pricing, the most significant judgement in the LOM plan and cashflow forecast is that Kropz will be able to obtain the market price for its 31% P<sub>2</sub>O<sub>5</sub> phosphate concentrate for all shipments from beginning of 2024. The cashflow model assumes a discount to the prevailing market price for 31% P<sub>2</sub>O<sub>5</sub> phosphate concentrate for the period up to April 2023 largely due to variability in the grade of Elandsfontein's product being produced during its ramp-up phase and considering that Elandsfontein is a new market entrant. The ability to achieve market rates on sales is largely dependent on Elandsfontein's ability to consistently produce 31% P<sub>2</sub>O<sub>5</sub> concentrate. Failing this, the Group may continue to suffer a discount to market rates. Estimated phosphate rock prices that have been used to estimate future revenues in the LOM are as follows:

Assumptions	2023	2024	Long term (2025+)
Phosphate rock per tonne	\$140	\$159	\$164

*Phosphate recoveries:* The production volumes incorporated into the LOM model were 2.8 million tonnes of phosphate rock. Estimated production volumes are based on detailed LOM plans of the measured and indicated resource as defined in the MRE, and take into account development plans for the mine agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as: the recoverable quantities; the production profile; the cost of the development of the infrastructure necessary to extract the reserves; the production costs; the contractual duration of mining rights; and the selling price of the commodities extracted.

Estimated production volumes have been used to estimate future revenues. Such estimates made within the impairment assessment are subject to significant uncertainty given the ongoing ramp up, and production volumes achieved subsequent to the year end have been lower than expected.

There was a delay in ramp-up largely driven by the need to re-engineer parts of the fine flotation circuit proposed by the vendor, but it has also been affected by early unpredicted ore variability and lack of operator experience. Mining rates and associated delivery of ore to the plant were also compromised due to the presence of competent banks of hard material within the orebody that were previously unknown. This hardbank material could, at the time, not be mined with the available equipment on site, resulting in mining delays while the required equipment for mechanical breaking could be brought to site.

Subsequently the vendor has provided design changes which were implemented at the plant, additional operator training was conducted and a mobile crusher implemented in the interim to facilitate the crushing of the affected ore to an appropriate size fraction until further test work has been conducted for a permanent solution. Several alternatives to deal with the indurated material in the pit were investigated, and new equipment has arrived on site to improve the mining efficiency and facilitate adequate feed to the plant.

Post year-end, Elandsfontein has produced 100,000 tonnes from January 2023 to June 2023. Given the slower actual ramp-up compared to the LOM plan, the forecast cashflow assumes that production will ramp up to an average of 34,000 tonnes per month in 2H 2023. With the ramp-up of the Elandsfontein mine still underway and the challenges experienced to date, it is uncertain whether these production volumes will be achieved.

*Reserves and resources:* The LOM plan includes only the measured and indicated resources as defined in the MRE which represents only around 4 years of forecast production. There was a significant reduction in the measured and indicated resource in the MRE issued in December 2022 as set out in the Strategic report. The Directors believe that the inferred resources in the MRE are capable of being accessed giving a mine life of around 15 years, but this has not been taken into account in the discounted cashflows.

*Exchange rates:* Foreign exchange rates are estimated with reference to external market forecasts. The assumed long-term US dollar/ZAR exchange rate over LOM is estimated to be ZAR19/USD and for the forecast cashflows to be ZAR18.50/USD.

## Directors' Report for the year ended 31 December 2022 (continued)

**Operating cost:** Operating costs are estimated with reference to contractual and actual current costs adjusted for inflation. Key operating cost estimates are mine and plant operating costs and transportation and port costs.

**Mine and plant operating costs:** The forecast mine and plant costs were based on the contracted rates with the current mine and plant operators.

**Port costs:** The Group has a draft port access agreement with Transnet for Saldanha port but this has not yet been signed. The Group has paid guest port charges for Saldanha for the shipments in 2023 to date, which are higher than the assumed port cost in the LOM model but in line with the draft agreement with Transnet.

**Transportation costs:** Transnet has informed the Group that it may have to export some shipments through Cape Town in 2023 and 2024 which would lead of higher transportation cost to Cape Town. The transportation costs in the discounted cashflows assume that 10% of 2023 and 2024 shipments are through Cape Town at the higher logistic cost.

As production is still ramping up and the port access agreement with Transnet has not yet been signed, the actual operating costs may be higher than the estimates in the discounted cash flows.

**Discount rates:** A discount rate of 12.59% was applied to the discounted cash flows used in the LOM plan. This discount rate is derived from the Group's post-tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings the Group is obliged to service. Specific risk is incorporated by applying beta factors. The beta factors are evaluated annually based on publicly available market data.

There is a risk that revenue is lower and operating costs are higher than the estimates included in the discounted cashflows with the result that the recoverable amount from the Elandsfontein mine is lower than the discounted cashflows. Please also see Note 25 Impairment losses for sensitivity analysis.

### **Funding**

The Group is consequently dependent on future fundraisings to meet any production costs, overheads, future development and exploration requirements and quarterly repayments on the BNP loan that cannot be met from existing cash resources and sales revenue.

ARC Fund, on various occasions in the past provided funding to support the Group's operations. In May 2022, Kropz secured a further ZAR equity facility of up to ZAR 177 million from ARC Fund to be used exclusively for the purposes of bringing the Elandsfontein project to first revenues, given a slower ramp-up in operations than originally envisaged. More recently, as announced on 14 March 2023, Kropz, Kropz Elandsfontein and the ARC Fund agreed to further ZAR 285 million (approximately US\$ 15.5 million) bridge loan facilities to meet immediate cash requirements at Kropz Elandsfontein. A first draw down of ZAR 25 million (approximately US\$ 1.4 million) on this was made on 14 March 2023. The loan is unsecured, repayable on demand, with no fixed repayment terms and is repayable by Kropz Elandsfontein on no less than two business days' notice. Interest is payable at the South African prime overdraft interest rate plus 6%, nominal per annum and compounded monthly. A second draw down for an amount of ZAR 90 million was made on 28 March 2023 and a third drawdown of ZAR 30 million was made on 25 April 2023. A fourth drawdown of ZAR 80 million was made on 23 June 2023 for Kropz Elandsfontein to be able to service its quarterly payment of interest and capital to BNP Paribas. ZAR 60 million remains undrawn at the date of this report. Given that BNP Paribas is exiting South Africa, the Group was unable to refinance the existing loan with them. Considering their position, BNP has been supportive of the refinancing strategy and has waived the requirement on the Company to reach project completion at Elandsfontein as well as to fund the debt service reserve account consecutively since December 2022 to 30 September 2023. Kropz Elandsfontein has made all the capital and interest payments to BNP as required to the date of this report.

## **Directors' Report for the year ended 31 December 2022 (continued)**

A further funding shortfall is expected in the year subsequent to the date of these accounts and as a result the Group will need to raise funding to provide additional working capital to finance its ongoing activities.

Management has successfully raised money in the past from its supportive major shareholder, but there is no guarantee that adequate funds will be available if needed in the future. Management has confirmed with ARC and have sufficient comfort that they have no intention to call any outstanding loans over the next 12-months for cash repayment. Management engages frequently with BNP regarding the capital repayment and refinancing of the BNP debt facility. Significant progress has been made with the refinancing of the BNP loan facility and Management, at the date of this report, are in advance discussions with several investors to provide the required funding to repay the BNP debt facility.

### *Going concern basis*

Based on the Group's current available reserves, recent operational performance, forecast production and sales coupled with Management's track record to successfully raise additional funds as and when required, to meet its working capital and capital expenditure requirements, the Board have concluded that they have a reasonable expectation that the Group will continue in operational existence for the foreseeable future and at least to December 2024.

For these reasons, the financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As there can be no guarantee that the required future funding can be raised in the necessary timeframe, a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

### **Subsequent events**

Disclosures in relation to events after 31 December 2022 are shown in Note 34 to the Consolidated Financial Statements.

This Directors Report was approved by the Board of Directors.



**Louis Loubser**  
**Chief Executive Officer**  
28 July 2023

## Corporate Governance Report

The Company is registered in England and Wales and listed on the AIM market of the London Stock Exchange.

### Introduction

The Board is committed to the principles of good corporate governance and to maintaining high standards and best practice of corporate governance. The Directors have developed corporate governance practices which are suitable for the size and nature of the Company and have adopted the Quoted Companies Alliance Corporate Governance Code (2018 Edition) (the "Code"). The Directors also note that with effect from 28 September 2018, all AIM companies must provide details on their website and in their Annual Report of the recognised corporate governance code that the Company has decided to apply, how it complies with that Code and, where it departs from this, an explanation of the reasons for doing so. To the extent that the Company departs from any of the provisions of the Code it will provide details on its website ([www.kropz.com](http://www.kropz.com)) as required.

The Chairman is responsible for leading the Board to ensure that Kropz has in place the strategy, people, structure and culture to deliver value to shareholders and other stakeholders of the Group over the medium to long term. The Board is conscious that the corporate governance environment is constantly evolving and the charters and policies under which it operates its business are monitored and amended as required.

The Code sets out ten principles and we have outlined below the Group's application of the Code.

The Board considers that the Company has complied, from 1 January 2022 to 31 December 2022, with all the provisions of the Code except as follows:

- The Remuneration Committee comprises the Chairman as the chairperson of the committee, one independent non-executive Director and two non-independent non-executive Directors. The Chairman is considered suitable to fulfil this position considering the size of the Board and the Company and his prior experience;
- Gerrit Duminy, a non-independent non-executive Director is on the Audit, Sustainability and Risk Committee in view of his financial experience and experience on other company audit committees; and
- No formal assessment of the Board performance has been carried to date. This will be done in the 2023 financial year.

The following section provides an explanation as to why the Company has departed from certain guidelines.

### Establish a strategy and business model to promote long-term value for shareholders

The Board has set out the vision for Kropz for the medium to long term. The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. The Company holds Board meetings at least three times each financial year and at other times as and when required.

Detailed disclosure on the Company's business model and strategy is disclosed on the Company's website and in the Strategic Report on page 13.

### Seek to understand and meet shareholder needs and expectations

Kropz has a Board with experience in understanding the needs and expectations of its shareholder base. It supplements this with professional advisers including public relations, nominated adviser and brokers who provide advice and recommendations in various areas of its communications with shareholders. Kropz engages with its shareholders through its website which has been designed as a hub to provide information to shareholders and provides regular updates to the market via the Regulatory News Service.

## **Corporate Governance Report (continued)**

The Company does not currently have a dedicated investor relations role. The CEO and COO are responsible for this function currently. The Board feels that this is appropriate given the size and stage of development of the Company.

### **Take into account wider stakeholder and social responsibilities and their implications for long-term success**

Key resources and relationships on which the business relies are its customers, workforce, suppliers, shareholders, local community and elements of the regulatory framework.

Employees are encouraged to raise any concerns they may have with relevant management. Grievance mechanisms are in place for employees.

Feedback from potential customers is at present informal. The Company will contact customers on an ad hoc basis once sales commence and provide verbal feedback where necessary to senior management.

Engagement with the local community is carried out at site, by means of monthly meetings with the established Community Forums. Grievance mechanisms are in place for the community, with Company contact details displayed at site access points.

Feedback from regulators is provided via the regular framework of reporting and inspections that are carried out.

Stakeholder identification and engagement is set out in the Section 172 statement contained in the Strategic Report.

### **Embed effective risk management, considering both opportunities and threats, throughout the organisation**

Kropz recognises that risk is inherent in all of its business activities. Its risks can have a financial, operational or reputational impact. A summary of the key risks is set out in the Strategic Report on pages 14 to 19. The Company's system of risk identification, supported by established governance controls, ensures it effectively responds to such risks, whilst acting ethically and with integrity for the benefit of all its stakeholders.

The Company's key internal controls procedures are:

- Prioritised risk register - risks are evaluated to establish root causes, financial and non-financial impacts and likelihood of occurrence. Consideration of risk impact and likelihood is taken into account to determine which of the risks should be considered as a principal risk. The effectiveness and adequacy of mitigating controls are assessed. If additional controls are required, these are identified and responsibilities assigned. The Company's management is responsible for monitoring the progress of actions to mitigate key risks. Key risks are reported to the Audit, Sustainability and Risk Committee and at least once a year to the full Board;
- Preparation of annual cash flow projections for approval by the Board and ongoing review of expenditure and cash flows;
- Establishment of appropriate cash flow management and treasury policies for the management of liquidity, currency and credit risk on financial assets and liabilities;
- Regular management meetings to review operating and financial activities; and
- Recruitment of appropriately qualified and experienced staff to key financial and operational management positions.

### **Maintain the Board as a well-functioning, balanced team led by the Chairman**

The Board currently comprises one executive Director, Louis Loubser, and five non-executive Directors, including the Chairman. The Chairman, Lord Robin Renwick of Clifton, and two of the non-executive Directors, Linda Beal and Mike Daigle are considered to be independent. The remaining two non-executive Directors,

## Corporate Governance Report (continued)

Mike Nunn and Gerrit Duminy, are not considered to be independent. Mike Nunn is a large shareholder of the Company, and Gerrit Duminy is the Board representative of Kropz Elandsfontein's BEE partner and the Company's largest shareholder, ARC.

Since AIM Admission in November 2018, the Company has the following appropriately constituted committees, each with formally delegated duties and responsibilities set out in respective written terms of reference:

- Audit, Sustainability and Risk Committee ("Audit Committee"); and
- Remuneration and Nomination Committee ("Remuneration Committee").

Lord Robin Renwick of Clifton, the Chairman of the Company, is also Chairman of the Remuneration Committee. Lord Renwick is independent in character, and suitable to fulfil this position considering the size of the Board and the Company and his prior experience. Lord Renwick is supported by one other independent non-executive Director as well as Mike Nunn and Gerrit Duminy who are not considered independent but are on the committee due to their previous experience and the fact that they are aligned with shareholders' interests by virtue of their representative holdings in the Company.

Gerrit Duminy, a non-independent non-executive Director, is on the Audit Committee. Gerrit's financial experience and representation on a number of other listed company audit committees deem him suitably qualified to serve on the Audit Committee.

The Board is responsible for the overall leadership and effective management of the Company, setting the Company's values and standards and ensuring maintenance of a sound system of internal control and risk management. The Board is also responsible for approving Company policy and its strategic aims and objectives as well as approving the annual operating and capital expenditure budgets. The Board supports the concept of an effective Board leading and controlling the Company and believes the Company has a well-established culture of strong corporate governance and internal controls that are appropriate and proportional, reflecting the Company's culture, size, complexity and risk.

All Directors bring a wide range of skills and international experience to the Board. The non-executive Directors hold meetings without the executive Directors present. The Chairman is primarily responsible for the working of the Board of the Company. The CEO is primarily responsible for the running of the business and implementation of the Board strategy and policy. The CEO is assisted in the managing of the business on a day-to-day basis by the group financial manager and other management.

The Board has a schedule of regular meetings where it approves major decisions and utilises its expertise to advise and influence the business. The Board will meet on other occasions as and when the business demands. During the financial year under review the Board met on four occasions.

The Board and its committees are supplied with appropriate and timely information, including detailed financial information, in order to discharge its duties. All Directors have access to the advice and services of the company secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Independent professional advice is also available to Directors in appropriate circumstances.

A detailed agenda is established for each scheduled meeting and appropriate documentation is provided to Directors in advance of the meeting. Regular Board meetings provide an agenda that will include reports from the CEO, reports on the performance of the business and current trading, and specific proposals where the approval of the Board is sought. Areas discussed include, amongst others, matters relating to the AIM listing, placing and funding arrangements, the South African Mining Charter and mining legislation, RoC Mining Convention and the strategic direction of the Company. Minutes of the meetings from committees of the Board are circulated to all members of the Board, unless a conflict of interest arises, to enable all Directors to have oversight of those matters delegated to committees.

## Corporate Governance Report (continued)

In accordance with the Company's Articles of Association, each Director must retire in any three-year period, so that over a three-year period all Directors will have retired from the Board and been subject to shareholder re-election. All Directors have access to the advice and services of the company secretary and other independent professional advisers as required. Non-executive Directors have access to key members of staff and are entitled to attend management meetings in order to familiarise themselves with all aspects of the Company. It is the responsibility of the Chairman and the company secretary to ensure that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties.

### Board and committee meetings attendance

During the year under review, three Audit Committee meetings and one Remuneration Committee meeting were held.

During the year there were four Board meetings by the Directors of the Company.

Attendance of Directors and committee members at Board and committee meetings held during the year is set out in the table below.

	Board meetings	Audit Committee meetings	Remuneration Committee meetings
Lord Robin Renwick of Clifton	5/5	2/2	1/1
Mark Summers	5/5	2/2	-
Linda Beal	5/5	2/2	1/1
Mike Daigle	5/5	-	-
Mike Nunn	4/5	-	1/1
Gerrit Duminy	1/1	1/1	1/1
Machiel Reyneke	4/4	1/1	-

### Division of responsibilities

The division of responsibilities between the non-executive Chairman and the CEO is clearly defined in writing. However, they work closely together to ensure effective decision making and the successful delivery of the Group's strategy.

### The CEO

The CEO is responsible for the running of the Group's business for the delivery of the strategy for the Group, leading the management team and implementing specific decisions made by the Board to help meet shareholder expectations. He also takes the lead in strategic development, by formulating the vision and strategy for the Group.

The CEO reports to each Board meeting on all material matters affecting the Group's performance. Given the structure of the Board and the fact that the Chairman and CEO roles are fulfilled by two separate individuals, the Board believes that no individual or small group of individuals can disproportionately influence the Board's decision making.

### The Chairman

The Chairman leads the Board, ensuring constructive communications between the Board members and that all Directors are able to play a full part in the activities of the Company. He is responsible for setting Board agendas and ensuring that Board meetings are effective and that all Directors receive accurate, timely and clear information.



## **Corporate Governance Report (continued)**

The Chairman officiates effective communication with shareholders and ensures that the Board understands the views of major investors and is available to provide advice and support to members of the executive team.

### **Non-executive Directors**

There are currently five non-executive Directors (including the Chairman), of which three are independent non-executive Directors. The role of the non-executive Directors is to understand the Group in its entirety and constructively challenge strategy and management performance, set executive remuneration levels and ensure an appropriate succession planning strategy is in place. They must also ensure they are satisfied with the accuracy of financial information and that thorough risk management processes are in place. The non-executive Directors also assist the Board with issues such as governance, internal control, remuneration and risk management. No non-executive Directors are participants in any share option plans of the Company.

### **Effectiveness**

#### **Composition of the Board**

The Board consists of the Non-Executive Chairman, the CEO, two non-executive Directors and two further independent non-executive directors. The names, skills and short profiles of each member of the Board, are set out on pages 29 to 30. Each year the Board considers the independence of each non-executive Director in accordance with the Code.

The Board considers Lord Robin Renwick of Clifton, Linda Beal and Mike Daigle to be independent as they are not involved in any executive capacity, have no other or material business relationships with the Company, have no material investment in the Company nor are associated with any such investor and have no close family or other business relationships with the Company or any of its Directors or senior executives.

Non-executive Directors were appointed for an initial term of one year in 2018. During 2019 the terms were amended and the non-executive appointments were extended, until terminated by either party on three months' notice.

To ensure that they clearly understand the requirements of their role, the Company has a letter of appointment in place with each non-executive Director. Employment contracts are entered into with the executive Director and senior executives so that they can clearly understand the requirements of the role and what is expected of them.

### **Commitment**

Each Director commits sufficient time to fulfil their duties and obligations to the Board and the Company. They attend Board meetings and join ad hoc Board calls and offer availability for consultation when needed. The contractual arrangements between the Directors and the Company specify the minimum time commitments which are considered sufficient for the proper discharge of their duties. However, all Board members appreciate the need to commit additional time in exceptional circumstances.

Non-executive Directors are required to disclose prior appointments and other significant commitments to the Board and are required to inform the Board of any changes to their additional commitments. Details of the non-executive directors' external appointments can be found on pages 29 to 30.

Before accepting new appointments, non-executive Directors are required to obtain approval from the Chairman and the Chairman requires the approval of the whole Board. It is essential that no appointment causes a conflict of interest or impacts on the non-executive Director's commitment and time spent with the Group in their existing appointment.

## **Corporate Governance Report (continued)**

Details of executive Director service contracts and of the Chairman's and the non-executive Directors' appointment letters are given on pages 32 to 33. Copies of service contracts and appointment letters are available for inspection at the Company's registered office during normal business hours.

### **Development**

All newly appointed Directors are provided with an induction programme which is tailored to their existing skills and experience, legal update on Directors' duties and one on ones with members of the senior management team. The Board is informed of any material changes to governance, laws and regulations affecting the Group's business.

### **Information and support**

All Directors have access to the advice and services of the company secretary and each Director and each Board committee member may take independent professional advice at the Company's expense, subject to prior notification to the other non-executive Directors and the company secretary.

The appointment and removal of the company secretary is a matter for the Board as a whole. The company secretary is accountable directly to the Board through the Chairman.

### **Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities**

The Board has been assembled to allow each Director to contribute the necessary mix of experience, skills and personal qualities to deliver the strategy of the Company for the benefit of the shareholders over the medium to long term. Full details of the Board members and their experience and skills are set out on pages 29 to 30.

Together the Board provide relevant mining and fertilizer sector skills, the skills associated with running large public companies, African experience and technical and financial qualifications to assist the Company in achieving its stated aims. The Board comprises UK, US, Monegasque and South African Directors and has one female Director.

The Directors keep their skillsets up to date as required through the range of roles they perform with other companies and consideration of technical and industry updates by external advisers. The Directors receive regular briefing papers on the operational and financial performance of the Company from the executives and senior management.

### **Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement**

#### **Appointments to the Board**

The Company has a Remuneration Committee, the composition of which is set out on page 51.

The Remuneration Committee is responsible for maintaining a Board of Directors that has an appropriate mix of skills, experience and knowledge to be an effective decision-making body, ensuring that the Board is comprised of Directors who contribute to the successful management of the Company and discharge their duties having regard to the law and the highest standards of corporate governance, considering and recommending Board candidates for election or re-election and reviewing succession planning.

The Remuneration Committee undertakes a detailed selection process as per the recruitment and diversity policy to appoint or re-appoint a Director to the Board. Included in this process are appropriate reference checks which include but are not limited to character reference and bankruptcy to ensure that the Board remains appropriate for that of an AIM quoted company.

## **Corporate Governance Report (continued)**

### **Evaluation of senior executives**

Arrangements put in place by the Board to monitor the performance of the Group's executives include:

- A review by the Board of the Group's financial performance;
- Annual performance appraisal meetings incorporating analysis of key performance indicators with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Group;
- An analysis of the Group's prospects and projects; and
- A review of feedback obtained from third parties, including advisors (where applicable).

Informal evaluations of the CEO and other senior executives' individual performance and overall business measures are undertaken progressively and periodically throughout the financial period.

Whilst the Board is aware that the Code recommends that the Board and its committees are evaluated on a yearly basis this has not been undertaken during 2022. However, an evaluation will be undertaken in 2023.

### **Promote a corporate culture that is based on ethical values and behaviours**

The Board seeks to embody and promote a corporate culture that is based on sound ethical values and behaviours, something we see as being a cornerstone to a strong risk management programme.

### **Code of conduct**

The Board acknowledges the need for continued maintenance of the highest standard of corporate governance practice and ethical conduct by all Directors and employees of the Group.

The Board has approved a code of conduct for Directors, officers, employees and contractors, which describes the standards of ethical behaviour that are required to be maintained. The code of conduct was approved prior to the Company's listing on the AIM market. The Group promotes the open communication of unethical behaviour within the organisation.

Compliance with the code of conduct assists the Company in effectively managing its operating risks and meeting its legal and compliance obligations as well as enhancing the Group's corporate reputation.

The code of conduct describes the Group's requirements on matters such as confidentiality, conflicts of interest, use of Group information, sound employment practices, compliance with laws and regulations and the protection and safeguarding of the Group's assets.

An employee who breaches the code of conduct may face disciplinary action. If an employee suspects that a breach of the code of conduct has occurred or will occur, he or she must report that breach to the CEO, via the Company's confidential "Whistle Blowing" process. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be investigated, acted upon and kept confidential.

### **Anti-bribery and anti-corruption**

The Company has adopted an anti-corruption and bribery policy which applies to the Board and employees of the Company and the Group. It generally sets out their responsibilities in observing and upholding a zero-tolerance position on bribery and corruption in all the jurisdictions in which the Group operates. It also provides guidance to those working for the Group on how to recognise and deal with bribery and corruption issues and the potential consequences of failing to adhere to this guidance. The Company expects all employees, suppliers, contractors and consultants to conduct their day-to-day business activities in a fair, honest and ethical manner, be aware of and refer to this policy in all of their business activities worldwide and to conduct

## Corporate Governance Report (continued)

business on the Company's behalf in compliance with it. Management at all levels are responsible for ensuring that those reporting to them, internally and externally, are made aware of and understand this policy.

The Group's anti-bribery and anti-corruption policy is set out in the code of conduct and has been aligned to meet UK and South African laws governing anti-bribery and anti-corruption. The Group takes a zero tolerance approach to acts of bribery and corruption by any Directors, officers, employees and contractors. The Group will not offer, give or receive bribes, or accept improper payments to obtain new business, retain existing business or secure any advantage and will not permit others to do so on its behalf.

### **Maintain governance structures and processes that are fit for purpose and support good decision making by the Board**

The Board as a whole is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The role of the Board is as follows:

- To provide direction and entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risks to be appropriately assessed and managed;
- To set the Company's strategic aims, ensure that the necessary financial and human resources are in place for the Company to meet its objectives and review management performance;
- To demonstrate ethical leadership, setting the Company's value and standards and ensuring that its obligations to its shareholders and others are well understood;
- To create a performance culture that drives value creation without exposing the Company to excessive risk or value destruction;
- To be accountable, and make well-informed and high quality decisions based on a clear understanding of the Company's broader goals and specific objectives;
- To create the right framework for helping Directors meet their statutory duties under the Companies Act 2006, and/or any other relevant statutory and regulatory regimes; and
- To promote its governance arrangements and embrace the evaluation of their effectiveness.

### **Internal controls**

In applying the principle that the Board should maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets, the Directors recognise that they have overall responsibility for ensuring that Kropz maintains systems to provide them with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations and for reviewing the effectiveness of that system. However, there are inherent limitations in any system of control and accordingly even the most effective system can provide only reasonable and not absolute assurance against material misstatement or loss, and that the system is designed to manage rather than eliminate the risk of failure to achieve the business objectives.

The key features of the internal control system are described below:

#### **Control environment**

The Company is committed to high standards of business conduct and seeks to maintain these standards across all of its operations. There are also policies in place for the reporting and resolution of suspected fraudulent activities. The Company has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve its objectives.

#### **Risk management and internal control**

The Board has carried out a robust assessment of the principal risks facing the Group. Details of these risks are set out on pages 14 to 19. The Board has reviewed the Company's risk management and internal control systems during the year and consider them to be effective. Management is responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual

## **Corporate Governance Report (continued)**

basis and may be associated with a variety of internal and external sources, including infringement of intellectual property, sales channels, investment risk, staff retention, disruption in information systems, natural catastrophe and regulatory requirements.

Group businesses will participate in periodic operational/strategic reviews and annual plans. The Board actively monitors performance against plan. Forecasts and operational results are consolidated and presented to the Board on a regular basis. Through these mechanisms, performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

### **Main control procedures**

The Company has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the exposure to loss of assets and fraud. Measures taken include segregation of duties and reviews by management.

There are clear and consistent procedures in place for monitoring the system of internal financial controls. The Board considers the internal control system to be adequate for the Group.

### **Financial and business reporting**

It is the responsibility of the Directors to ensure that the financial accounts are prepared and submitted. Having assessed the current Annual Report, along with the accounts, the Directors confirm that, taken as a whole, they are fair, balanced and understandable. The Directors also confirm that these documents provide the necessary information in order for shareholders to assess the Group's performance, business model and strategy.

The going concern statement provided by the directors is on pages 38 to 42 of the Directors Report. The independent auditor's report is set out on pages 61 to 69.

The CEO provides, at the end of each six monthly period, a formal statement to the Board confirming that the Group's financial reports present a true and fair view, in all material respects, and that the Group's financial condition and operational results have been prepared in accordance with the relevant accounting standards.

The statement also confirms the integrity of the Group's financial statements and that it is founded on a sound system of risk management and internal compliance and controls which implements the policies approved by the Board, and that the Group's risk management and internal compliance and control systems, to the extent they relate to financial reporting, are operating efficiently and effectively in all material respects.

### **Board committees**

The Company has established an Audit Committee and a Remuneration Committee with formally delegated duties and responsibilities. The minutes of all committees are circulated for review and consideration by all relevant Directors, supplemented by oral reports from the respective committee chairs at Board meetings.

#### **Audit Committee**

The Company has an Audit Committee comprised of Linda Beal, as the chairperson, together with Lord Robin Renwick of Clifton and Gerrit Duminy. The Audit Committee report is set out on pages 55 to 57.

#### **Remuneration Committee**

The Company has a Remuneration Committee, which during the 2022 financial year comprised of Lord Robin Renwick of Clifton, as the chairperson, together with Gerrit Duminy, Mike Nunn and Linda Beal. The Remuneration Committee report is set out on pages 58 to 59.

## **Corporate Governance Report (continued)**

### **Communicate how the Company is governed and is performing by maintaining a dialogue with Shareholders and other relevant stakeholders**

#### **Dialogue with shareholders**

The Group places considerable importance on effective communications with shareholders.

The Group's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Group. The strategy provides for the use of systems that ensure a regular and timely release of information about the Group is provided to shareholders.

The Group also posts all reports, stock exchange announcements and media releases and copies of significant business presentations on the Company's website.

The Company's two largest shareholders, ARC and Kropz International, are represented on the Board. In addition, the Chairman and CEO have frequent direct face-to-face and virtual meetings throughout the period with some of the other major shareholders as well as with analysts and brokers.

#### **Constructive use of the AGM**

Under normal circumstances, the Board encourages full participation of shareholders at the AGM to ensure a high level of accountability and understanding of the Group's strategy and goals. However, as it was not possible to publish the 2022 Accounts prior to issuing the Notice of Annual General Meeting, a separate general meeting is being held on 1 September 2023, at which the 2022 Accounts will be received and adopted. Notice of this meeting will be sent to shareholders in due course.

The Company has provided information in the notice of AGM that is presented in a clear, concise and effective manner. Shareholders will still be provided with the opportunity to submit questions in relation to each resolution before they are put to the vote and discussion is encouraged by the Board. Shareholders will be able to submit those questions in writing via email, in accordance with the instructions contained in the Notice of AGM and (once circulated) the Notice of GM. The Board will publish a summary of any questions received which are of common interest, together with a written response on the Company's website as soon as practicable after the conclusion of the AGM and GM (as applicable).

#### **Other governance matters**

##### **Diversity policy**

The Group is committed to an inclusive workplace that embraces and promotes diversity, while respecting international, sovereign, United Kingdom, South African and RoC laws.

It is the responsibility of all Directors, officers, employees and contractors to comply with the Group's diversity policy and report violations or suspected violations in accordance with this diversity policy.

The Group recognises the value of a diverse work force and believes that diversity supports all employees reaching their full potential, improves business decisions, business results, increases stakeholder satisfaction and promotes realisation of the Group's vision.

Diversity may result from a range of factors including but not limited to gender, age, ethnicity and cultural backgrounds. The Company believes these differences between people add to the collective skills and experience of the Group and ensure it benefits by selecting from all available talent.

## **Corporate Governance Report (continued)**

### **Group and individual expectations**

The Group recognises Group and individual expectations, to:

- Ensure diversity is incorporated into the behaviours and practices of the Group;
- Facilitate equal employment opportunities based on job requirements only using recruitment and selection processes which ensure we select from a diverse pool;
- Engage professional search and recruitment firms when needed to enhance our selection pool;
- Help to build a safe work environment by acting with care and respect at all times, ensuring there is no discrimination, harassment, bullying, victimisation, vilification or exploitation of individuals or groups;
- Develop flexible work practices to meet the differing needs of our employees and potential employees;
- Attract and retain a skilled and diverse workforce as an employer of choice;
- Enhance customer service and market reputation through a workforce that respects and reflects the diversity of our stakeholders and communities that we operate in;
- Make a contribution to the economic, social and educational well-being of all of the communities it serves;
- Meet the relevant requirements of domestic and international legislation appropriate to the Group's operations;
- Create an inclusive workplace culture; and
- Establish measurable diversity objectives and monitor and report on the achievement of those objectives annually.

### **Dealings with company securities**

The Group's Securities Dealing Policy is binding on all Directors, officers and employees who are in possession of "inside information". All such persons are prohibited from trading in the Company's securities if they are in possession of 'inside information'. Subject to this condition and trading prohibitions applying to certain periods, trading is permissible provided the relevant individual has received the appropriate prescribed clearance. The Board considers that the share dealing code is in compliance with the MAR and AIM requirements, and continues to meet the requirements of the Board.

### **Interests of other stakeholders**

The Group's objective is to leverage into resource projects to provide a solid base in the future from which the Group can build its resource business and create wealth for shareholders. The Group's operations are subject to various environmental laws and regulations under the relevant government's legislation. Full compliance with these laws and regulations is regarded as a minimum standard for the Group to achieve.

### **Market disclosure**

The Company is subject to parallel obligations under the AIM rules and the MAR, in relation to the disclosure and control of price sensitive information. The Company has obligations under corporate and securities laws and stock exchange rules to keep the market fully informed of information which may have a material effect on the price or value of the Group's securities and to correct any material misrepresentation, mistake or misinformation in the market.

The Group takes continuous disclosure seriously and requires that all of its Directors, officers, employees and contractors observe and adhere to the Group's procedures and policies governing compliance with all laws pertaining to continuous disclosure, tipping and insider trading.

The Company has a formal Disclosure Policy (the "Disclosure Policy") addressing its continuous disclosure obligations and arrangements. The objectives of the Disclosure Policy are to ensure that:

- The communications of the Group with the public are timely, factual and accurate and broadly disseminated in accordance with all applicable legal and regulatory requirements;

## Corporate Governance Report (continued)

- Non-publicly disclosed information remains confidential; and
- Trading of the Group's securities by Directors, officers and employees of the Company and its subsidiaries remains in compliance with applicable securities laws.

The Disclosure Policy also provides advice to all Directors, officers, employees and contractors of the Group of their responsibilities regarding their obligation to preserve the confidentiality of undisclosed material information while ensuring compliance with laws respecting timely, factual, complete and accurate continuous disclosure, price sensitive or material information, tipping and insider trading.

The Disclosure Policy further covers disclosures in documents filed with the securities regulators and stock exchanges and written statements made in the Group's annual and interim reports, news releases, letters to shareholders, presentations by senior management and information contained on Kropz's website and other electronic communications. It extends to oral statements made in meetings and telephone conversations with analysts and investors, interviews with the media as well as speeches, press conferences and conference calls.

If there is misuse of price sensitive or material information not yet disclosed to the market by trading or breach in confidentiality, extremely serious penalties may apply to the individual or individuals involved.

### Shareholder information

The Company's website contains a separate section titled "Investors" which contains key documents for its investors. The website also provides:

- Information about the Company and Group;
- An overview of the Group's current projects;
- Copies of its Annual Reports;
- Investor presentations; and
- Copies of its announcements to the London Stock Exchange.

The Company's share registry is maintained electronically by Computershare Investor Services. Their contact details are disclosed in the corporate directory of the Annual Report on pages 139 to 140. The market price of the AIM traded ordinary shares at 31 December 2022 was 3.85 pence. The highest and lowest price during the financial year was 13 pence and 3.85 pence per ordinary share respectively.



**Lord Robin William Renwick of Clifton**  
**Non-Executive Chairman**  
28 July 2023



## Report of the Audit, Sustainability and Risk Committee

The Audit, Sustainability and Risk Committee (“Audit Committee”) comprises three members, two of whom are independent non-executive Directors including the Company Chairman, Lord Robin Renwick, and Committee Chair, Linda Beal, who is considered by the Board to have recent and relevant financial experience. Machiel Reyneke was a member of the committee until his resignation on 16 September 2022 when Gerrit Duminy was appointed in his stead. Machiel Reyneke and Gerrit Duminy are not considered independent. The Audit Committee meets formally at least twice a year, or otherwise as required, and meets with the Company’s external auditors at least twice a year.

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, including reviewing the Group’s annual and half year financial statements, accounting policies, key judgements and estimates taken, internal and external audit and controls, reviewing and monitoring the scope of the annual audit and the extent of the non-audit work undertaken by external auditors and advising on the appointment of external auditors.

In addition, the Audit Committee is responsible for ensuring the integrity of the financial information reported to shareholders and internal control systems and ensuring effective risk management and financial control frameworks have been implemented. The Audit Committee also ensures that appropriate procedures, resources and controls are in place to comply with the AIM Rules for Companies and the MAR, monitors compliance thereof and seeks to ensure that the Company and its nominated adviser are in contact on a regular basis.

Following the commencement of production at Elandsfontein in 2022, the Group intends to conduct an international benchmarking exercise to confirm its commitment to ESG and sustainability, and to assist in the identification of further ESG objectives. The Audit Committee will be responsible for ensuring that ESG improvement projects are prioritised and that the Company maintains its reputation as a responsible phosphate producer. The 2023 annual report will provide disclosure on sustainability and ESG related matters.

The Audit Committee has written terms of reference and provides a mechanism through which the Board can maintain the integrity of the financial statements of Kropz and any formal announcements relating to Kropz’s financial performance and to make recommendations to the Board in relation to the appointment of the external auditor, their remuneration both for audit and non-audit work, the nature, scope and results of the audit and the cost effectiveness and the independence and objectivity of the auditors. A recommendation regarding the auditors is put to shareholders for their approval in general meetings.

Kropz has established procedures for the running of the Audit Committee. This includes overview of the identification, categorisation and prioritisation of critical risks within the business and allocation of responsibility to its executives and senior managers. The Audit Committee is committed to maintain a risk management framework that seeks to:

- Avoid the likelihood of unacceptable outcomes and costly surprises;
- Provide greater openness and transparency in decision making and ongoing management processes;
- Provide for a better understanding of issues associated with the Group’s activities;
- Comprise an effective reporting framework for meeting corporate governance requirements; and
- Allow an appropriate assessment of innovative processes to identify risks before they occur and allow informed judgement.

The Audit Committee is also responsible for approving, reviewing and monitoring the Company’s risk management policy. The objectives of this risk management policy are to:

- Provide a structured risk management framework that will provide senior management and the Board with comfort that the risks confronting the organisation are identified and managed effectively;
- Create an integrated risk management process owned and managed by the Group’s personnel that is both continuous and effective;

## Report of the Audit, Sustainability and Risk Committee (continued)

- Ensure that the management of risk is integrated into the development of strategic and business plans, and the achievement of the Group's vision and values; and
- Ensure that the Board is regularly updated with reports by the committee.

Management is responsible for efficient and effective risk management across the activities of the Group. This includes ensuring the implementation of policies and procedures that address risk identification and control, training and reporting. The CEO is responsible for ensuring the process for managing risks is integrated within business planning and management activities.

The Board reviews the effectiveness of the implementation of the risk management system and internal control system annually. When reviewing risk management policies and the internal control system the Board takes into account the Company's legal obligations and also considers the reasonable expectations of the Company's stakeholders, including shareholders, employees, customers, suppliers, creditors, consumers, government authorities and the community. The principal areas of risk for the Company are detailed on pages 14 to 19.

In order to ensure the independence and objectivity of the external auditor (BDO and its associated companies), the Audit Committee has a policy in place since AIM Admission in November 2018, regarding the provision of non-audit services by its external auditor to ensure that such services do not impair the independence or objectivity of the external auditor. Any non-audit services provided must be pre-approved by the chairperson of the Audit Committee.

The Audit Committee met on two occasions during the 2022 financial year.

On 6 June 2022, the Audit Committee reviewed the 2021 Annual Report including consideration of the financial statements and going concern (including material uncertainty), impairment assessment of the exploration and evaluation assets, property, plant, equipment and mine development assets, other key judgements and estimates, value proposition and business model. The Audit Committee received and considered memoranda from management regarding these matters, and also took into account the views of the external auditor. The Audit Committee concluded that no impairment charge was necessary for the exploration and evaluation assets or the property, plant, equipment and mine development assets at 31 December 2021 and that the going concern basis was the appropriate basis for preparation of the 2021 Annual Report, but it was considered appropriate to recognise that there was a material uncertainty. The Audit Committee met with BDO to discuss the findings of the 2021 annual audit and to review the appropriateness of the Group's key accounting policies and judgements and estimates, to review the auditor's report to the Audit Committee and to review the 31 December 2021 annual financial statements prior to Board approval.

On 30 September 2022, the Audit Committee reviewed the 2022 interim financial statements for the six months ended 30 June 2022 including consideration of the financial statements and going concern (including material uncertainty), impairment assessment of the exploration and evaluation assets, property, plant, equipment and mine development costs, other key judgements and estimates, value proposition and business model. The Audit Committee concluded that an impairment charge was necessary for the Elandsfontein project assets at 30 June 2022 given the delivery of ore to the plant was compromised due to the presence of competent banks of hard material within the orebody, which was previously unknown. It was also concluded that the going concern basis was the appropriate basis for preparation of the 2022 interim financial statements, but it was considered appropriate to recognise that there is a material uncertainty.

On 19 January 2023, the Audit Committee met with BDO and discussed and reviewed the planning of the 2022 annual audit. At this meeting, Audit Committee reviewed the risk register and certain policies and procedures presented by management.

On 28 June 2023, the Audit Committee reviewed the 2022 Annual Report including consideration of the financial statements and key accounting judgements and estimates including going concern (including material uncertainty), impairment assessment of the exploration and evaluation assets, property, plant, equipment and mine development costs, the fair value of the derivative liability of the convertible with ARC.

## **Report of the Audit, Sustainability and Risk Committee (continued)**

The Audit Committee received and considered memoranda from management regarding these matters, and also took into account the views of the external auditor. The Audit Committee reviewed the underlying assumptions and the cashflow for considering going concern and agreed with management that the going concern basis is the appropriate basis for preparation of the 2022 Annual Report but it is considered appropriate to recognise that there is a material uncertainty. The Audit Committee concurred that an impairment charge was necessary for the mine property, plant, equipment and inventory assets at 31 December 2022 and reviewed the underlying assumptions and calculation of the impairment charge of US\$ 92.7 million. The Audit Committee agreed with management that there was no impairment indicator for the exploration and evaluation assets. The Audit Committee reviewed the fair value calculation for the derivative liability of the convertible with ARC prepared by third party adviser and the underlying assumptions and sensitivities. The Audit Committee met with BDO to discuss the findings of the 2022 annual audit and to review the appropriateness of the Group's key accounting policies and judgements, to review the auditor's report to the Audit Committee and to review the 31 December 2022 annual financial statements prior to Board approval.

The Audit Committee assesses the quality of the external audit annually and considers the performance of the auditor and its associates taking into account the Audit Committee's own assessment, feedback from senior finance personnel and views from the auditor and its associates on their performance as detailed in a report of their audit findings at the year end, which they took the Audit Committee through at the meeting in June 2023. Based on this review, the Audit Committee was satisfied with the effectiveness of the audit for the year ended 31 December 2022.



**Linda Beal**  
**Audit Committee Chair**  
28 July 2023

## Report of the Remuneration and Nomination Committee

At the commencement of the 2022 financial year, the Remuneration and Nomination Committee ("Remuneration Committee") had four members, two of whom are independent non-executive Directors. The Remuneration Committee comprised of Lord Robin Renwick of Clifton, Linda Beal, Machiel Reyneke and Mike Nunn. Machiel Reyneke resigned from the Remuneration Committee on 16 September 2022 and Gerrit Duminy was appointed in his stead. Mike Nunn, Machiel Reyneke and Gerrit Duminy are not considered to be independent. The Remuneration Committee currently comprises of four members, two of whom are independent non-executive Directors.

The Remuneration Committee is required to meet annually and at such other times as required. Its objectives are to:

- Maintain a board of Directors that has an appropriate mix of skills, experience and knowledge to be an effective decision making body;
- Ensure that the Board is comprised of Directors who contribute to the successful management of the Company and discharge their duties having regard to the law and the highest standards of corporate governance;
- Align the interests of executives and senior management with those of shareholders through the use of performance-related rewards and share options in the Company;
- Reward executives and senior managers according to both individual and Group performance;
- Establish an appropriate balance between fixed and variable elements of total remuneration, with the performance-related element forming a potentially significant proportion of the total remuneration package;
- Review and recommend an appropriate remuneration policy, the objective of which shall be to attract, retain and motivate executive Directors of the quality required to successfully run the Company, without paying more than is necessary having regard to market comparables; and
- Adhere to the principle that no Director or senior executive shall be involved in any decisions as to their own remuneration.

In addition, the Remuneration Committee is responsible for considering and recommending Board candidates for election or re-election, reviewing succession planning, determining the terms of employment and total remuneration of the executive Directors and Chairman and considering the Group's incentive schemes.

The remuneration package comprises the following elements:

- Basic salary – normally reviewed annually and set to reflect market conditions, personal performance and benchmarks in comparable companies;
- Annual performance-related bonus – executives, managers and employees receive annual bonuses related to specific KPIs or overall Group performance. The non-executive Directors do not participate in the performance-related bonus scheme;
- Benefits – benefits include life assurance and private medical contributions. The non-executive Directors do not receive these benefits; and
- Share options – share option grants are reviewed regularly. The non-executive Directors do not receive these benefits.

Full details of each Director's remuneration package and their interests in shares and share options can be found in the Directors' Report. There are no elements of remuneration, other than basic earnings, which are treated as being pensionable.

## **Report of the Remuneration and Nomination Committee (continued)**

In January 2022 the Remuneration committee reviewed the performance conditions for vesting of options held by the CEO and certain senior management and the recommendation from an Elandsfontein NED that the Elandsfontein related conditions for vesting had been met and unanimously concluded that the Committee should recommend to the Board that the vesting conditions had been met for certain of the LTIP Awards.

The Remuneration Committee met on 2 July 2022 to approve executive remuneration increases for the year ended 30 June 2023 and on 13 December 2022 to appoint the new CEO.



**Lord Robin William Renwick of Clifton**  
**Remuneration Committee Chairman**  
28 July 2023

## Statement of Directors' Responsibilities in Respect of The Annual Report and Financial Statements

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 consolidated financial statements in accordance with UK adopted international accounting standards. The Directors have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the Directors are required to:

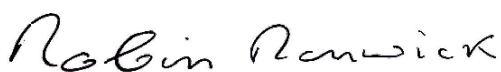
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the Group financial statements have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements;
- state with regard to the parent company financial statements, whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Company'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 maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

This responsibility statement and the Directors' Report were approved by the Board of Directors on 28 July 2023 and signed on its behalf by:



**Non-Executive Chairman**  
**Lord Robin William Renwick of Clifton**  
28 July 2023



**Chief Executive Officer**  
**Louis Loubser**  
28 July 2023

## **Independent Auditor's Report to the Members of Kropz plc**

### **Opinion on the financial statements**

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 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Kropz Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, the company statement of financial position, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### **Material uncertainty related to going concern**

We draw attention to the disclosures made in note 2a to the Parent Company and Group financial statements, which explains that the Group is reliant on future funding and there is no guarantee that additional funds will be raised in the necessary timeframe. As stated in note 2a to the Parent Company and Group's financial statements, these events or conditions along with other matters as set forth in note 2a to the Parent Company and Group financial statements indicate that a material uncertainty exists that may cast significant doubt on the Parent Company's and Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Independent Auditor's Report to the Members of Kropz plc (continued)

For the reasons set out above and the resulting impact on our risk assessment, we determined going concern to be a key audit matter.

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 and the Parent Company's ability to continue to adopt the going concern basis of accounting and procedures in response to the key audit matter included:

- We assessed the Directors' financial forecasts prepared for the period up to December 2024. This included consideration of the reasonableness of key underlying assumptions by reference to recent expenditure and project plans, commitments on the exploration assets and external data on commodity prices and production.
- We reviewed the terms and conditions of the Group's existing debt facilities and confirmed that current waiver issued by BNP Paribas expires in September 2023. We checked that the debt facilities were appropriately reflected in the forecast.
- We challenged management in relation to the likelihood of an additional waiver being issued by September 2023 and obtained an understanding of the previous waivers issued.
- We enquired of management about financing options in the scenario where the BNP Paribas loan will need to be fully repaid by September. We obtained supporting evidence of ongoing discussions with external financial institutions and investors.
- We reviewed the terms and conditions of the Group's new debt facilities entered into subsequent to the year end, and confirmed that they were appropriately reflected in the forecasts. The bridge loan of ZAR 285m issued by ARC in March 2023 is repayable on demand.
- We confirmed the receipts under the Group's new debt facilities with ARC entered into subsequent to the year end to bank and that the remaining drawdowns of the facilities in the forecasts are available under the terms of the ARC facilities.
- We agreed the June 2023 opening cash position used in the cash flow forecast to bank statements and compared the latest cash position to the forecasts.
- We performed an accuracy check on the mechanics of the cash flow forecast model prepared by management and the directors.
- We obtained an understanding of the Directors' options for the future fundraising to meet the Group's working capital requirements when required.
- We evaluated the adequacy and consistency of going concern disclosures made in the financial statements with the Directors' going concern assessment.
- We obtained the Directors' sensitivity analysis and considered whether such scenarios were realistic based on our knowledge and understanding of the business.

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

### Overview

<b>Coverage<sup>1</sup></b>	98% (2021: 97%) of Group loss before tax 99% (2021: 99%) of Group total assets
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<sup>1</sup> These are areas which have been subject to a full scope audit by the group engagement team and specified audit procedures performed by the group engagement team and the component auditor teams.



**Independent Auditor's Report to the Members of Kropz plc (continued)**

<b>Key audit matters</b>	Carrying value of property, plant, equipment and mine development assets	2022 Yes	2021 Yes
	Going Concern	Yes	Yes
<b>Materiality</b>	<i>Group financial statements as a whole</i>		
	\$1,190,000 (2021: \$1,900,000) based on 1% (2021: 1%) of total assets		

**An overview of the scope of our audit**

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

We assessed there to be three significant components being the Parent Company, Kropz Elandsfontein (Pty) Ltd, which is commissioning the Elandsfontein phosphate mine in South Africa and Cominco Resources Limited, which holds the Hinda pre-development phosphate project in Republic of Congo.

The Parent Company and Cominco Resources Limited were subject to a full scope audit by the group audit team. A full scope audit for group reporting purposes was performed by a BDO network member firm in South Africa on Kropz Elandsfontein (Pty) Ltd. The financial information of the remaining non-significant components were subject to analytical review procedures by the group audit team.

*Our involvement with component auditors*

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with component auditors included the following:

- A planning meeting was held with the component auditor remotely and detailed group reporting instructions which included details for the testing of the significant areas and materiality were sent to them.
- We reviewed the audit files remotely and discussed the findings with the component audit team and component management.
- We held virtual meetings with management and the component auditors during the planning and execution phases of the audit.

*Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. In addition to the matter described in the Material uncertainty related to going concern section of our report we have determined the matter below to be the key audit matter to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent Auditor's Report to the Members of Kropz plc (continued)

Key audit matter	How the scope of our audit addressed the key audit matter
<p><b>Carrying value of property, plant, equipment and mine development assets.</b> <b>Notes 2(c), 4 and 25</b></p> <p>The Group's total property, plant, equipment and mine development assets at 31 December 2022 were US\$61m (2021: US\$135.1m) in respect of the Elandsfontein mine in South Africa. This class of asset is the most significant to the statement of financial position.</p> <p>During 2022 the Reserves and Resources estimates were revised and the outcome was a downgrade on measured and indicated resources. This led to the group reducing its production profile, and revising the life of mine model. This represented an impairment indicator and as result management undertook an impairment test to determine the recoverable amount of its mining properties. The recoverable amount of the Elandsfontein cash generating unit (CGU) is determined with reference to a discounted cash flow which is based on estimates of future cash flows.</p> <p>Significant estimates and judgements are required in determining model inputs used in the impairment indicator assessment, including commodity price, production, operating costs, capital costs, discount rates and reserves and resources estimates. The subjectivity of the judgements and estimates involved in the impairment indicator review resulted in this being a key area of focus for the audit and therefore a key audit matter.</p>	<p>Our procedures in relation to management's impairment test included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• BDO SA obtained management's discounted cash flow model and performed data integrity and arithmetic checks on the model.</li> <li>• We determined whether the basis of preparation of the model was in line with the applicable accounting standard, our expectations and valuation methodology.</li> <li>• We critically challenged the discounted cash flow model, focussing on the appropriateness of estimates, including commodity price, production, operating costs, capital costs, discount rates and reserves and resources estimates by reference to external data.</li> <li>• We assessed management's internal assessment of reserves and resources estimates by reviewing the report of independent expert employed by management to assess the reasonableness of management's internal estimate. In assessing the report, we considered the basis of preparation and determined whether management has diverged from it.</li> <li>• BDO SA engaged with internal valuation experts to independently assess the discount rate adopted by management.</li> <li>• We obtained management's independent expert's report which forecast market prices for phosphate. We challenged management's adjustments to these market prices, and compared short term forecast pricing to actual prices achieved.</li> <li>• Within Management's impairment assessment, Management assumed some downward adjustments to these market prices for the effect of lower grade and other market factors. We challenged these adjustments and compared short term price forecasts which Management have made to actual sales prices achieved after the year end. We considered the</li> </ul>

**Independent Auditor's Report to the Members of Kropz plc (continued)**

		<p>reasonableness of sensitivities applied by Management, checked their calculation in order to stress test the model and determine whether any further impairment would be required.</p> <ul style="list-style-type: none"> <li>• Our procedures in relation to management external experts included assessing their independence, competence and scope of the work performed.</li> <li>• We reviewed the adequacy of the financial statement disclosures against the requirements of the applicable accounting standards.</li> </ul> <p><b>Key Observation</b> Based on our procedures we considered the Directors' conclusion in relation to the impairment charge in respect of the Group's Property, plant and equipment and mining development assets as at 31 December 2022 to be reasonable.</p>
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**Our application of materiality**

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	<b>Group financial statements</b>		<b>Parent company financial statements</b>	
	2022 US\$	2021 US\$	2022 US\$	2021 US\$
<b>Materiality</b>	1,190,000	1,900,000	523,000	1,400,000
<b>Basis for determining materiality</b>	1% of Total Assets		80% of Group materiality	74% of Group materiality
<b>Rationale for the benchmark applied</b>	Materiality has been based on Total assets as the Group is non-revenue generating or profit making. We consider Total assets to be one of the principal considerations for users of the financial statements.		Calculated/Capped at 80% (2021:74%) of Group materiality given the assessment of the components aggregation risk.	

**Independent Auditor's Report to the Members of Kropz plc (continued)**

<b>Performance materiality</b>	773,000	1,235,000	339,000	900,000
<b>Basis for determining performance materiality</b>	65% of materiality.			
<b>Rationale for the percentage applied for performance materiality</b>	In reaching our conclusion on the level of performance materiality to be applied we considered a number of factors including the expected total value of known and likely misstatements (based on past experience), our knowledge of the Group's and Parent Company's control environment and the Directors' attitude towards proposed adjustments.			

*Component materiality*

For the purposes of our Group audit opinion, we set materiality for each significant component of the Group, apart from the Parent Company whose materiality is set out above, based on a percentage of between 30% and 80% (2021: 36% and 74%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from \$357,000 to \$952,000 (2021: \$690,000 to \$1,400,000). In the audit of each component, we further applied performance materiality levels of 65% (2021: 65%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

*Reporting threshold*

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of \$23,000 (2021:\$36,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Other Companies Act 2006 reporting**

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

<b>Strategic report and Directors' report</b>	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> <li>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</li> <li>the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.</li> </ul>
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## Independent Auditor's Report to the Members of Kropz plc (continued)

	In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
<b>Matters on which we are required to report by exception</b>	<p>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:</p> <ul style="list-style-type: none"> <li>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</li> <li>the Parent Company financial statements are not in agreement with the accounting records and returns; or</li> <li>certain disclosures of Directors' remuneration specified by law are not made; or</li> <li>we have not received all the information and explanations we require for our audit.</li> </ul>

### Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the Group's 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.

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

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

Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion with management and those charged with governance;
- Discussion with the Audit Committee; and
- Obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations,

we determined that the most relevant laws and regulations related to UK company law, tax legislation, the financial reporting framework, and applicable mining laws and environmental regulations in the jurisdiction in which the Group operates.

## **Independent Auditor's Report to the Members of Kropz plc (continued)**

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be the health and safety legislation.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Holding discussions with management and the audit committee to consider any known or suspected instances of non-compliance with laws and regulations. We corroborated our enquiries through our review of board minutes and RNS announcements;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by discussing among the engagement team where fraud might occur in the financial statements and any potential indicators of fraud. We determined this to be management override of control.

Our procedures in response to the above included:

- Holding discussions with management and the audit committee to consider any known or suspected instances of fraud;
- Testing appropriateness of journal entries made throughout the period which met specific risk based criteria by agreeing to supporting documentation;
- Assessing the judgements made by management when making key accounting estimates and judgements, and challenging management on the appropriateness of these judgements, including judgements applied within the key audit matters; and
- Performing a detailed review of the Group's year-end adjusting entries and corroborating any that appeared unusual as to nature or amount to supporting documentation.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including component engagement teams, who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. For component engagement teams, we also reviewed the result of their work performed in this regard.

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

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Independent Auditor's Report to the Members of Kropz plc (continued)**

### **Use of our report**

This report is made solely to the Parent 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 Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:  
  
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Jack Draycott (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
London, UK  
28 July 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Consolidated Statement of Financial Position As at 31 December 2022

	Notes	31 December 2022 US\$'000	31 December 2021 US\$'000
<b>Non-current assets</b>			
Property, plant, equipment and mine development	4	68,965	135,099
Exploration assets	5	42,415	44,631
Right-of-use asset	6	-	7
Other financial assets	7	860	1,357
		<b>112,240</b>	<b>181,094</b>
<b>Current assets</b>			
Inventories	8	3,273	1,025
Trade and other receivables	9	1,857	1,511
Restricted cash	10	-	4,858
Cash and cash equivalents	11	2,120	2,461
		<b>7,250</b>	<b>9,855</b>
<b>TOTAL ASSETS</b>		<b>119,490</b>	<b>190,949</b>
<b>Current liabilities</b>			
Trade and other payables	18	7,284	3,543
Lease liabilities	15	-	7
Other financial liabilities	16	26,808	4,295
Current taxation	26	597	-
		<b>34,689</b>	<b>7,845</b>
<b>Non-current liabilities</b>			
Shareholder loans and derivative	14	55,102	25,043
Other financial liabilities	16	-	26,291
Provisions	17	2,697	4,033
		<b>57,799</b>	<b>55,367</b>
<b>TOTAL LIABILITIES</b>		<b>92,488</b>	<b>63,212</b>
<b>NET ASSETS</b>		<b>27,002</b>	<b>127,737</b>



**Consolidated Statement of Financial Position  
As at 31 December 2022 (continued)**

		<b>31 December 2022 US\$'000</b>	<b>31 December 2021 US\$'000</b>
	<b>Notes</b>		
<b>Shareholders' equity</b>			
Share capital	12	<b>1,212</b>	1,194
Share premium	12 / 13	<b>194,063</b>	193,524
Merger reserve	12 / 13	<b>(20,523)</b>	(20,523)
Foreign exchange translation reserve	13	<b>(11,195)</b>	(7,807)
Share-based payment reserve	13	<b>271</b>	1,197
Accumulated losses		<b>(116,972)</b>	(45,626)
Total equity attributable to the owners of the Company		<b>46,856</b>	<b>121,959</b>
Non-controlling interests	33	<b>(19,854)</b>	5,778
		<b>27,002</b>	<b>127,737</b>

The notes on pages 75 to 126 form an integral part of these Consolidated Financial Statements. The Financial Statements on pages 61 to 126 were approved and authorised for issue by the Board of Directors and signed on its behalf by:



**Louis Loubser**  
**Chief Executive Officer**  
28 July 2023

## Consolidated Statement of Comprehensive Income For the year ended 31 December 2022

	Notes	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
Revenue		-	-
Other income		116	172
Operating expenses	22	(5,808)	(6,503)
<b>Operating loss</b>		<b>(5,692)</b>	<b>(6,331)</b>
Finance income	21	136	480
Finance expense	24	(9,812)	(7,391)
Fair value gain / (loss) from derivative liability	30	10,807	(4,792)
Impairment losses	25	(92,661)	-
Loss on disposal of subsidiary		-	(224)
<b>Loss before taxation</b>		<b>(97,222)</b>	<b>(18,258)</b>
Taxation	26	(602)	-
<b>Loss after taxation</b>		<b>(97,824)</b>	<b>(18,258)</b>
<b>Loss profit attributable to:</b>			
Owners of the Company		(66,639)	(13,787)
Non-controlling interests		(31,185)	(4,471)
		<b>(97,824)</b>	<b>(18,258)</b>
<b>Loss for the year</b>		<b>(97,824)</b>	<b>(18,258)</b>
<b>Other comprehensive income:</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
- Exchange differences on translating foreign operations		(3,246)	(11,184)
<b>Total comprehensive loss</b>		<b>(101,070)</b>	<b>(29,442)</b>
Attributable to:			
Owners of the Company		(70,027)	(23,928)
Non-controlling interests		(31,043)	(5,514)
		<b>(101,070)</b>	<b>(29,442)</b>
<b>Loss per share attributable to owners of the Company:</b>			
Basic and diluted (US cents)	27	(7.23)	(1.80)

**Consolidated Statement of Changes in Equity**  
**For the year ended 31 December 2022**

	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000	Foreign currency translation reserve US\$'000	Share- based payment reserve US\$'000	Retained earnings US\$'000	Total US\$'000	Non- controlling interest US\$'000	Total equity US\$'000
<b>Balance at 1 January 2021</b>	<b>706</b>	<b>168,212</b>	<b>(20,523)</b>	<b>2,334</b>	<b>385</b>	<b>(22,010)</b>	<b>129,104</b>	<b>5,729</b>	<b>134,833</b>
Total comprehensive loss for the year	-	-	-	(10,141)	-	(13,787)	(23,928)	(5,514)	(29,442)
Issue of shares	488	25,312	-	-	-	-	25,800	-	25,800
Disposal of subsidiary	-	-	-	-	-	-	-	181	181
Extinguishment of derivative asset upon equity draw down	-	-	-	-	-	(4,447)	(4,447)	-	(4,447)
Investment in non-redeemable preference shares of Kropz Elandsfontein	-	-	-	-	-	(5,382)	(5,382)	5,382	-
Share based payment charges	-	-	-	-	812	-	812	-	812
<b>Transactions with owners</b>	<b>488</b>	<b>25,312</b>	<b>-</b>	<b>-</b>	<b>812</b>	<b>(9,829)</b>	<b>16,783</b>	<b>5,563</b>	<b>22,346</b>
<b>Balance at 31 December 2021</b>	<b>1,194</b>	<b>193,524</b>	<b>(20,523)</b>	<b>(7,807)</b>	<b>1,197</b>	<b>(45,626)</b>	<b>121,959</b>	<b>5,778</b>	<b>127,737</b>
Total comprehensive loss for the year	-	-	-	(3,388)	-	(66,639)	(70,027)	(31,043)	(101,070)
Issue of shares	18	539	-	-	-	-	557	-	557
Share options exercised	-	-	-	-	(694)	694	-	-	-
Share based payment credit	-	-	-	-	(222)	-	(222)	-	(222)
Lapsed warrants	-	-	-	-	(10)	10	-	-	-
Investment in non-redeemable preference shares of Kropz Elandsfontein	-	-	-	-	-	(5,411)	(5,411)	5,411	-
<b>Transactions with owners</b>	<b>18</b>	<b>539</b>	<b>-</b>	<b>-</b>	<b>(926)</b>	<b>(4,707)</b>	<b>(5,076)</b>	<b>5,411</b>	<b>335</b>
<b>Balance at 31 December 2022</b>	<b>1,212</b>	<b>194,063</b>	<b>(20,523)</b>	<b>(11,195)</b>	<b>271</b>	<b>(116,972)</b>	<b>46,856</b>	<b>(19,854)</b>	<b>27,002</b>

**Consolidated Statement of Cash Flows**  
**For the year ended 31 December 2022**

	Notes	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
<b>Cash flows from operating activities</b>			
Loss before taxation		(97,222)	(18,258)
Adjustments for:			
Depreciation of property, plant and equipment	4	821	904
Amortisation of right-of-use assets	6	5	39
Impairment losses	25	92,661	-
Share-based payment (credit) / charge	12	(222)	812
Finance income	21	(136)	(480)
Finance costs	24	6,496	3,267
Fair value (gain) / loss on derivative liability	30	(10,807)	4,792
Debt modification present value adjustment	24	(233)	(258)
Foreign currency exchange differences		3,550	4,382
Fair value loss / (gain) on game animals	4	21	(51)
<b>Operating cash flows before working capital changes</b>		<b>(5,066)</b>	<b>(4,851)</b>
(Increase) / decrease in trade and other receivables	28	(471)	256
(Increase) / decrease in inventories	28	(3,453)	(291)
(Decrease) / increase in trade and other payables	28	(172)	3,178
<b>Net cash flows used in operating activities</b>		<b>(9,162)</b>	<b>(1,708)</b>
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment	4	(29,215)	(38,553)
Exploration and evaluation expenditure	5	(346)	(3,931)
Disposal of subsidiary		-	5
Other financial asset	28	427	-
Finance income received	21	136	480
Transfer from restricted cash	10	4,727	2,497
<b>Net cash flows used in investing activities</b>		<b>(24,271)</b>	<b>(39,502)</b>
<b>Cash flows from financing activities</b>			
Finance costs paid	24	(2,586)	(2,028)
Shareholder loan received	14	38,727	8,037
Repayment of lease liabilities	15	(6)	(39)
Other financial liabilities	28	(3,712)	54
Issue of ordinary share capital	12	557	25,800
<b>Net cash flows from financing activities</b>		<b>32,980</b>	<b>31,824</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(453)</b>	<b>(9,386)</b>
Cash and cash equivalents at beginning of the year		2,461	11,572
Foreign currency exchange gains / (losses) on cash		112	275
<b>Cash and cash equivalents at end of the year</b>		<b>2,120</b>	<b>2,461</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022

### (1) General information

Kropz is an emerging plant nutrient producer and developer with an advanced stage phosphate mining project in South Africa and an exploration phosphate project in the Republic of Congo ("RoC"). The principal activity of the Company is that of a holding company for the Group, as well as performing all administrative, corporate finance, strategic and governance functions of the Group.

The Company was incorporated on 10 January 2018 and is a public limited company, with its ordinary shares admitted to the AIM Market of the London Stock Exchange on 30 November 2018 trading under the symbol, "KRPZ". The Company is domiciled in England and incorporated and registered in England and Wales. The address of its registered office is 35 Verulam Road, Hitchin, SG5 1QE. The registered number of the Company is 11143400.

### (2) Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied unless otherwise stated.

#### (a) Basis of preparation

The Consolidated Financial Statements of the Company have been prepared in accordance with UK adopted international accounting standards and the Companies Act 2006 applicable to companies reporting under IFRS. The Consolidated Financial Statements have been prepared under the historical cost convention, as modified for any financial assets, financial liabilities and game animals which are stated at fair value through profit or loss. The Consolidated Financial Statements are presented in United States Dollars, the presentation currency of the Company and figures have been rounded to the nearest thousand.

#### *Going concern*

During the year ended 31 December 2022, the Group incurred a loss of US\$ 97.8 million (2021: US\$ 18.3 million) after impairment losses and experienced net cash outflows from operating activities. Cash and cash equivalents totalled US\$ 2.1 million as at 31 December 2022 (2021: US\$ 2.5 million).

Elandsfontein is currently the Group's only source of operating revenue. As Elandsfontein is still busy ramping up its operations an operating loss is therefore also expected in the year following the date of these accounts. The Group is consequently dependent on future fundraisings to meet any production costs, overheads, future development and exploration requirements and quarterly repayments on the BNP loan that cannot be met from existing cash resources and sales revenue.

The Company did not reach project completion as stipulated in the BNP facility agreement by 31 December 2022. Considering the delay in achieving sales, the Company also failed to fund the debt service reserve account as required. BNP have, to date, waived these requirements, preventing the Company from falling in default of its loan terms, by means of several waivers since December 2022 to 30 September 2023.

At the end of the waiver period, the bank has the contractual right to request the immediate repayment of the outstanding loan amount of US\$ 18,750,000. Management is in the process of refinancing the loan and expects that a replacement loan will be in place in the third quarter of 2023.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### *Operational cash flows and impairment loss*

An impairment loss of US\$ 92.7 million has been recognised as at 31 December 2022 in relation to the Elandsfontein mine based on the 5-year forecast and the latest life of mine (LOM) plans following the downgrade of the resource per an updated MRE as announced on 10 January 2023 and set out in the Strategic report. Please refer to Note 25 for some key assumptions and sensitivity analysis. The recoverable amount of the Elandsfontein mine was estimated based on discounted cashflows expected to be generated from the continued use of the cash generating unit (CGU) using market-based commodity prices and exchange rate assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements and its eventual disposal based on the CGU's 5 year and latest LOM plans. These calculations include a number of estimates which if the actual outcome were different could have a significant impact on the financial outcome of the Elandsfontein mine operations and the Group's funding needs.

The going concern assessment was performed using the Group's 18-month forecast. The Group's going concern and forecast cash flows are largely driven by Elandsfontein, as the Group's only operating asset. Elandsfontein's forecast cashflows are based on its updated mine plan, considering the downgrade of the resource per an updated MRE as announced on 10 January 2023 and set out in the Strategic report and utilises the model which was used for impairment purposes. Please refer to Note 25 for some key assumptions and sensitivity analysis.

Elandsfontein's forecast cashflows were estimated using market-based commodity prices, exchange rate assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements over an 18-month period. As with the impairment assessment, the going concern assessment only considered Elandsfontein's resources defined as "measured" and "indicated" per the updated MRE. The resource classified as "inferred" was not considered part of the mine plan for purposes of the going concern and impairment assessments.

The forecast cashflows include a number of estimates which if the actual outcome were different could have a significant impact on the financial outcome of the Elandsfontein mine operations and the Group's funding needs.

The 18-month forecast assumes the refinancing of the BNP loan facility in September 2023.

The critical estimates in the LOM plan and forecast cashflows expected to be generated are as follows:

- Phosphate rock prices and grade;
- Phosphate recoveries;
- Operating costs;
- Foreign exchange rates; and
- Discount rates.

The going concern assessment and forecast cashflows are highly sensitive to these estimates.

*Phosphate rock prices and grade:* Forecast phosphate rock prices are based on management's estimates of quality of production and selling price and are derived from forward price curves and long-term views of global supply and demand in a changing environment, particularly with respect to climate risk, building on past experience of the industry and consistent with external sources.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

The first bulk shipment and sale of 33,000 tonnes of phosphate concentrate from Kropz Elandsfontein occurred in January 2023. A second shipment and sale of 20,000 tonnes of phosphate concentrate from Kropz Elandsfontein was recorded 14 March 2023. During April 2023 two bulk sales were achieved of 33,000 tonnes and 11,000 tonnes respectively. A further sale of 33,000 tonnes was recorded in June 2023.

Kropz is a new entrant to the phosphate market and has to date sold its shipments at a discount to market prices as it firstly establishes itself in the market and secondly works to improve its product grade.

In relation to pricing the most significant judgement in the LOM plan and cashflow forecast is that Kropz will be able to obtain the market price for its 31% P<sub>2</sub>O<sub>5</sub> phosphate concentrate for all shipments from beginning of 2024. The cashflow model assumes a discount to the prevailing market price for 31% P<sub>2</sub>O<sub>5</sub> phosphate concentrate for the period up to April 2023 largely due to variability in the grade of Elandsfontein's product being produced during its ramp-up phase and considering that Elandsfontein is a new market entrant. The ability to achieve market rates on sales is largely dependent on Elandsfontein's ability to consistently produce 31% P<sub>2</sub>O<sub>5</sub> concentrate. Failing this, the Group may continue to suffer a discount to market rates. Estimated phosphate rock prices that have been used to estimate future revenues in the LOM are as follows:

Assumptions	2023	2024	Long term (2025+)
Phosphate rock per tonne	\$140	\$159	\$164

*Phosphate recoveries:* The production volumes incorporated into the LOM model were 2.8 million tonnes of phosphate rock. Estimated production volumes are based on detailed LOM plans of the measured and indicated resource as defined in the MRE, and take into account development plans for the mine agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as: the recoverable quantities; the production profile; the cost of the development of the infrastructure necessary to extract the reserves; the production costs; the contractual duration of mining rights; and the selling price of the commodities extracted.

Estimated production volumes have been used to estimate future revenues. Such estimates made within the impairment assessment are subject to significant uncertainty given the ongoing ramp up, and production volumes achieved subsequent to the year end have been lower than expected.

There was a delay in ramp-up largely driven by the need to re-engineer parts of the fine flotation circuit proposed by the vendor, but it has also been affected by early unpredicted ore variability and lack of operator experience. Mining rates and associated delivery of ore to the plant were also compromised due to the presence of competent banks of hard material within the orebody, that were previously unknown. This hardbank material could, at the time, not be mined with the available equipment on site, resulting in mining delays while the required equipment for mechanical breaking could be brought to site.

Subsequently the vendor has provided design changes which were implemented at the plant, additional operator training was conducted and a mobile crusher implemented in the interim to facilitate the crushing of the affected ore to an appropriate size fraction until further test work has been conducted for a permanent solution. Several alternatives to deal with the indurated material in the pit were investigated, and new equipment has arrived on site to improve the mining efficiency and facilitate adequate feed to the plant.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

Post year-end, Elandsfontein has produced 100,000 tonnes from January 2023 to June 2023. Given the slower actual ramp-up compared to the LOM plan, the forecast cashflow assumes that production will ramp up to an average of 34,000 tonnes per month in 2H 2023. With the ramp-up of the Elandsfontein mine still underway and the challenges experienced to date, it is uncertain whether these production volumes will be achieved.

*Reserves and resources:* The LOM plan includes only the measured and indicated resources as defined in the MRE which represents only around 4 years of forecast production. There was a significant reduction in the measured and indicated resource in the MRE issued in December 2022 as set out in the Strategic report. The Directors believe that the inferred resources in the MRE are capable of being accessed giving a mine life of around 15 years, but this has not been taken into account in the discounted cashflows.

*Exchange rates:* Foreign exchange rates are estimated with reference to external market forecasts. The assumed long-term US dollar/ZAR exchange rate over LOM is estimated to be ZAR19/USD and for the forecast cashflows to be ZAR18.50/USD.

*Operating cost:* Operating costs are estimated with reference to contractual and actual current costs adjusted for inflation. Key operating cost estimates are mine and plant operating costs and transportation and port costs.

*Mine and plant operating costs:* The forecast mine and plant costs were based on the contracted rates with the current mine and plant operators.

*Port costs:* The Group has a draft port access agreement with Transnet for Saldanha port but this has not yet been signed. The Group has paid guest port charges for Saldanha for the shipments in 2023 to date, which are higher than the assumed port cost in the LOM model but in line with the draft agreement with Transnet.

*Transportation costs:* Transnet has informed the Group that it may have to export some shipments through Cape Town in 2023 and 2024 which would lead to higher transportation cost to Cape Town. The transportation costs in the discounted cashflows assume that 10% of 2023 and 2024 shipments are through Cape Town at the higher logistic cost.

As production is still ramping up and the port access agreement with Transnet has not yet been signed, the actual operating costs may be higher than the estimates in the discounted cash flows.

*Discount rates:* A discount rate of 12.59% was applied to the discounted cash flows used in the LOM plan. This discount rate is derived from the Group's post-tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings the Group is obliged to service. Specific risk is incorporated by applying beta factors. The beta factors are evaluated annually based on publicly available market data.

There is a risk that revenue is lower and operating costs are higher than the estimates included in the discounted cashflows with the result that the recoverable amount from the Elandsfontein mine is lower than the discounted cashflows. Please also see Note 25 Impairment losses for sensitivity analysis.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### *Funding*

The Group is consequently dependent on future fundraisings to meet any production costs, overheads, future development and exploration requirements and quarterly repayments on the BNP loan that cannot be met from existing cash resources and sales revenue.

ARC Fund, on various occasions in the past provided funding to support the Group's operations. In May 2022, Kropz secured a further ZAR equity facility of up to ZAR 177 million from ARC Fund to be used exclusively for the purposes of bringing the Elandsfontein project to first revenues, given a slower ramp-up in operations than originally envisaged. More recently, as announced on 14 March 2023, Kropz, Kropz Elandsfontein and the ARC Fund agreed to further ZAR 285 million (approximately US\$ 15.5 million) bridge loan facilities to meet immediate cash requirements at Kropz Elandsfontein. A first draw down of ZAR 25 million (approximately US\$ 1.4 million) on this was made on 14 March 2023. The loan is unsecured, repayable on demand, with no fixed repayment terms and is repayable by Kropz Elandsfontein on no less than two business days' notice. Interest is payable at the South African prime overdraft interest rate plus 6%, nominal per annum and compounded monthly. A second draw down for an amount of ZAR 90 million was made on 28 March 2023 and a third drawdown of ZAR 30 million was made on 25 April 2023. A fourth drawdown of ZAR 80 million was made on 23 June 2023 for Kropz Elandsfontein to be able to service its quarterly payment of interest and capital to BNP Paribas. ZAR 60 million remains undrawn at the date of this report. Given that BNP Paribas is exiting South Africa, the Group was unable to refinance the existing loan with them. Considering their position, BNP has been supportive of the refinancing strategy and has waived the requirement on the Company to reach project completion at Elandsfontein as well as to fund the debt service reserve account consecutively since December 2022 to 30 September 2023. Kropz Elandsfontein has made all the capital and interest payments to BNP as required to the date of this report.

A further funding shortfall is expected in the year subsequent to the date of these accounts and as a result the Group will need to raise funding to provide additional working capital to finance its ongoing activities.

Management has successfully raised money in the past from its supportive major shareholder, but there is no guarantee that adequate funds will be available if needed in the future. Management has confirmed with ARC and have sufficient comfort that they have no intention to call any outstanding loans over the next 12-months for cash repayment. Management engages frequently with BNP regarding the capital repayment and refinancing of the BNP debt facility. Significant progress has been made with the refinancing of the BNP loan facility and Management, at the date of this report, are in advance discussions with several investors to provide the required funding to repay the BNP debt facility.

### *Going concern basis*

Based on the Group's current available reserves, recent operational performance, forecast production and sales coupled with Management's track record to successfully raise additional funds as and when required, to meet its working capital and capital expenditure requirements, the Board have concluded that they have a reasonable expectation that the Group will continue in operational existence for the foreseeable future and at least to December 2024.

For these reasons, the financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As there can be no guarantee that the required future funding can be raised in the necessary timeframe, a material uncertainty exists that may cast significant doubt on the Group's ability to

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

### *Functional and presentational currencies*

The Consolidated Financial Statements are presented in US Dollars.

The functional currency of Kropz plc is Pounds Sterling and its presentation currency is US Dollars, due to the fact that US Dollars is the recognised reporting currency for most listed mining resource companies on AIM.

The functional currency of Kropz SA and its subsidiaries (as shown below) is South African Rand, being the currency in which the majority of the companies' transactions are denominated.

The functional currencies of Cominco Resources and its subsidiaries are Euros, Pounds Sterling and Central African Francs being the currency in which the majority of the companies' transactions are denominated. Its presentation currency is US Dollars.

The functional and presentation currency of First Gear was US Dollars.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction.

At the end of each financial year, monetary items denominated in foreign currencies are retranslated at the rates prevailing as of the end of the financial year. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to satisfy the requirements of IAS 21 with respect to presentation currency, the consolidated financial statements have been translated into US Dollars using the procedures outlined below:

- Assets and liabilities where the functional currency is other than US Dollars were translated into US Dollars at the relevant closing rates of exchange;
- Non-US Dollar trading results were translated into US Dollars at the relevant average rates of exchange;
- Differences arising from the retranslation of the opening net assets and the results for the period have been taken to the foreign currency translation reserve; and

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

- Share capital has been translated at the historical rates prevailing at the dates of transactions; and
- Exchange differences arising on the net investment in subsidiaries are recognised in other comprehensive income.

### *Changes in accounting policies*

- (i) New standards, interpretations and amendments adopted from 1 January 2022

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment; Proceeds before Intended use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

The Group has considered the above new standards and amendments and has concluded that, with the exception of IAS 16 which is relevant to the Group as it generated sales, they are either not relevant to the Group or they do not have a significant impact on the Group's consolidated financial statements.

### *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)*

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced during the testing phase of a plant after it is being constructed but before start of commercial production). The proceeds from selling such samples, together with the costs of producing them, were recognised in profit or loss as other income in accordance with the amended standard.

- (ii) New standards, interpretations and amendments not yet effective

At the date of authorisation of these consolidated Group financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective. Management are currently assessing the impact of these new standards on the Group. With the exception of IAS 1 presentation of financial statements (amendment – classification of liabilities as current or non-current), the Group does not believe that the amendments will have a significant impact.

The following amendments are effective for the period beginning 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The following amendments are effective for the period beginning 1 January 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback);
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current); and

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants).

On implementation of IAS 1 presentation of financial statements (amendment – classification of liabilities as current or non-current), the Group will present its convertible loan liabilities as current liabilities as opposed to non-current liabilities which is the presentation in these financial statements.

### **(b) Basis of consolidation**

The Consolidated Financial Statements comprise the financial statements of the subsidiaries listed in Note 3.

A subsidiary is defined as an entity over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

- a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- b) Exposure, or rights, to variable returns from its involvement with the investee; and
- c) The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. When the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

### **Accounting for asset acquisition within a corporate structure**

Acquisitions of mineral assets through acquisition of non-operational corporate structures that do not represent a business, and therefore do not meet the definition of a business combination, are accounted for as the acquisition of an asset and recognised at the fair value of the consideration.

### **Non-controlling interests**

The Group initially recognised any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets. The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests. The benefit accruing to the non-

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

controlling interests arising from their proportionate share of the portion of the non-redeemable and non-participating preference share investment by Kropz plc into Kropz Elandsfontein is attributed to the non-controlling interests in proportion to their relative ownership interests.

### **Merger relief**

The issue of shares by the Company is accounted for at the fair value of the consideration received. Any excess over the nominal value of the shares issued is credited to the share premium account other than in a business combination where the consideration for shares in another company includes the issue of shares, and on completion of the transaction, the Company has secured at least a 90% equity holding in the other company. In such circumstances the credit is applied to the merger relief reserve. In the case of the Company's acquisition of Cominco Resources, where shares were acquired on a share for share basis, then merger relief has been applied to those shares issued in exchange for shares in Cominco Resources.

### **(c) Property, plant, equipment and mine development**

Property, plant, equipment and mine development includes buildings and infrastructure, machinery, plant and equipment, site preparation and development and essential spare parts that are held to minimise delays arising from plant breakdowns, that are expected to be used during more than one period.

Assets that are in the process of being constructed are measured at cost less accumulated impairment and are not depreciated. All other classes of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. Land is depreciated over the life of the mine.

Historical cost includes expenditure that is directly attributable to the acquisition of the items, including:

- The estimated costs of decommissioning the assets and site rehabilitation costs to the extent that they related to the asset;
- Capitalised borrowing costs;
- Capitalised pre-production expenditure; and
- Topsoil and overburden stripping costs.

The cost of items of property, plant and equipment are capitalised into its various components where the useful life of the components differs from the main item of property, plant and equipment to which the component can be logically assigned. Expenditure incurred to replace a significant component of property, plant and equipment is capitalised and any remaining carrying value of the component replaced is written off as an expense in the income statement.

Direct costs incurred on major projects during the period of development or construction are capitalised. Subsequent expenditure on property, plant and equipment is capitalised only when the expenditure enhances the value or output of the asset beyond original expectations, it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Costs incurred on repairing and maintaining assets are recognised in the income statement in the period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### Depreciation

All items of property, plant and equipment are depreciated on either a straight-line method or unit of production method at cost less estimated residual values over their useful lives as follows:

Item	Depreciation method	Average useful life
<b>Buildings and infrastructure</b>		
Buildings	Units of production	Life of mine*
Roads	Straight-line	15 years
Electrical sub-station	Straight-line	15 years
<b>Machinery, Plant and Equipment</b>		
Fixed plant and equipment	Units of production	Life of mine*
Water treatment plant	Units of production	Life of mine*
Critical spare parts	Straight-line	2-15 years
Furniture and fittings	Straight-line	6 years
Motor vehicles	Straight-line	5 years
Computer equipment	Straight-line	3 years
<b>Mineral exploration site preparation</b>	Units of production	Life of mine*
<b>Stripping activity</b>	Units of production	Life of mine*

\* Depreciation of mining assets is computed principally by the units-of-production method over life-of-identified ore based on estimated quantities of economically recoverable proved and probable reserves, which can be recovered in future from known mineral deposits.

### Useful lives and residual values

The asset's useful lives and residual values are reviewed and adjusted if appropriate, at each reporting date.

### Stripping activity asset

The costs of stripping activity which provides a benefit in the form of improved access to ore is capitalised as a non-current asset until ore is exposed where the following criteria are met:

- it is probable that future economic benefit in the form of improved access to the ore body will flow to the entity;
- the component of the ore body for which access has been improved can be identified; and
- the cost of the stripping activity can be reliably measured.

The stripping activity is initially measured at cost and subsequently carried at cost less depreciation and impairment losses.

### (d) Mineral exploration and evaluation costs

All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are written off as incurred. Following the granting of a prospecting right, general administration and overhead costs directly attributable to exploration and evaluation

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

activities are expensed and all other costs are capitalised and recorded at cost on initial recognition.

The following expenditures are included in the initial and subsequent measurement of the exploration and evaluation assets:

- Acquisition of rights to explore;
- Topographical, geological, geochemical or geographical studies;
- Exploratory drilling;
- Trenching;
- Sampling;
- Activities in relation to the evaluation of both the technical feasibility and the commercial viability of extracting minerals;
- Exploration staff related costs; and
- Equipment and infrastructure.

Exploration and evaluation costs that have been capitalised are classified as either tangible or intangible according to the nature of the assets acquired and this classification is consistently applied.

If commercial reserves are developed, the related deferred exploration and evaluation costs are then reclassified as development and production assets within property, plant and equipment.

All capitalised exploration and evaluation expenditure is monitored for indications of impairment in accordance with IFRS 6.

### (e) Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

#### Identifying Leases

The Group accounts for a contract, or a portion of a contract, as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:

- (a) There is an identified asset;
- (b) The Group obtains substantially all the economic benefits from use of the asset; and
- (c) The Group has the right to direct use of the asset.

The Group considers whether the supplier has substantive substitution rights. If the supplier does have those rights, the contract is not identified as giving rise to a lease.

In determining whether the Group obtains substantially all the economic benefits from use of the asset, the Group considers only the economic benefits that arise from use of the asset, not those incidental to legal ownership or other potential benefits.

In determining whether the Group has the right to direct use of the asset, the Group considers whether it directs how and for what purpose the asset is used throughout the period of use. If

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Group considers whether it was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Group applies other applicable IFRSs rather than IFRS 16.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used.

The discount rate is the rate implicit in the lease, if readily determinable. If not, the Company's incremental borrowing rate is used which the Company has assessed to be 7.22%, being an average SOFR plus 3%, being an appropriate level of risk to the risk-free rate of borrowing.

Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### (f) Game animals

Game animals are wild animals that occur on the farm properties owned by the Group. The animals are owned by Elandsfontein Land Holdings and held within the approximately 5,000 hectares of farmland owned by Elandsfontein Land Holdings. The property is appropriately fenced with game specific fencing. These animals are managed in terms of a game management plan and excess animals are either sold as live animals or harvested as and when required based on estimated stocking levels and vegetation conditions. Law in South Africa specifies that wild animals are the property of the owner of the land that they occupy.

Game animals are measured at their fair value less estimated point-of-sale costs, fair value being determined upon the age and size of the animals and relevant market prices. Market price is determined on the basis that the animal is either to be sold to be slaughtered or realised through sale to customers at fair market value.

Fair market value of game animals is determined by using average live game animal selling prices achieved at live game animal auctions during the relevant year and published from time to time on game animal auctioneering websites.

### (g) Financial instruments

#### ***Classification and measurement***

The Group classifies its financial instruments into the following categories:

- Financial assets measured at amortised cost;
- Financial assets measured at fair value through profit and loss;
- Financial liabilities measured at amortised cost; and
- Derivative financial instruments accounted for at fair value through profit and loss.

Classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of financial assets at initial recognition. Generally, the Group does not acquire financial assets for the purpose of selling in the short term. The Group's business model is primarily that of "hold to collect" (where assets are held in order to collect contractual cash flows).

#### ***Financial assets held at amortised cost***

This classification applies to debt instruments which are held under a hold to collect business model and which have cash flows that meet the "solely payments of principal and interest" ("SPPI") criteria.

At initial recognition, trade and other receivables that do not have a significant financing component are recognised at their transaction price. Other financial assets are initially recognised at fair value plus related transaction costs. They are subsequently measured at amortised cost using the effective interest method. Any gain or loss on de-recognition or modification of a financial asset held at amortised cost is recognised in the income statement.

#### ***Financial assets and liabilities held at fair value through profit or loss***

Financial assets and liabilities at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit

## **Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)**

or loss. Assets and liabilities in this category are classified as current if they are expected to be settled within twelve months, otherwise they are classified as non-current.

Call options in the Company's own equity are recorded at fair value and change in fair value recorded through income statement.

Undrawn facilities with a conversion option, for which the terms give rise to a derivative, are revalued for changes in the share price prior to draw down with a resulting loss for revaluation booked to Profit and Loss and the remaining receivable extinguished through equity based on the relative draw down percentage of undrawn facilities at each reporting period.

### ***Impairment of financial assets***

A forward-looking expected credit loss ("ECL") review is required for debt instruments measured at amortised cost or held at fair value through other comprehensive income, financial guarantees not measured at fair value through profit or loss and other receivables that give rise to an unconditional right to consideration.

As permitted by IFRS 9, the Group applies the "simplified approach" to trade receivables, contract assets and lease receivables and the "general approach" to all other financial assets. The general approach incorporates a review for any significant increase in counterparty credit risk since inception. The ECL reviews include assumptions about the risk of default and expected loss rates.

### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are classified as financial assets at amortised cost.

### ***Trade and other payables***

Trade and other payables are classified as financial liabilities at amortised cost.

### ***Interest bearing borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

### ***Modification of debt instruments***

When the contractual terms of a financial liability are substantially modified, it is accounted for as an extinguishment of the original debt instrument and the recognition of a new financial liability. The new debt instrument is recorded at fair value and any difference from the carrying amount of

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

the extinguished liability, including any non-cash consideration transferred, is recorded in profit or loss. Any costs or fees incurred are generally included in profit or loss, too.

If a modification to the terms of a financial liability is not substantial, then the amortised cost of the liability is recalculated as the present value of the estimated future contractual cash flows, discounted at the original effective interest rate. The resulting gains or losses are recognised in profit or loss. Any costs or fees incurred adjust the carrying amount of the modified financial liability and are amortised over its term. The periodic re-estimation of cash flows to reflect movements in market rates of interest will change the effective interest rate of a floating-rate financial liability.

To determine whether a modification of terms is substantial, the Company performs a quantitative assessment. If the difference in the present values of the cash flows is less than 10 percent, then the Company performs a qualitative assessment to identify substantial differences in terms that by their nature are not captured by the quantitative assessment. Performing a qualitative assessment may require a high degree of judgement based on the facts and circumstances.

### (h) Taxation

#### ***Current tax assets and liabilities***

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

#### ***Deferred tax assets and liabilities***

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit and differences relating to investments in subsidiaries to the extent they are controlled and probably will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### ***Tax expense***

Tax expense is recognised in the same component of total comprehensive income (i.e. continuing operations, discontinued operations, or other comprehensive income) or equity as the transaction or other event that resulted in the tax expense.

### **(s) Impairment of non-financial assets**

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit ('CGU') is the higher of its fair value less costs to of disposal ('FVLCD') and its value in use ('VIU').

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss, of assets carried at cost less any accumulated depreciation or amortisation, is recognised immediately in profit or loss.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

### **(j) Inventories**

Inventories are measured at the lower of cost and net realisable value.

Plant spares and consumables stores are capitalised to the balance sheet and expensed to the income statement as they are utilised.

Spares and consumables are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method.

Obsolete, redundant and slow-moving items of spares and consumables are identified on a regular basis and written down to their net realisable value.

Inventories are included in current assets, unless the inventory will not be used within 12 months after the end of the reporting period.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### (k) Provisions and contingencies

#### *Environmental rehabilitation*

The provision for environmental rehabilitation is recognised as and when an obligation to incur rehabilitation and mine closure costs arises from environmental disturbance caused by the development or ongoing production of a mining property. Estimated long-term environmental rehabilitation provisions are measured based on the Group's environmental policy taking into account current technological, environmental and regulatory requirements. Any subsequent changes to the carrying amount of the provision resulting from changes to the assumptions as to the timing of the rehabilitation applied in estimating the obligation are recognised in property, plant and equipment.

The provisions are based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the reporting date, using the risk-free rate and the risk adjusted cash flows that reflect current market assessments and the risks specific to the provisions. Increases due to the additional environmental disturbances are capitalised and amortised over the remaining life of the mine.

#### *Decommissioning provision*

The estimated present value of costs relating to the future decommissioning of plant or other site preparation work, taking into account current environmental and regulatory requirements, is capitalised as part of property, plant and equipment, to the extent that it relates to the construction of an asset, and the related provisions are raised in the statement of financial position, as soon as the obligation to incur such costs arises.

These estimates are reviewed at least annually and changes in the measurement of the provision that result from the subsequent changes in the timing of costs and the risk-free rate, are added to, or deducted from, the cost of the related asset in the current period. Other changes are charged to profit or loss. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy on impairment of non-financial assets above.

### (l) Share capital and equity

Ordinary shares are classified as equity and are recorded at the proceeds received net of issue costs.

### (m) Convertible debt

The proceeds received on issue of the Group's convertible debt which fail the fixed-for-fixed criterion under IFRS are allocated into their liability and derivative liability components. The derivative liability is measured at fair value with subsequent changes recognised in profit or loss. The debt component is accounted for as a financial liability measured at amortised cost until extinguished on conversion or maturity of the debt.

### (n) Borrowing costs

Interest on borrowings directly related to the financing of qualifying capital projects under development is added to the capitalised cost of those projects during the development phase,

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

until such time as the assets are substantially ready for their intended use or sale which, in the case of mining properties, is when they are capable of commercial production. Where funds have been borrowed specifically to finance the project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project forming part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

Qualifying assets are assets that necessarily take a substantial period of time (more than 12 months) to get ready for their intended use or sale. Borrowing costs are added to the cost of these assets, until the assets are substantially ready for their intended use or sale.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### **(o) Employee benefits**

The cost of short-term employee benefits, such as leave pay and sick leave, bonuses, and non-monetary benefits such as medical care, are recognised in the period in which the service is rendered and are not discounted.

### **(p) Intangible assets**

All intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses.

### **(q) Finance income**

Interest income is recognised as other income on an accruals basis based on the effective yield on the investment.

### **(r) Share-based payment arrangements**

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Equity-settled share based payments to non-employees are measured at the fair value of services received, or if this cannot be measured, at the fair value of the equity instruments granted at the date that the Group obtains the goods or counterparty renders the service.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

Where there are no vesting conditions, the expense and equity reserve arising from share-based payment transactions is recognised in full immediately on grant.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the Directors' Report and Note 12 to the Consolidated Financial Statements.

### **(s) Critical accounting estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

#### *(i) Exploration and evaluation assets (Note 5)*

The application of the Group's accounting policy for exploration and evaluation assets requires judgement in determining whether it is likely that costs incurred will be recovered through successful development or sale of the asset under review when assessing impairment. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalised, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalised is written off in the net profit or loss in the period when the new information becomes available. In situations where indicators of impairment are present for the Group's exploration and evaluation assets, estimates of recoverable amount must be determined as the higher of the estimated VIU or the estimated FVLCD.

#### *(ii) Functional currency*

The Group transacts in multiple currencies. The assessment of the functional currency of each entity within the consolidated Group involves the use of judgement in determining the primary economic environment each entity operates in. The Group first considers the currency that mainly influences sales prices for goods and services, and the currency that mainly influences labour, material and other costs of providing goods or services. In determining functional currency, the Group also considers the currency from which funds from financing activities are generated, and the currency in which receipts from operating activities are usually retained. See Note 31 for sensitivity analysis of foreign exchange risk.

#### *(iii) Decommissioning and rehabilitation provisions (Note 17)*

Quantifying the future costs of these obligations is complex and requires various estimates and judgements to be made, as well as interpretations of and decisions regarding regulatory requirements, particularly with respect to the degree of rehabilitation required, with reference to the sensitivity of the environmental area surrounding the sites. Consequently, the guidelines issued for quantifying the future rehabilitation cost of a site, as issued by the South African Department of Mineral Resources, have been used to estimate future rehabilitation costs. The Group appointed

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

Braaf Environmental Practitioners to conduct an independent specialist update of the decommissioning and rehabilitation provision.

### (iv) *Other financial assets*

The Group has given guarantees to a number of third parties as described in Note 7 and lodged funds as security.

The amounts are recoverable subject to satisfactory performance of certain conditions which requires judgement as to the likelihood of the return of such guarantees. At the balance sheet date the Directors make judgements on the amounts expected to be returned and consider that all amounts are recoverable.

### (v) *Taxation*

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Management's judgement is that due to the mine not being at steady state production it is premature to recognise a deferred tax asset for the accumulated tax losses.

### (vi) *Fair value of financial instruments*

The judgements and estimates made by the Group in determining the fair values of the financial instruments are described in Note 14 and 30 to the Consolidated Financial Statements.

### (vii) *Impairment indicator assessment*

The Group reviews and tests the carrying value of assets when events or changes in circumstances ("impairment indicators") suggest that the carrying amount may not be recoverable. At 31 December 2022 an impairment indicator assessment was performed and impairment charge of US\$ 93 million recorded (refer to Note 25). As part of the impairment indicator assessment, management evaluate the life of mine plan discounted cash flow model. These calculations require the use of estimates and assumptions. The key estimates made include discount rates, being the Group's weighted average cost of capital, future prices of phosphate rock, mine production levels and foreign currency exchange rates.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### (t) Key sources of estimation uncertainty

#### *Property, plant and equipment*

The depreciable amount of property, plant and equipment is allocated on a systematic basis over its useful life. In determining the depreciable amount management makes certain assumptions with regard to the residual value of assets based on the expected estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. If an asset is expected to be abandoned the residual value is estimated at zero.

In determining the useful lives of property, plant and equipment that is depreciated, management considers the expected usage of assets, expected physical wear and tear, legal or similar limits of assets such as mineral rights as well as obsolescence.

This estimate is further impacted by management's best estimation of proved and probable phosphate ore reserves and the expected future life of each of the mines within the Group. The forecast production could be different from the actual phosphate mined. This would generally result from significant changes in the factors or assumptions used in estimating phosphate reserves. These factors include:

- changes in proved and probable ore reserves;
- differences between achieved ore prices and assumptions;
- adverse movements in foreign exchange;
- unforeseen operational issues at mine sites; and
- changes in capital, operating, mining, processing, reclamation and logistics costs, discount rates and foreign exchange rates.

Any change in management's estimate of the useful lives and residual values of assets would impact the depreciation charge. Any change in management's estimate of the total expected future life of each of the mines would impact the depreciation charge as well as the estimated rehabilitation and decommissioning provisions.

In determining the FVLCD for purposes of the impairment consideration, the value is most sensitive to the following assumptions:

- Phosphate rock prices;
- Phosphate recoveries;
- Foreign exchange rates;
- Operating costs.

Refer to Note 25 for further details.

#### *Life of mine*

Life of mine is defined as the remaining years of production, based on proposed production rates and ore reserves and will be assessed as soon as additional exploration drilling has been performed and further reserves proven based on additional test results.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### *Fair value of derivative instruments*

Information about the specific techniques, assumptions and inputs is disclosed in Note 14 and 30 to the Consolidated Financial Statements. The key estimates associated with the fair value of the derivative liability include volatility and the assumptions regarding conversion timing.

### (3) Subsidiaries of the Group

The subsidiaries of the Group, all of which are private companies limited by shares, as at 31 December 2022, are as follows:

Company	Country of Registration or Incorporation	Registered Office	Principal Activity	Percentage of ordinary shares held by Company
Kropz SA (Pty) Limited	South Africa	Unit 213, The Hills Buchanan Square 160 Sir Lowry Road Woodstock	Intermediate holding company	100%
Elandsfontein Land Holdings (Pty) Ltd	South Africa	Cape Town 8001 South Africa	Property owner	70% *
Kropz Elandsfontein (Pty) Ltd	South Africa		Phosphate exploration and mining	74% **
West Coast Fertilisers (Pty) Ltd	South Africa		Phosphoric acid production	70%
Xsando (Pty) Ltd	South Africa		Sand sales	70%
Cominco Resources Limited	BVI	Woodbourne Hall, PO Box 3162, Road Town, Tortola, British Virgin Islands	Intermediate holding company	100%
Cominco S.A.	RoC		Development	100% ***
Cominco Resources (UK) Ltd	England and Wales		Service company	100% ***

\* 46.67% held indirectly

\*\* 38.18% held indirectly

\*\*\* held indirectly

The accounting reference date of each of the subsidiaries is coterminous with that of the Company.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### (4) Tangible assets – Property, plant, equipment and mine development

	31 Dec 2022	31 Dec 2022	31 Dec 2022	31 Dec 2021	31 Dec 2021	31 Dec 2021
	Cost US\$'000	Accumulated Depreciation and Impairment US\$'000	Carrying value US\$'000	Cost US\$'000	Accumulated Depreciation US\$'000	Carrying value US\$'000
<b>Buildings and infrastructure</b>						
Land	1,418	(795)	623	1,515	-	1,515
Buildings	9,840	(5,597)	4,243	10,514	(56)	10,458
Capitalised road costs	7,600	(5,709)	1,891	8,121	(2,978)	5,143
Capitalised electrical sub-station costs	3,297	(2,445)	852	3,523	(1,213)	2,310
<b>Machinery, plant and equipment</b>						
Critical spare parts	1,786	(1,002)	784	1,713	-	1,713
Plant and machinery	95,061	(53,486)	41,575	86,243	(63)	86,180
Water treatment plant	2,333	(1,308)	1,025	2,435	-	2,435
Furniture and fittings	56	(41)	15	49	(40)	9
Geological equipment	79	(48)	31	65	(45)	20
Office equipment	30	(28)	2	32	(21)	11
Other fixed assets	1	(1)	-	1	(1)	-
Motor vehicles	93	(93)	-	100	(100)	-
Computer equipment	79	(45)	34	65	(41)	24
<b>Mine development</b>	17,724	(9,788)	7,936	18,938	-	18,938
<b>Stripping activity costs</b>	22,257	(12,485)	9,772	6,126	-	6,126
<b>Game animals</b>	182	-	182	217	-	217
<b>Total</b>	<b>161,836</b>	<b>(92,871)</b>	<b>68,965</b>	<b>139,657</b>	<b>(4,558)</b>	<b>135,099</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### Reconciliation of property, plant, equipment and mine development – Year ended 31 December 2022

	Opening Balance US\$'000	Additions US\$'000	Fair value loss US\$'000	Impair- ment* US\$'000	Depreciation charge US\$'000	Foreign exchange loss US\$'000	Closing balance US\$'000
<b>Buildings and infrastructure</b>							
Land	1,515	-	-	(795)	-	(97)	623
Buildings	10,458	-	-	(5,747)	(33)	(435)	4,243
Capitalised road costs	5,143	-	-	(2,522)	(527)	(203)	1,891
Capitalised electrical sub-station costs	2,310	-	-	(1,137)	(229)	(92)	852
<b>Machinery, plant and equipment</b>							
Critical spare parts	1,713	190	-	(1,046)	-	(73)	784
Plant and machinery	86,180	14,911	-	(55,775)	(1)	(3,740)	41,575
Water treatment plant	2,435	56	-	(1,366)	-	(100)	1,025
Furniture and fittings	9	10	-	-	(4)	-	15
Geological equipment	20	18	-	-	(6)	(1)	31
Office equipment	11	-	-	-	(9)	-	2
Other fixed assets	-	-	-	-	-	-	-
Motor vehicles	-	-	-	-	-	-	-
Computer equipment	24	24	-	-	(12)	(2)	34
<b>Mine development</b>	18,938	-	-	(10,227)	-	(775)	7,936
<b>Stripping activity costs</b>	6,126	17,178	-	(13,035)	-	(497)	9,772
<b>Game animals</b>	217	-	(21)	-	-	(14)	182
<b>Total</b>	<b>135,099</b>	<b>32,387</b>	<b>(21)</b>	<b>(91,650)</b>	<b>(821)</b>	<b>(6,029)</b>	<b>68,965</b>

\* Refer to Note 25.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### Reconciliation of property, plant, equipment and mine development – Year ended 31 December 2021

	Opening Balance US\$'000	Additions US\$'000	Fair value gain US\$'000	Depreciation charge US\$'000	Foreign exchange loss US\$'000	Closing balance US\$'000
<b>Buildings and infrastructure</b>						
Land	2,067	-	-	-	(552)	<b>1,515</b>
Buildings	10,991	-	-	(49)	(484)	<b>10,458</b>
Capitalised road costs	6,177	-	-	(583)	(451)	<b>5,143</b>
Capitalised electrical sub-station costs	2,765	-	-	(253)	(202)	<b>2,310</b>
<b>Machinery, plant and equipment</b>						
Critical spare parts	1,285	571	-	-	(143)	<b>1,713</b>
Plant and machinery	66,609	29,578	-	(4)	(10,003)	<b>86,180</b>
Water treatment plant	1,129	1,503	-	-	(197)	<b>2,435</b>
Furniture and fittings	3	10	-	(2)	(2)	<b>9</b>
Geological equipment	-	24	-	(2)	(2)	<b>20</b>
Office equipment	18	-	-	(6)	(1)	<b>11</b>
Other fixed assets	-	-	-	-	-	<b>-</b>
Motor vehicles	-	-	-	-	-	<b>-</b>
Computer equipment	5	24	-	(5)	-	<b>24</b>
<b>Mine development</b>	<b>20,046</b>	<b>528</b>	<b>-</b>	<b>-</b>	<b>(1,636)</b>	<b>18,938</b>
<b>Stripping activity costs</b>	<b>3,193</b>	<b>3,433</b>	<b>-</b>	<b>-</b>	<b>(500)</b>	<b>6,126</b>
<b>Game animals</b>	<b>185</b>	<b>-</b>	<b>51</b>	<b>-</b>	<b>(19)</b>	<b>217</b>
<b>Total</b>	<b>114,473</b>	<b>35,671</b>	<b>51</b>	<b>(904)</b>	<b>(14,192)</b>	<b>135,099</b>

#### Game animals

Game animal assets are carried at fair value. The different levels are defined as follows:

- Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the Group can access as measurement date.
- Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

Levels of fair value measurements – Level 3.

Kropz Elandsfontein has a fully drawn down project financing facility with BNP Paribas for US\$ 30 million (see Note 16). BNP has an extensive security package over all the assets of Kropz Elandsfontein and Elandsfontein Land Holdings (Pty) Ltd ("Elandsfontein Land Holdings") as well as the share investments in those respective companies owned by Kropz SA (Pty) Ltd ("Kropz SA").

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### (5) Intangible assets - Exploration and evaluation costs

	31 Dec 2022	31 Dec 2022	31 Dec 2022	31 Dec 2021	31 Dec 2021	31 Dec 2021
	Cost US\$'000	Amort- isation US\$'000	Carrying value US\$'000	Cost US\$'000	Amort- isation US\$'000	Carrying value US\$'000
Capitalised costs	<b>42,415</b>	-	<b>42,415</b>	44,631	-	<b>44,631</b>

The costs of mineral resources acquired and associated exploration and evaluation costs are not subject to amortisation until they are included in the life-of-the-mine plan and production has commenced.

Where assets are dedicated to a mine, the useful lives are subject to the lesser of the asset category's useful life and the life of the mine, unless those assets are readily transferable to another productive mine. In accordance with the requirements of IFRS 6, the Directors assessed whether there were any indicators of impairment. No indicators were identified.

### Reconciliation of exploration assets

	Opening Balance US\$'000	Additions US\$'000	Disposals US\$'000	Foreign exchange loss US\$'000	Closing balance US\$'000
<b>Year ended 31 December 2022</b>					
Capitalised exploration costs	<b>44,631</b>	<b>346</b>	-	<b>(2,562)</b>	<b>42,415</b>
	Opening Balance US\$'000	Additions US\$'000	Disposals US\$'000	Foreign exchange loss US\$'000	Closing balance US\$'000
<b>Year ended 31 December 2021</b>					
Capitalised exploration costs	44,348	3,931	(62)	(3,586)	<b>44,631</b>

### (6) Right-of-use assets

	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
<b>Cost</b>		
Brought forward	110	117
Foreign exchange differences	(7)	(7)
<b>As at 31 December</b>	<b>103</b>	<b>110</b>
<b>Amortisation</b>		
Brought forward	103	72
Charge for the year	5	39
Foreign exchange differences	(5)	(8)
<b>As at 31 December</b>	<b>103</b>	<b>103</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

<b>Net book value</b>	<b>-</b>	<b>7</b>
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### (7) Other financial assets

	<b>31 December 2022 US\$'000</b>	<b>31 December 2021 US\$'000</b>
DMR guarantee (1)	-	630
Eskom guarantee (2)	309	330
Eskom guarantee (3)	313	334
Heritage Western Cape Trust (4)	-	63
Centriq insurance DMR guarantee (5)	238	-
<b>Total</b>	<b>860</b>	<b>1,357</b>

#### (1) DMR guarantee

Guarantee in favour of the Department of Mineral Resources for ZAR 10 million in respect of a "financial guarantee for the rehabilitation of land disturbed by prospecting/mining". The guarantee was replaced by Centriq insurance during the year.

#### (2) Eskom guarantee

Guarantee issued to Eskom Holdings SOC Limited in the amount of ZAR 5,235,712 in respect of "supply agreement (early termination) guarantee".

#### (3) Eskom guarantee

Guarantee issued to Eskom Holdings SOC Limited in the amount of ZAR 5,305,333 in respect of an "electricity accounts guarantee".

#### (4) Heritage Western Cape Trust

ZAR 1 million settlement agreement trust fund held in trust by attorneys on behalf of the Heritage Western Cape Trust until Kropz Elandsfontein lodged a heritage impact assessment. The heritage impact assessment was lodged in 2018 and the guarantee funds returned to the Group during the year.

#### (5) Centriq insurance DMR guarantee

Guarantee in favour of Department of Mineral Resources of ZAR 50 million in respect of a "financial guarantee for the rehabilitation of land disturbed by prospecting/mining" under an insurance policy. Two additional annual premiums of ZAR 4.5 million are due on 1 November 2023 and 1 November 2024 respectively.

#### Fair value of other financial assets

The carrying value of other financial assets approximate their fair value.

### (8) Inventories

	<b>31 December 2022 US\$'000</b>	<b>31 December 2021 US\$'000</b>
Concentrate*	790	-
Consumables	2,483	1,025
<b>Total</b>	<b>3,273</b>	<b>1,025</b>

\* Phosphate rock produced by Kropz Elandsfontein.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### (9) Trade and other receivables

	31 December 2022 US\$'000	31 December 2021 US\$'000
Prepayments and accrued income	209	238
Deposits	41	46
VAT	1,294	1,112
Other receivables	313	115
<b>Total</b>	<b>1,857</b>	<b>1,511</b>

#### Credit quality of trade and other receivables

The credit quality of trade and other receivables are considered recoverable due to management's assessment of debtors' ability to repay the outstanding amount.

#### Credit risk

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

#### Trade and other receivables past due but not impaired

None of the trade and other receivables were past due at the end of the reporting dates.

#### Trade and other receivables impaired

None of the trade and other receivables were considered impaired. Trade and other receivables have not been discounted as the impact of discounting is considered to be insignificant.

#### Fair value of trade and other receivables

The carrying value of trade and other receivables approximate their fair value.

#### Expected credit losses

There are no current receivable balances lifetime expected credit losses in the current year.

### (10) Restricted cash

	31 December 2022 US\$'000	31 December 2021 US\$'000
Short-term deposits	-	4,858

In May 2020, Kropz Elandsfontein and BNP agreed to amend and restate the term loan facility agreement entered into on or about 13 September 2016 (as amended from time to time). The BNP facility amendment agreement extends *inter alia* the final capital repayment date to Q3 2024, with eight equal capital repayments commencing in Q4 2022 and an interest rate of 6.5% plus US LIBOR, up to project completion and 4.5% plus US LIBOR thereafter. In addition, the amended BNP facility agreement locked up ZAR 200 million of cash held in the bank account of Kropz Elandsfontein at that time, to be released by BNP to Kropz Elandsfontein pro rata with drawdowns from ARC in terms of the Original Equity Facility. The locked-up funds would be released by BNP in the ratio of 1:3, representing a release of locked-up cash of ZAR1 for every ZAR3 drawn down from ARC in terms of the Original Equity Facility. At 31 December 2021, ZAR 77 million remained locked up and invested with BNP as short-term deposits. BNP released the remaining ZAR 77 million restricted cash in the bank account of Kropz Elandsfontein on 10 January 2022.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### Fair value of short-term deposits

Due to the short-term nature of restricted cash the carrying amount is deemed to approximate the fair value.

### (11) Cash and cash equivalents

	31 December 2022 US\$'000	31 December 2021 US\$'000
Bank balances	2,120	2,460
Cash on hand	-	1
<b>Total</b>	<b>2,120</b>	<b>2,461</b>

### Credit quality of cash at bank and short-term deposits, excluding cash on hand

The Group only deposits cash and cash equivalents with reputable banks with good credit ratings.

### Fair value of cash at bank

Due to the short-term nature of cash and cash equivalents the carrying amount is deemed to approximate the fair value.

### (12) Share capital

Each shareholder has the right to one vote per ordinary share in general meeting. Any distributable profit remaining after payment of distributions is available for distribution to the shareholders of the Company in equal amounts per share. Shares were issued as set out below:

	Number of shares	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000	Total US\$'000
<b>At 1 January 2020</b>	<b>558,627,558</b>	<b>706</b>	<b>168,212</b>	<b>(20,523)</b>	<b>148,395</b>
Convertible loan – issue of shares	350,944,417	488	25,312	-	25,800
<b>As at 31 December 2021</b>	<b>909,571,975</b>	<b>1,194</b>	<b>193,524</b>	<b>(20,523)</b>	<b>174,195</b>
Share options exercised	6,700,000	9	-	-	9
Shares issued in settlement of guarantee fees	3,971,712	4	307	-	311
Convertible loan – issue of shares	3,474,536	5	232	-	237
<b>At 31 December 2022</b>	<b>923,718,223</b>	<b>1,212</b>	<b>194,063</b>	<b>(20,523)</b>	<b>174,752</b>

### Issue of shares in the year ended 31 December 2022:

The changes to the issued share capital of the Company which occurred between 1 January 2022 and 31 December 2022 were as follows:

### Convertible loan facility

Kropz secured a convertible loan facility of up to US\$ 5 million (not exceeding a maximum of ZAR 85 million) from ARC Fund (“Further Equity Facility”) in February 2021, to be used exclusively for the Hinda Updated FS and general corporate purposes for Kropz. Quarterly drawdowns under the Further Equity Facility are at the sole discretion of Kropz. Repayment of the Further Equity Facility and any interest thereon will be in the form of immediate conversion into ordinary shares in Kropz and issued to ARC Fund, at a conversion

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

price of 4.202 pence per ordinary share each quarter, and any US\$ amount will be converted to GBP at an agreed rate of US\$ 1 = 0.73 GBP. Ordinary shares to be issued to ARC Fund in terms of the Further Equity Facility will be a maximum of 86,863,398 ordinary shares.

The fifth and final drawdown on the Further Equity Facility occurred on 10 March 2022 for US\$ 200,000 which was settled by way of the issue of 3,474,536 new ordinary shares at the issue price of 4.202 pence per ordinary share to the ARC Fund.

As announced on 13 May 2020, and pursuant to the terms of the original US\$ 40 million equity facility, any fees associated with the bank guarantee provided by ARC Fund, would be settled by the issue of new ordinary shares to ARC Fund. The final guarantee fee due to ARC Fund, amounting to US\$ 311,733 was settled by the issue of 3,971,712 new ordinary shares on 10 March 2022.

### Share based payment arrangements

#### *Employee Share Option Plan and Long-Term Incentive Plan*

As more fully described in the Directors' Report, the Company operates an ownership-based scheme for executives and senior employees of the Group. In accordance with the provisions of the plans, executives and senior employees may be granted options to purchase parcels of ordinary shares at an exercise price determined by the Board based on a recommendation by the Remuneration Committee.

The following plans have been adopted by the Company:

- an executive share option plan used to grant awards on Admission of the Company to AIM and following Admission (the "ESOP Awards") – a performance and service-related plan pursuant to which nominal-cost options can be granted; and
- an executive long-term incentive plan (the "LTIP Awards") – a performance and service-related plan pursuant to which conditional share awards, nominal-cost options and market value options can be granted, (together, the "Incentive Plans").

An option-holder has no voting or dividend rights in the Company before the exercise of a share option.

### ESOP Awards

ESOP Awards were issued at the time of the Admission of the Company's shares to the AIM market of the London Stock Exchange in November 2018.

The ESOP Awards will vest as to performance as follows:

- 20% of the award shall vest for growth in share price of 100% from the Admission placing price (40 pence);
- a further 20% of the award shall vest for growth in share price of 250% from the Admission placing price;
- a further 30% of the award shall vest for growth in share price of 350% from the Admission placing price; and
- a further 30% of the award shall vest for growth in share price of 500% from the Admission placing price.

The value of the options was calculated by way of a Monte Carlo Simulation using the following assumptions.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### ESOP Award assumptions at issue date

Share price	GBP 0.40
Exercise price	GBP 0.40
Expected volatility	40%
Expected dividends	0%
Risk-free interest rate	2.1%
Option life	10 years

The expected volatility is based on the historic volatility. Options are stated in UK Pound Sterling as the Company is listed on the AIM market of the London Stock Exchange.

As announced on 20 July 2022, Mark Summers expressed his intention to leave the Company and he resigned as Chief Executive Officer (“CEO”) and Executive Director of the Company in January 2023 and the 3,362,609 ESOP options awarded to him lapsed and expired. Michelle Lawrence resigned on 31 December 2022 and the 1,465,137 ESOP options awarded to her lapsed and expired on that date. There are therefore nil ESOP options remaining at 31 December 2022.

### LTIP Awards

During 2020, the Company granted conditional share awards over ordinary shares in the Company to key members of the executive management team under its LTIP Awards plan. These LTIP Awards have performance conditions aligned to the implementing the Company's strategic plans, including appropriate weightings on the successful commissioning of the Elandsfontein mine and completion of an updated feasibility study on the Hinda project.

As announced on 4 August 2020, the Company granted LTIP Awards to key members of the executive management team, including certain Persons Discharging Managerial Responsibilities (“PDMRs”), including Mark Summers and Michelle Lawrence, under its LTIP Awards.

The LTIP Awards are £0.001 priced options over a total of 6,700,000 ordinary shares. Of this total, 2,350,000 LTIP Awards were granted to each of Mark Summers and Michelle Lawrence and 1,000,000 to Patrick Stevenaert. The LTIP Awards vested on 31 December 2021 and were exercised in January 2022, pursuant to the terms of the LTIP Plan Rules (as set out in the Company's Admission Document), including financial and non-financial performance conditions and, in respect of Mark Summers and Michelle Lawrence, continued employment by the Company. Consequently, 6,700,000 ordinary shares were issued on 24 January 2022, at an exercise price of £0.001 an ordinary share, in the Company.

The value of the options was calculated by using the Black-Scholes model, using the following assumptions.

### LTIP Award assumptions at issue date

Share price	GBP 0.085
Exercise price	GBP 0.001
Expected volatility	26%
Expected dividends	0%
Risk-free interest rate	1.1%
Option life	3 years

As announced on 2 July 2021, the Company granted LTIP Awards to key members of the executive management team, including certain Persons Discharging Managerial Responsibilities (“PDMRs”), including Mark Summers and Michelle Lawrence, under its LTIP Awards.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

The LTIP Awards are £0.001 priced options over a total of 7,800,000 ordinary shares. Of this total, 2,400,000 LTIP Awards were granted to each of Mark Summers and Michelle Lawrence and 900,000 to Patrick Stevenaert. The LTIP Awards will vest on various dates from 30 June 2022 to 31 December 2024, subject to the terms of the LTIP Plan Rules (as set out in the Company's Admission Document), including financial and non-financial performance conditions and, in respect of Mark Summers and Michelle Lawrence, continued employment by the Company.

The value of the options was calculated by using the Black-Scholes model, using the following assumptions.

### LTIP Award assumptions at issue date

Share price	GBP 0.055
Exercise price	GBP 0.001
Expected volatility	30%
Expected dividends	0%
Risk-free interest rate	1.3%
Option life	7 years

As announced on 20 July 2022, Mark Summers expressed his intention to leave the Company and he resigned in January 2023 and the 2,400,000 LTIP options awarded to him lapsed and expired. Michelle Lawrence resigned on 31 December 2022 and the 2,400,000 LTIP options awarded to her lapsed and expired on that date. The lapsed and expired options were reversed through profit and loss.

A net credit to expense of US\$ 222,000 was recognised in profit and loss related to the employee share options (31 December 2021: charge of US\$ 812,000).

The LTIP Awards remaining at 31 December 2022 are £0.001 priced options over a total of 3,000,000 ordinary shares representing 0.3% of the Company's issued share capital.

### Equity warrants

As part of the equity facility and fundraising, on 4 August 2020 the Company granted 121,837 warrants over the ordinary shares of 0.1 pence each in the Company, exercisable at 6.75 pence per Ordinary Share for a period of two years from issue. As they had not been exercised, these options lapsed during the 2022 financial year and nil equity warrants remained in place at 31 December 2022 (2021: 121,837 equity warrants).

## (13) Reserves

### Nature and purpose of reserves

#### Foreign exchange translation reserve

The foreign exchange translation reserve comprises all foreign currency differences arising from the translation of the assets, liabilities and equity of the entities included in these consolidated financial statements from their functional currencies to the presentational currency. A decrease in the reserve of US\$ 3,388,000 (2021: US\$ 10,141,000) was recorded due to changes in the foreign currencies used to translate assets, liabilities and equity at consolidation.

#### Share premium

The share premium account represents the amount received on the issue of ordinary shares by the Company, other than those recognised in the merger reserve described below, in excess of their nominal value and is non-distributable.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### Merger reserve

The merger reserve represents the amount received on the issue of ordinary shares by the Company in excess of their nominal value on acquisition of subsidiaries where merger relief under section 612 of the Companies Act 2006 applies. The merger reserve consists of the merger relief on the issue of shares to acquire Kropz SA on 27 November 2018 and Cominco Resources on 30 November 2018. The merger reserve also includes differences between the book value of assets and liabilities acquired and the consideration for the business acquired under common control.

### Share-based payment reserve

The share-based payment reserve arises from the requirement to value share options and warrants in existence at fair value (see Note 12).

## (14) Shareholder loans and derivative

	31 December 2022 US\$'000	31 December 2021 US\$'000
Shareholder loans - ARC	17,010	16,196
Convertible debt - ARC	15,055	6,191
Derivative liability (refer to Note 30)	23,037	2,656
	<b>55,102</b>	<b>25,043</b>

### Shareholders loan - ARC

The loans are: (i) US\$ denominated, but any repayments will be made in ZAR at the then prevailing ZAR/US\$ exchange rate; (ii) carry interest at monthly US LIBOR plus 3%; and (iii) are repayable by no later than 1 January 2035 (or such earlier date as agreed between the parties to the shareholder agreements).

### Convertible debt - ARC

On 20 October 2021, the Company entered into a new convertible equity facility of up to ZAR 200 million ("ZAR 200 Million Equity Facility") with ARC, the Company's major shareholder. Interest is payable at 14% nominal, compounded monthly. At any time during the term of the ZAR 200 Million Equity Facility, repayment of the ZAR 200 Million Equity Facility capital amount will, at the election of ARC, either be in the form of the conversion into ordinary shares of 0.1 pence each ("Ordinary Shares") in the Company and issued to ARC, at a conversion price of 4.5058 pence per Ordinary Share each, representing the 30-day Volume Weighted Average Price ("VWAP") on 21 September 2021, and at fixed exchange rate of GBP 1 = ZAR 20.24 ("Conversion"), or payable in cash by the Company at the end of the term of the ZAR 200 Million Equity Facility which is 27 October 2026. The Company made a drawdown of ZAR 90 million of the ZAR 200 Million Equity Facility on 26 October 2021 and a further ZAR 37 million on 9 December 2021. Two further draw downs were made in 2022, one on 25 March 2022 for ZAR 40 million and ZAR 33 million on 26 April 2022. The ZAR 200 Million Equity Facility is fully drawn at the date of this report.

As announced on 11 May 2022, the Company entered into a new conditional convertible equity facility of up to ZAR 177 million ("ZAR 177 Million Equity Facility") with ARC. Interest is payable at 14% nominal, compounded monthly. At any time during the term of the ZAR 177 Million Equity Facility, repayment of the ZAR 177 Million Equity Facility capital amount will, at the election of ARC, either be in the form of the conversion into Ordinary Shares in the Company and issued to ARC, at a conversion price of 9.256 pence per Ordinary Share each, representing the 30-day Volume Weighted Average Price ("VWAP") on 4 May 2022, and at fixed exchange rate of ZAR 1 = GBP 0.0504 ("Conversion"), or payable in cash by the Company at the end of the term of the ZAR 177 Million Equity Facility which is

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

2 June 2022. The first drawdown on the ZAR 177 Million Equity Facility occurred on 2 June 2022 for ZAR 103.5 million. The second drawdown on the ZAR 177 Million Equity Facility was made on 7 July 2022 for ZAR 60 million. On 9 August 2022, a final drawdown on the ZAR 177 Million Equity Facility was made for ZAR 13.5 million. The ZAR 177 Million Equity Facility is fully drawn at the date of this report.

As announced on 14 November 2022, the Company entered into a new conditional convertible equity facility of up to ZAR 550 million ("ZAR 550 Million Equity Facility") with ARC. Interest is payable at the South African prime overdraft interest rate plus 6%, nominal per annum and compounded monthly. At any time during the term of the ZAR 550 Million Equity Facility, repayment of the ZAR 550 Million Equity Facility capital amount will, at the election of ARC, either be in the form of the conversion into Ordinary Shares in the Company and issued to ARC, at a conversion price of 4.579 pence per Ordinary Share each, representing the 30-day Volume Weighted Average Price ("VWAP") on 21 October 2022 and at fixed exchange rate of ZAR 1 = GBP 0.48824 ("Conversion"), or payable in cash by the Company at the end of the term of the ZAR 550 Million Equity Facility which is 30 November 2027. The first drawdown on the ZAR 550 Million Equity Facility occurred on 1 December 2022 for ZAR 307.5 million. The second drawdown on the ZAR 550 Million Equity Facility of ZAR 135 million occurred on 22 December 2022. The third drawdown on the ZAR 550 Million Equity Facility of ZAR 60 million occurred on 25 January 2023 and the fourth drawdown of ZAR 40 million occurred on 27 February 2023. ZAR 7.5 million remains undrawn on the ZAR 550 Million Equity Facility.

### Convertible liability

It was determined that the conversion option embedded in the convertible debt equity facility be accounted for separately as a derivative liability. Although the amount to be settled is fixed in ZAR, when converted back to Kropz's functional currency will result in a variable amount of cash based on the exchange rate at the date of conversion. The value of the liability component and the derivative conversion component were determined at the date of draw down using a Monte Carlo simulation. The debt host liability was bifurcated based on the determined value of the option. Subsequently, the embedded derivative liability is adjusted to reflect fair value at each period end with changes in fair value recorded in profit and loss (refer to Note 30).

### Fair value of shareholder loans

The carrying value of the loans approximates their fair value.

## (15) Finance lease liabilities

	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
<b>In respect of right-of-use assets</b>		
Balance brought forward	7	48
Repayments during the year	(6)	(39)
Foreign exchange differences	(1)	(2)
<b>Lease liabilities at end of year</b>	<b>-</b>	<b>7</b>
<b>Maturity</b>		
Current	-	7
Non-current	-	-
<b>Total lease liabilities</b>	<b>-</b>	<b>7</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### (16) Other financial liabilities

	31 December 2022 US\$'000	31 December 2021 US\$'000
BNP	26,298	30,041
Greenheart Foundation	510	545
<b>Total</b>	<b>26,808</b>	<b>30,586</b>
<b>Maturity</b>		
Non-current	-	26,291
Current	26,808	4,295
<b>Total</b>	<b>26,808</b>	<b>30,586</b>

#### BNP

A US\$ 30,000,000 facility was made available by BNP Paribas to Kropz Elandsfontein in September 2016.

In May 2020, Kropz Elandsfontein and BNP Paribas agreed to amend and restate the term loan facility agreement entered into on or about 13 September 2016 (as amended from time to time). The BNP Paribas facility amendment agreement extends inter alia the final capital repayment date to Q3 2024, with eight equal capital repayments to commence in Q4 2022 and an interest rate of 6.5% plus US LIBOR, up to project completion and 4.5% plus US LIBOR thereafter.

BNP Paribas has an extensive security package over all the assets of Kropz Elandsfontein and Elandsfontein Land Holdings as well as the share investments in those respective companies owned by Kropz SA.

The BNP loan is subject to covenant clauses. Kropz Elandsfontein did not reach project completion as stipulated in the agreement to be 31 December 2022 and failed to fund the Debt Service Reserve Account, however BNP Paribas has provided, post balance sheet date, a waiver to 30 September 2023. The outstanding balance is therefore presented as a current liability as at 31 December 2022.

#### Greenheart Foundation

A loan has been made to the Group by Greenheart Foundation which is interest-free and repayable on demand. Louis Loubser, a Director of the Kropz plc, is a Director of Greenheart Foundation.

#### Fair value of other financial liabilities

The carrying value of the loans approximate their fair value.

### (17) Provisions

#### Reconciliation of provisions – Year ended 31 December 2022

	Opening Balance US\$'000	Additions/ Adjustments US\$'000	Foreign exchange gains US\$'000	Closing balance US\$'000
Provision for dismantling costs	2,241	(1,367)	99	973
Provisions for rehabilitation	1,792	(185)	117	1,724
<b>Total</b>	<b>4,033</b>	<b>(1,552)</b>	<b>216</b>	<b>2,697</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### Reconciliation of provisions – Year ended 31 December 2021

	Opening Balance US\$'000	Additions/ Adjustments US\$'000	Foreign exchange gain US\$'000	Closing balance US\$'000
Provision for dismantling costs	2,477	(42)	(194)	2,241
Provisions for rehabilitation	1,834	112	(154)	1,792
<b>Total</b>	<b>4,311</b>	<b>70</b>	<b>(348)</b>	<b>4,033</b>

### Dismantling and rehabilitation provisions

Prior to 2015, financial provisioning and rehabilitation were governed by the Mineral and Petroleum Resources Development Act, 2002 (Act No. 28 of 2002) ("MPRDA") and the National Environmental Management Act, 1998 (Act No. 107 of 1998) ("NEMA"). As such the previous financial provisioning was based on the quantum of the financial provision under regulations 53 and 54 of the MPRDA and the guideline document published by the Department of Mineral Resources (now "Department of Mineral Resources and Energy") (DMR 2005 Guideline Document for the Evaluation of the Quantum of Closure-Related Financial Provision Provided by a Mine) and assessed according to the guideline.

The Kropz Elandsfontein Mine was placed on Care and Maintenance Phase from August 2017 to September 2020 due to flaws in the design of the production process. This was followed by an Optimisation Phase from September 2020 to September 2021 which related to plant modifications to meet optimal operational requirements to allow the mine to go into production. At this time, Kropz Elandsfontein updated their EMPr to include the optimisation phase. As such the DMRE issued updated conditions, which stated that the holder of the EMPr must annually assess the environmental liabilities of the operation by using the master rates in line with the applicable Consumer Price Index ("CPI") at the time and address the shortfall on the financial provision submitted in terms of section 24P of NEMA. To comply with the requirements, Kropz Elandsfontein commissioned Braaf Environmental Practitioners SA (Pty) Ltd to update the provision in 2021, which was done under the 2015 Regulations (GNR 1147) and approved by the DMRE.

Prior to the 2022 financial provision update, the DMRE was consulted to determine which regulations must be adhered to, Regulation 54 of the MPRDA Regulations (i.e., the DMR 2005 Guideline Document for the Evaluation of the Quantum of Closure-Related Financial Provision Provided by a Mine) or the 2015 regulations (GNR 1147), as amended. The DMRE confirmed that since the publication of GNR No. 45058 by the Minister of her intention to repeal the 2015 Financial Provisioning Regulations and to make new Regulations for Financial Provisioning on 27 August 2021, the updated 2022 Kropz Elandsfontein financial provisions should be determined under regulations 53 and 54 of the MPRDA and the DMR 2005 Guideline Document for the Evaluation of the Quantum of Closure-Related Financial Provision Provided by a Mine and DMRE's 2005 escalated master rates. In terms of the current transitional provisions (GNR No. 46378 of 19 May 2022) of the proposed Regulations mining companies have until, 19 September 2023 to comply with the 2015 Regulations, as amended. However, on 19 May 2023, the Minister published a further extension to the due date for mining companies to comply with the proposed Regulations, being 19 February 2024.

As such the 2022 provision was based on the DMRE master rates for rehabilitation and instruction from the DMRE which is the prescribed requirements in terms of the approvals and regulations. This has resulted in reduction in the quantum of the provision.

The expected timing of any outflows of these provisions will be on the closure of the respective mines. Estimates are based on costs that are reviewed regularly and adjusted as appropriate for new



## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

circumstances. Future cash flows are appropriately discounted. A discount rate of 5.52% (2021: 7.46%) was used.

### (18) Trade and other payables

	31 December 2022 US\$'000	31 December 2021 US\$'000
Trade payables	6,605	2,527
Other payables	10	-
Accruals	669	1,016
<b>Total</b>	<b>7,284</b>	<b>3,543</b>

#### Fair value of trade and other payables

Trade and other payables are carried at amortised cost, with their carrying value approximating their fair value.

### (19) Commitments

	31 December 2022 US\$'000	31 December 2021 US\$'000
Authorised capital commitments	-	1,871

The committed expenditure at 31 December 2021 relates to plant construction.

### (20) Directors' remuneration, interests and transactions

The Directors of the Company and the two executives of Kropz Elandsfontein and Cominco Resources are considered to be the Key Management Personnel of the Group. Details of the Directors' remuneration, Key Management Personnel remuneration which totalled US\$ 747,329 (2021: US\$ 1,882,116) (including notional option cost and social security contributions) and Directors' interests in the share capital of the Company are disclosed in the Directors' Report. Amounts reflected relate to short-term employee benefits and were converted to US\$ at the 31 December 2022 GBP exchange rate of 0.812 and ZAR exchange rate of ZAR 16.373.

The highest paid Director in the year received remuneration, excluding notional gains on share options, of US\$ 330,340 (2021: US\$ 542,739). Refer to page 33 to 34 for further details.

### (21) Finance income

	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
Interest income	136	480
<b>Total</b>	<b>136</b>	<b>480</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### (22) Operating expenses

	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
Fair value loss / (gain) on game animals	22	(51)
Amortisation of right of use asset	5	39
Depreciation of property, plant and machinery	821	904
Employee costs (excluding share option cost)	1,133	1,392
Share option (credit) / cost	(222)	812
Electricity and water – mine operations	928	1,067
Inventory expense	-	183
Mining costs	54	9
Plant operating costs and recoveries	216	217
Professional and other services	667	821
Auditor's remuneration in respect of audit of the Group and parent	136	86
Auditor's remuneration in respect of audit of the Cominco Group	52	42
Component auditor's remuneration in respect of audit of South African controlled entities	71	68
Other expenses	1,925	914
<b>Total</b>	<b>5,808</b>	<b>6,503</b>

### (23) Staff costs

	Year ended 31 December 2022 No.	Year ended 31 December 2021 No.
The average monthly number of employees was:		
Operations	10	11
Finance and administration	6	6
Management	3	3
	<b>19</b>	<b>20</b>

	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
Aggregate remuneration (including Directors):		
Wages and salaries (including bonuses)	1,003	1,274
Social security costs	127	115
Share-based payments (credit) / cost	(222)	812
Pension costs	3	3
	<b>911</b>	<b>2,204</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### (24) Finance expense

	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
Shareholder loans	3,407	670
Foreign exchange losses	3,550	4,382
Bank debt	2,576	2,024
BNP – debt modification present value adjustment amortisation	(233)	(258)
BNP amendment fee amortisation	205	227
Finance leases	-	1
Other	307	345
<b>Total</b>	<b>9,812</b>	<b>7,391</b>

### (25) Impairment losses

As a result of the recoverable amount analysis performed during the year, the following impairment loss was recognised:

	31 December 2022 US\$'000	31 December 2021 US\$'000
Mine property	91,650	-
Inventory	1,011	-
	<b>92,661</b>	<b>-</b>

The impairment loss was recognised in relation to the Elandsfontein mine. The triggers for the impairment test were primarily due to the hard bank encountered in the pit which necessitated further drilling and the effect of changes to the mine plan resulting from the updated MRE and downgrading of the measured and indicated resource. The recoverable amount of the Elandsfontein mine was based on management's estimate of FVLCD and is estimated based on discounted future cash flows expected to be generated from the continued use of the CGU using market-based commodity prices and exchange assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements, and its eventual disposal, based on the CGU's 5 year plans and latest life of mine (LOM) plans following the downgrade of the resource per an updated MRE as announced on 10 January 2023. The impairment test only considered the section of the mineral resource classified as measured and indicated. The inferred resource classification was disregarded for impairment testing purposes.

#### Key assumptions

The determination of FVLCD is most sensitive to the following assumptions:

- Phosphate rock prices;
- Phosphate recoveries;
- Foreign exchange rates;
- Operating costs.

*Phosphate rock prices:* Forecast phosphate rock prices are based on management's estimates and are derived from forward price curves and long-term views of global supply and demand in a changing environment, particularly with respect to climate risk, building on past experience of the industry and consistent with external sources. These prices are reviewed semi-annually. Estimated long-term

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

phosphate rock prices for the current period that have been used to estimate future revenues, are as follows:

Assumptions	2023	2024	Long term (2025+)
Phosphate rock per tonne	\$140	\$159	\$164

**Phosphate recoveries:** The production volumes incorporated into the cash flow model were 2.8 million tonnes of phosphate rock. Estimated production volumes are based on detailed life-of-mine plans, of the measured and indicated resourced as defined in the MRE, and take into account development plans for the mine agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as: the recoverable quantities; the production profile; the cost of the development of the infrastructure necessary to extract the reserves; the production costs; the contractual duration of mining rights; and the selling price of the commodities extracted.

**Exchange rates:** Foreign exchange rates are estimated with reference to external market forecasts and updated semi-annually. The assumed long-term US dollar/ZAR exchange rate is estimated to be ZAR19/USD.

**Operating cost:** Operating costs are estimated with reference to contractual and actual current cost and adjusted for inflation.

**Discount rates:** A discount rate of 12.59% was applied to the cash flows. This discount rate is derived from the Group's post-tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings the Group is obliged to service. Specific risk is incorporated by applying beta factors. The beta factors are evaluated annually based on publicly available market data.

### Sensitivity analysis

The following table summarises the potential impact of changes in the key estimates and assumptions on the quantum of impairment (assessed independently of each other):

		Reversal of / (increase in) impairment US\$ million
Impact if discount rate	Increased by 2% reduced by 2%	(3.0) 3.2
Impact if selling prices	increased by 10% reduced by 10%	26.2 (27.6)
Impact if production tonnes	increased by 10% reduced by 10%	12.5 (13.0)
Impact if foreign exchange rates	increased by 10% reduced by 10%	27.1 (28.5)

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

Impact if operating costs:	increased by 10%	(21.5)
	reduced by 10%	20.7

### (26) Taxation

Major components of tax charge	Year ended 31 December 2022 US\$'000	Period ended 31 December 2021 US\$'000
<b>Deferred</b>		
Originating and reversing temporary differences	-	-
<b>Current tax</b>		
Local income tax	(602)	-
<b>Total</b>	<u>(602)</u>	<u>-</u>

The tax charge arose predominantly due to the devaluation of GBP against US\$ and the recorded unrealised foreign exchange gains being taxable in the UK.

### Reconciliation of tax charge

	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
Loss before tax	<u>(97,222)</u>	<u>(18,258)</u>
Applicable UK tax rate	19%	19%
Tax at applicable tax rate	(18,472)	(3,469)
Adjustments for different tax rates in the Group	(12,031)	(2,177)
Disallowable expenditure	23,744	1,545
Losses carried forward not recognised	7,361	4,101
<b>Tax (credit) / charge</b>	<u>602</u>	<u>-</u>

The movement in tax liabilities is summarised below:

	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
Balance brought forward	-	-
Current year charge	602	-
Interest	6	-
Tax paid	-	-
Foreign exchange differences	(11)	-
<b>Balance carried forward</b>	<u>597</u>	<u>-</u>

The Group had losses for tax purposes of approximately US\$ 57.5 million as at 31 December 2022 (2021: US\$ 52.1 million) which, subject to agreement with taxation authorities, are available to carry forward against future profits. They can be carried forward indefinitely.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

A net deferred tax asset of approximately US\$ 16.1 million (2021: US\$ 14.6 million), after set off of accelerated depreciation allowances in respect of fixed assets of US\$ 41.1 million (2021: US\$ 34.7 million), arises in respect of these losses. It has not been recognised as steady state production has not been reached. The deferred tax asset and deferred tax liability relate to income tax in the same jurisdiction and the law permits set off.

### (27) Earnings per share

The calculations of basic and diluted loss per share have been based on the following loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding:

	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
Loss attributable to ordinary shareholders	(66,639)	(13,787)
Weighted average number of ordinary shares used in basic loss per share	921,908,785	765,871,834
Share options and warrants	-	-
Weighted average number of ordinary shares used in diluted loss per share	921,908,785	765,871,834
<b>Basic and diluted loss per share (US\$ cents)</b>	<b>(7.23)</b>	<b>(1.80)</b>

Because the Group was in a net loss position attributable to ordinary shareholders, diluted loss per share excludes the effects of ordinary share equivalents consisting of share options and warrants, which are anti-dilutive.

### (28) Notes to the statement of cash flows

#### Issue of shares

##### Year ended 31 December 2022

	Non-cash consideration US\$'000	Cash consideration US\$'000	Total US\$'000
Share options exercised	-	9	9
Shares issued in settlement of guarantee fees	-	311	311
Equity facility – issue of shares	-	237	237
<b>As at 31 December 2022</b>	<b>-</b>	<b>557</b>	<b>557</b>

##### Year ended 31 December 2021

	Non-cash consideration US\$'000	Cash consideration US\$'000	Total US\$'000
Equity facility – issue of shares	-	25,800	25,800
<b>As at 31 December 2021</b>	<b>-</b>	<b>25,800</b>	<b>25,800</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### Net debt reconciliation

#### Year ended 31 December 2022

	Opening Balance US\$'000	Accrued interest US\$'000	Fair value movements US\$'000	Cash movements US\$'000	Foreign exchange gain/(loss) US\$'000	Closing balance US\$'000
Other financial assets	1,357	-	-	(427)	(70)	860
Shareholder loan						
payable and derivative	(25,043)	(3,791)	8,671	(38,727)	1,135	(57,755)
Other financial liabilities	(30,586)	28	-	3,712	(38)	(26,808)
Finance leases	(7)	-	-	6	1	-
<b>Total</b>	<b>(54,279)</b>	<b>(3,763)</b>	<b>8,671</b>	<b>(35,436)</b>	<b>1,028</b>	<b>(83,703)</b>

#### Year ended 31 December 2021

	Opening Balance US\$'000	Accrued interest US\$'000	Fair value movements US\$'000	Cash movements US\$'000	Foreign exchange gain/(loss) US\$'000	Closing balance US\$'000
Other financial assets	1,477	-	-	-	(120)	1,357
Shareholder loan						
payable and derivative	(15,703)	(670)	(653)	(8,037)	20	(25,043)
Other financial liabilities	(30,613)	31	-	(54)	50	(30,586)
Finance leases	(48)	-	-	39	2	(7)
<b>Total</b>	<b>(44,887)</b>	<b>(639)</b>	<b>(653)</b>	<b>(8,052)</b>	<b>(48)</b>	<b>(54,279)</b>

### Reconciliation of working capital items:

#### Year ended 31 December 2022

	Opening Balance US\$'000	Cash movements US\$'000	Capital allocated US\$'000	Foreign exchange gain/(loss) US\$'000	Closing balance US\$'000
Trade and other receivables	1,511	471	-	(125)	1,857
Inventories	1,025	3,453	-	(197)	4,281
Trade and other payables	(3,543)	172	(4,588)	675	(7,284)
<b>Total</b>	<b>(1,007)</b>	<b>4,096</b>	<b>(4,588)</b>	<b>353</b>	<b>(1,146)</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### Year ended 31 December 2021

	Opening Balance US\$'000	Cash movements US\$'000	Capital allocated US\$'000	Foreign exchange gain/(loss) US\$'000	Closing balance US\$'000
Trade and other receivables	1,611	(256)	-	156	1,511
Inventories	821	291	-	(87)	1,025
Trade and other payables	(4,780)	(3,178)	2,599	1,816	(3,543)
<b>Total</b>	<b>(2,348)</b>	<b>(3,143)</b>	<b>2,599</b>	<b>1,885</b>	<b>(1,007)</b>

### (29) Related parties

#### Kropz plc and its subsidiaries

The following parties are related to Kropz plc:

Name	Relationship
Mark Summers	Director
Louis Loubser	Director
Mike Nunn	Director
Linda Beal	Director
Mike Daigle	Director
Lord Robin William Renwick	Director
Gerrit Jacobus Duminy	Director
Machiel Johannes Reyneke	Director
Kropz SA	Subsidiary
Elandsfontein Land Holdings (Pty) Ltd ("ELH")	Subsidiary
Kropz Elandsfontein	Subsidiary
West Coast Fertilisers (Pty) Ltd	Subsidiary
Xsando (Pty) Ltd	Subsidiary
Cominco Resources Limited	Subsidiary
Cominco S.A.	Subsidiary
Cominco Resources (UK) Ltd	Subsidiary
Kropz International	Shareholder
The ARC Fund ("ARC")	Shareholder

Details of remuneration to KMP are contained in Note 20 to the Consolidated Financial Statements.

In addition to share issues to related parties set out in Note 12 to the Consolidated Financial Statements, the following transactions were carried out with related parties:

#### Related party balances

##### Loan accounts – owed to related parties

	31 December 2022 US\$'000	31 December 2021 US\$'000
Shareholder loans - ARC	17,010	16,196
Convertible debt - ARC	15,055	6,191
Derivative liability (refer Note 14)	23,037	2,656



## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

Greenheart Foundation (refer Note 16)	510	545
<b>Total</b>	<b>55,612</b>	<b>25,588</b>

### Related party balances Interest accrued to related parties

	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
ARC	3,407	670
<b>Total</b>	<b>3,407</b>	<b>670</b>

### Convertible loan facilities

As described in Note 12 and 14, the Company made drawdowns totalling US\$ 39.2 million (2021: US\$ 25.8 million) under its convertible loan facilities from ARC.

## (30) Categories of financial instrument

### Financial assets and liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

	31 December 2022 US\$'000	31 December 2021 US\$'000
<b>Financial assets at amortised cost</b>		
Trade and other receivables	563	399
Other financial assets	860	1,357
Restricted cash	-	4,858
Cash and cash equivalents	2,120	2,461
<b>Total</b>	<b>3,543</b>	<b>9,075</b>
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	7,284	3,543
Finance leases	-	7
Shareholder loans	32,065	22,387
Other financial liabilities	26,808	30,586
<b>Total</b>	<b>66,157</b>	<b>56,523</b>
<b>Financial liabilities at fair value</b>		
Derivative liability	23,037	2,656

### Recognised fair value measurements

The net fair value and carrying amounts of financial assets and financial liabilities are disclosed in the Consolidated Statement of Financial Position and in the notes to the Consolidated Statement of Financial Position.

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

- (i) Financial instruments Measured at Fair Value  
The financial instruments recognised at fair value in the Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. At the reporting date, the Group had a convertible facility with ARC. The US\$ amount of the facility is convertible into ordinary shares of the parent entity (Note 14).
- (ii) Fair value hierarchy  
The fair value hierarchy consists of the following levels
- Quoted prices in active markets for identical assets and liabilities (Level 1);
  - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
  - Inputs for the asset and liability that are not based on observable market data (unobservable inputs) (Level 3).

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
<b>2022</b>				
Derivative liability	-	-	23,037	23,037
<b>2021</b>				
Derivative liability	-	-	2,656	2,656

There were no transfers between levels for recurring fair value measurements during the year. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

- (iii) Reconciliation: Level 3 fair value measurement

	Year ended 31 December 2022 US\$'000	Year ended 31 December 2021 US\$'000
<i>Derivative asset</i>		
Opening balance	-	8,586
Fair value (loss) / gain recognised in profit and loss	-	(4,139)
Extinguished on issuance of equity	-	(4,447)
<b>Closing balance</b>	-	-
<i>Derivative liability</i>		
Opening balance	(2,656)	-
Fair value at initial recognition	(31,852)	(2,015)
Fair value gain/(loss) recognised in profit and loss	10,807	(653)
Foreign exchange	664	12
<b>Closing balance</b>	(23,037)	(2,656)

- (iv) Valuation technique used to determine fair value  
Derivative liability:  
The fair value is calculated with reference to market rates using industry valuation techniques and appropriate models from a third-party provider. The Monte-Carlo model utilised includes a

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

high level of complexity and the main inputs are share price volatility, risk margin, foreign exchange volatility and UK risk-free rate. A number of factors are considered in determining these inputs, including assessing historical experience but also considering future expectations. The determined fair value of the option is multiplied by the number of shares available for issue pursuant to the ZAR 200 Million Equity Facility, ZAR 177 Million Equity Facility and the ZAR 550 Million Equity Facility (refer to Note 14).

### Valuation results (as at 31 December 2022)

Facility	Total loan amount (ZAR)	Value per share (p)	Number of Shares	Total Value (GBP)
ZAR200m facility	200,000,000	2.30	219,272,939	5,043,278
ZAR177m facility	177,000,000	1.21	96,378,567	1,166,181
ZAR550m facility	442,500,000	2.72	471,819,613	12,833,493
<b>Total</b>			<b>787,471,119</b>	<b>19,042,952</b>

### Sensitivity Valuation results (as at 31 December 2022) - Volatility

Facility	Base volatility assumption	Total Value (GBP) - 100% historical volatility (75%)	Total Value (GBP) - 50% historical volatility (38%)
ZAR200m facility	57%	7,979,681	2,668,731
ZAR177m facility	57%	2,453,442	312,645
ZAR550m facility	57%	20,327,348	6,682,147
<b>Total</b>		<b>30,760,471</b>	<b>9,663,523</b>

### Sensitivity Valuation results (as at 31 December 2022) - Risk Margin

Facility	Base risk margin assumption	Total Value (GBP) - 7% risk margin	Total Value (GBP) - 3% risk margin
ZAR200m facility	5%	5,082,230	5,013,961
ZAR177m facility	5%	1,175,389	1,158,446
ZAR550m facility	5%	12,915,580	12,698,104
<b>Total</b>		<b>19,173,199</b>	<b>18,870,511</b>

### Sensitivity Valuation results (as at 31 December 2022) - FX volatility

Facility	Base FX volatility	Total Value (GBP) - 20% FX volatility	Total Value (GBP) - 10% FX volatility
ZAR200m facility	14%	4,680,397	5,322,515
ZAR177m facility	14%	1,017,667	1,285,233
ZAR550m facility	14%	11,855,707	13,508,493
<b>Total</b>		<b>17,553,771</b>	<b>20,116,241</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### Sensitivity Valuation results (as at 31 December 2022) - UK risk-free rate

Facility	Base UK risk-free rate	Total Value (GBP) - UK rf	Total Value (GBP) - UK rf
		+ 2%	-2%
ZAR200m facility	3.6%	4,716,201	5,405,789
ZAR177m facility	3.6%	1,074,410	1,267,672
zAR550m facility	3.6%	11,779,774	13,933,510
<b>Total</b>		<b>17,570,385</b>	<b>20,606,971</b>

### (31) Financial risk management objectives

#### Capital risk management:

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of shareholder and external debt, which includes loans and borrowings (excluding derivative financial liabilities) disclosed in Notes 14 and 16 and equity as disclosed in the Statement of Financial Position.

Shareholder and external third-party loans from foreign entities to South African companies are subject to the foreign exchange controls as imposed by the South African Reserve Bank ("SARB"). All inward loans into South Africa require approval by the SARB and all loans in the current capital structure have been approved by the SARB and all entities in the Group are compliant with the SARB approvals relevant to the entity concerned and the approvals granted by the SARB.

#### Liquidity risk:

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Group's risk to liquidity is a result of obligations associated with financial liabilities of the Group and the availability of funds to meet those obligations. The Group manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one year US\$'000	Between one and two years US\$'000	Between two and five years US\$'000	Over five years US\$'000
<b>At 31 December 2022</b>				
Shareholder loans payable	-	-	152,099	-
Trade and other payables	7,283	-	-	-
Finance leases	-	-	-	-

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

Other financial liabilities	17,233	11,747	-	-
<b>Total</b>	<b>24,516</b>	<b>11,747</b>	<b>152,099</b>	<b>-</b>

	Less than one year US\$'000	Between one and two years US\$'000	Between two and five years US\$'000	Over five years US\$'000
<b>At 31 December 2021</b>				
Shareholder loans payable	-	-	13,711	24,246
Trade and other payables	3,543	-	-	-
Finance leases	7	-	-	-
Other financial liabilities	5,676	15,950	11,509	-
<b>Total</b>	<b>9,226</b>	<b>15,950</b>	<b>25,220</b>	<b>24,246</b>

### Credit risk:

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's financial assets include trade and other receivables, loans receivable, other financial assets and cash and cash equivalents.

Ongoing credit evaluation is performed on the financial conditions of the counterparties to the trade and other receivables, loans receivable and other financial assets. The Group only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

### Interest rate risk:

As the Group has significant interest-bearing assets, the Group's income and operating cash flows are substantially dependent on changes in market interest rates. At 31 December 2022, if interest rates on the shareholder and BNP loans (denominated in US\$) had been 1% higher/lower with all other variables held constant, post-tax losses and equity for the year would have been approximately US\$ 769,000 (2021: US\$ 541,000) higher/lower respectively.

### Foreign currency risk:

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities (when financial liabilities and cash are denominated other than in a company's functional currency).

Most of the Group's transactions are carried out in South African Rand. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

The Group maintains a natural hedge whenever possible, by matching the cash inflows (revenue stream) and cash outflows used for purposes such as capital and operational expenditure in the respective currencies.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

The Group's net exposure to foreign exchange risk was as follows:

	Functional currency		
	South African Rand US\$'000	British Pound US\$'000	Total US\$'000
<b>As at 31 December 2022</b>			
<b>Financial assets denominated in US\$</b>	-	28	28
<b>Financial liabilities denominated in US\$</b>	(43,260)	-	(43,260)
<b>Net foreign currency exposure</b>	(43,260)	28	(43,232)
	Functional currency		
	South African Rand US\$'000	British Pound US\$'000	Total US\$'000
<b>As at 31 December 2021</b>			
<b>Financial assets denominated in US\$</b>	-	313	313
<b>Financial liabilities denominated in US\$</b>	(46,196)	-	(46,196)
<b>Net foreign currency exposure</b>	(46,196)	313	(45,883)

### Foreign currency sensitivity analysis:

The following tables demonstrate the sensitivity to a reasonably possible change in South African Rand and GBP exchange rates, with all other variables held constant.

The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

A 10% movement in the Rand and Pound against the US Dollar would increase/(decrease) net assets by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	As at 31 December 2022 Increase/ (Decrease) US\$'000	As at 31 December 2021 Increase/ (Decrease) US\$'000
<b>Effects on net assets</b>		
<b>Rand:</b>		
- strengthened by 10%	(5,832)	(4,620)
- weakened by 10%	5,832	4,620
<b>Effects on net assets</b>		
<b>GBP:</b>		
- strengthened by 10%	(1,296)	31
- weakened by 10%	1,296	(31)

## Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)

### (32) Segment information

#### Operating segments

The Board of Directors consider that the Group has one operating segment, being that of phosphate mining and exploration. Accordingly, all revenues, operating results, assets and liabilities are allocated to this activity.

#### Geographical segments

The Group operates in two principal geographical areas – South Africa and the RoC.

The Group's non-current assets by location of assets are detailed below.

	South Africa US\$'000	Congo US\$'000	Group US\$'000
<b>As at 31 December 2022</b>			
Total non-current assets	<b>69,795</b>	<b>42,445</b>	<b>112,240</b>
	South Africa US\$'000	Congo US\$'000	Group US\$'000
<b>As at 31 December 2021</b>			
Total non-current assets	<b>136,431</b>	<b>44,663</b>	<b>181,094</b>

### (33) Non-controlling interests

	31 December 2022 US\$'000	31 December 2021 US\$'000
<b>As at beginning of year</b>	<b>5,778</b>	<b>5,729</b>
Share of losses for the year	(31,185)	(4,471)
Share of other comprehensive income	142	(1,043)
Disposal of subsidiary	-	181
Kropz plc's investment in non-redeemable preference shares of Kropz Elandsfontein attributable to non-controlling interest	<b>5,411</b>	<b>5,382</b>
<b>As at end of the year</b>	<b>(19,854)</b>	<b>5,778</b>

### (34) Material subsequent events

The third drawdown on the ZAR 550 Million Equity Facility of ZAR 60 million (approximately US\$ 3.5 million) occurred on 25 January 2023.

The fourth drawdown on the ZAR 550 Million Equity Facility of ZAR 40 million (approximately US\$ 2.2 million) occurred on 27 February 2023.

First bulk shipment and sale of 33,000 tonnes of phosphate concentrate from Kropz Elandsfontein was announced on 23 January 2023.

A second shipment and sale of 20,000 tonnes of phosphate concentrate from Kropz Elandsfontein was announced on 14 March 2023.

## **Notes to the Consolidated Financial Statements for the year ended 31 December 2022 (continued)**

During April 2023 two further shipments of 33,000 tonnes and 11,000 tonnes were sold. A further 33,000 tonnes were sold in June 2023.

As announced on 14 March 2023, Kropz, Kropz Elandsfontein and ARC Fund agreed to further ZAR 285 million (approximately US\$ 15.5 million) bridge loan facilities ("Loan 4") to meet immediate cash requirements at Kropz Elandsfontein. A first draw down of ZAR 25 million (approximately US\$ 1.4 million) on Loan 4 was made on 14 March 2023. Loan 4 is unsecured, repayable on demand, with no fixed repayment terms and is repayable by Kropz Elandsfontein on no less than two business days' notice. Interest is payable on Loan 4 at the South African prime overdraft interest rate plus 6%, nominal per annum and compounded monthly.

A second draw down on Loan 4 for an amount of ZAR 90 million was made on 28 March 2023 and a third drawdown of ZAR 30 million was made on 25 April 2023 and a fourth drawdown of ZAR 80 million was made on 23 June 2023.

### **(35) Ultimate controlling party**

The Directors consider Ubuntu-Botho Commercial Enterprises Proprietary Limited to be the ultimate controlling party of the Company.



**Company Statement of Financial Position**  
**(Registered number: 11143400)**  
**As at 31 December 2022**

		31 December 2022 US\$'000	31 December 2021 US\$'000
	<b>Notes</b>		
<b>Fixed assets</b>			
Investment in subsidiaries	3	40,183	108,650
Amounts due from subsidiaries		7,211	49,904
		<b>47,394</b>	<b>158,554</b>
<b>Current assets</b>			
Debtors	4	115	138
Cash and bank balances		420	335
		<b>535</b>	<b>473</b>
<b>Creditors</b>			
Amounts falling due within one year	7	(320)	(389)
Current taxation		(597)	-
		<b>(917)</b>	<b>(389)</b>
<b>Net current assets</b>		<b>(382)</b>	<b>84</b>
<b>Non-current liabilities</b>			
Shareholder loans and derivative	8	(38,092)	(8,847)
<b>Net Assets</b>		<b>8,920</b>	<b>149,791</b>
<b>Capital and Reserves</b>			
Share capital	5	1,212	1,194
Share premium account		194,757	193,524
Merger reserve		14,878	14,878
Foreign currency translation reserve		58	3,548
Share-based payment reserve		281	1,197
Retained losses		(202,266)	(64,550)
		<b>8,920</b>	<b>149,791</b>

The Company has elected to take the exemption under section 408 of the Companies Act 2006, to not present the Statement of Comprehensive Income. Capital and reserves include losses for the year of the parent company of US\$ 137,716,000 (2021: US\$ 24,255,000).

The notes on pages 129 to 138 form an integral part of these Financial Statements.

The Financial Statements on pages 127 to 138 were approved and authorised for issue by the Board of Directors and were signed on its behalf by:



**Louis Loubser, Chief Executive Officer**  
28 July 2023

## Company Statement of Changes in Equity

### For the year ended 31 December 2022

	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000	Foreign currency translation reserve US\$'000	Share- based payment reserve US\$'000	Retained losses US\$'000	Total US\$'000
<b>At 1 January 2021</b>	<b>706</b>	<b>168,212</b>	<b>14,878</b>	<b>4,191</b>	<b>385</b>	<b>(35,848)</b>	<b>152,524</b>
Loss for the year	-	-	-	-	-	(24,255)	(24,255)
Other comprehensive income	-	-	-	(643)	-	-	(643)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(643)</b>	<b>-</b>	<b>(24,255)</b>	<b>(24,898)</b>
Issue of shares	488	25,312	-	-	-	-	25,800
Extinguishment of derivative asset upon equity draw down	-	-	-	-	-	(4,447)	(4,447)
Share-based payment charges	-	-	-	-	812	-	812
<b>Transactions with owners</b>	<b>488</b>	<b>25,312</b>	<b>-</b>	<b>-</b>	<b>812</b>	<b>(4,447)</b>	<b>22,165</b>
<b>At 31 December 2021</b>	<b>1,194</b>	<b>193,524</b>	<b>14,878</b>	<b>3,548</b>	<b>1,197</b>	<b>(64,550)</b>	<b>149,791</b>
Loss for the year	-	-	-	-	-	(137,716)	(137,716)
Other comprehensive income	-	-	-	(3,490)	-	-	(3,490)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,490)</b>	<b>-</b>	<b>(137,716)</b>	<b>(141,206)</b>
Issue of shares	18	539	-	-	-	-	557
Share options exercised	-	694	-	-	(694)	-	-
Share-based payment credit	-	-	-	-	(222)	-	(222)
<b>Transactions with owners</b>	<b>18</b>	<b>1,233</b>	<b>-</b>	<b>-</b>	<b>(916)</b>	<b>-</b>	<b>335</b>
<b>At 31 December 2022</b>	<b>1,212</b>	<b>194,757</b>	<b>14,878</b>	<b>58</b>	<b>281</b>	<b>(202,266)</b>	<b>8,920</b>

## Notes to the Company Financial Statements for the year ended 31 December 2022

### 1. General information

The Company was incorporated on 10 January 2018 and is a public limited company limited by shares, with its ordinary shares admitted to the AIM Market of the London Stock Exchange on 30 November 2018 trading under the symbol, "KRPZ". The Company is domiciled in England and incorporated and registered in England and Wales. The address of its registered office is 35 Verulam Road, Hitchin, SG5 1QE. The registered number of the Company is 11143400.

### 2. Summary of significant accounting policies

#### (a) Basis of preparation

The Company's Financial Statements have been prepared in accordance with applicable law and accounting standards in the United Kingdom and under the historical cost accounting rules (Generally Accepted Accounting Practice in the United Kingdom).

The Directors have assessed the Company's ability to continue in operational existence for the foreseeable future in accordance with the FRC guidance on the going concern basis of accounting and reporting on solvency and liquidity risks (April 2016). It is considered appropriate to continue to prepare the Financial Statements on a going concern basis. Disclosures in relation to going concern are shown in Note 2 (a) to the Consolidated Financial Statements.

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102"), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis.

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included a Profit and Loss account in these separate Financial Statements. The loss attributable to members of the Company for the year ended 31 December 2022 is US\$ 137,716,000 (2021: US\$ 24,255,000).

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows
- the requirements of Section 11 Financial Instruments

#### *Going concern*

Cash and cash equivalents totalled US\$ 0.4 million as at 31 December 2022 (2021: US\$ 0.3 million). Apart from revenue generated at Kropz Elandsfontein, the Company has no other current source of operating revenue and the ramp up of Elandsfontein is still in progress. Therefore, the Company will be dependent on future fund raisings to meet any production costs, overheads and future development and exploration requirements and quarterly repayments on the BNP loan that cannot be met from existing cash resources and sales revenue.

## Notes to the Company Financial Statements for the year ended 31 December 2022 (continued)

Kropz Elandsfontein did not reach project completion as stipulated in the BNP facility agreement by 31 December 2022. Considering the delay in achieving sales, Kropz Elandsfontein also failed to fund the debt service reserve account as required. BNP have, to date, waived these requirements, preventing the Company from falling in default of its loan terms, by means of several waivers since December 2022 to 30 September 2023.

At the end of the waiver period, the bank has the contractual right to request the immediate repayment of the outstanding loan amount of US\$ 18,750,000. Management is in the process of refinancing the loan and expects that a replacement loan will be in place in the third quarter of 2023.

### *Operational cash flows and impairment loss*

An impairment loss of US\$ 92.7 million has been recognised as at 31 December 2022 in relation to the Elandsfontein mine based on the 5-year forecast and the latest life of mine (LOM) plans following the downgrade of the resource per an updated MRE as announced on 10 January 2023 and set out in the Strategic report. Please refer to Note 25 of the Consolidated Financial Statements for some key assumptions and sensitivity analysis. The recoverable amount of the Elandsfontein mine was estimated based on discounted cashflows expected to be generated from the continued use of the cash generating unit (CGU) using market-based commodity prices and exchange rate assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements and its eventual disposal based on the CGU's 5 year and latest LOM plans. These calculations include a number of estimates which if the actual outcome were different could have a significant impact on the financial outcome of the Elandsfontein mine operations and the Group's funding needs.

The going concern assessment was performed using the Group's 18-month forecast. The Group's going concern and forecast cash flows are largely driven by Elandsfontein, as the Group's only operating asset. Elandsfontein's forecast cashflows are based on its updated mine plan, considering the downgrade of the resource per an updated MRE as announced on 10 January 2023 and set out in the Strategic report and utilises the model which was used for impairment purposes. Please refer to Note 25 of the Consolidated Financial Statements for some key assumptions and sensitivity analysis.

Elandsfontein's forecast cashflows were estimated using market-based commodity prices, exchange rate assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements over an 18-month period. As with the impairment assessment, the going concern assessment only considered Elandsfontein's resources defined as "measured" and "indicated" per the updated MRE. The resource classified as "inferred" was not considered part of the mine plan for purposes of the going concern and impairment assessments.

The forecast cashflows include a number of estimates which if the actual outcome were different could have a significant impact on the financial outcome of the Elandsfontein mine operations and the Group's funding needs.

The 18-month forecast assumes the refinancing of the BNP loan facility in September 2023.

The critical estimates in the LOM plan and forecast cashflows expected to be generated are as follows:

- Phosphate rock prices and grade;
- Phosphate recoveries;
- Operating costs;
- Foreign exchange rates; and
- Discount rates.

The going concern assessment and forecast cashflows are highly sensitive to these estimates.

## Notes to the Company Financial Statements for the year ended 31 December 2022 (continued)

*Phosphate rock prices and grade:* Forecast phosphate rock prices are based on management's estimates of quality of production and selling price and are derived from forward price curves and long-term views of global supply and demand in a changing environment, particularly with respect to climate risk, building on past experience of the industry and consistent with external sources.

The first bulk shipment and sale of 33,000 tonnes of phosphate concentrate from Kropz Elandsfontein occurred in January 2023. A second shipment and sale of 20,000 tonnes of phosphate concentrate from Kropz Elandsfontein was recorded 14 March 2023. During April 2023 two bulk sales were achieved of 33,000 tonnes and 11,000 tonnes respectively. A further sale of 33,000 tonnes was recorded in June 2023.

Kropz is a new entrant to the phosphate market and has to date sold its shipments at a discount to market prices as it firstly establishes itself in the market and secondly works to improve its product grade.

In relation to pricing the most significant judgement in the LOM plan and cashflow forecast is that Kropz will be able to obtain the market price for its 31% P<sub>2</sub>O<sub>5</sub> phosphate concentrate for all shipments from beginning of 2024. The cashflow model assumes a discount to the prevailing market price for 31% P<sub>2</sub>O<sub>5</sub> phosphate concentrate for the period up to April 2023 largely due to variability in the grade of Elandsfontein's product being produced during its ramp-up phase and considering that Elandsfontein is a new market entrant. The ability to achieve market rates on sales is largely dependent on Elandsfontein's ability to consistently produce 31% P<sub>2</sub>O<sub>5</sub> concentrate. Failing this, the Group may continue to suffer a discount to market rates. Estimated phosphate rock prices that have been used to estimate future revenues in the LOM are as follows:

Assumptions	2023	2024	Long term (2025+)
Phosphate rock per tonne	\$140	\$159	\$164

*Phosphate recoveries:* The production volumes incorporated into the LOM model were 2.8 million tonnes of phosphate rock. Estimated production volumes are based on detailed LOM plans of the measured and indicated resource as defined in the MRE, and take into account development plans for the mine agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as: the recoverable quantities; the production profile; the cost of the development of the infrastructure necessary to extract the reserves; the production costs; the contractual duration of mining rights; and the selling price of the commodities extracted.

Estimated production volumes have been used to estimate future revenues. Such estimates made within the impairment assessment are subject to significant uncertainty given the ongoing ramp up, and production volumes achieved subsequent to the year end have been lower than expected.

There was a delay in ramp-up largely driven by the need to re-engineer parts of the fine flotation circuit proposed by the vendor, but it has also been affected by early unpredicted ore variability and lack of operator experience. Mining rates and associated delivery of ore to the plant were also compromised due to the presence of competent banks of hard material within the orebody, that were previously unknown. This hardbank material could, at the time, not be mined with the available equipment on site, resulting in mining delays while the required equipment for mechanical breaking could be brought to site.

Subsequently the vendor has provided design changes which were implemented at the plant, additional operator training was conducted and a mobile crusher implemented in the interim to facilitate the crushing of the affected ore to an appropriate size fraction until further test work has been conducted for a permanent solution. Several alternatives to deal with the indurated material in the pit were

## Notes to the Company Financial Statements for the year ended 31 December 2022 (continued)

investigated, and new equipment has arrived on site to improve the mining efficiency and facilitate adequate feed to the plant.

Post year-end, Elandsfontein has produced 100,000 tonnes from January 2023 to June 2023. Given the slower actual ramp-up compared to the LOM plan, the forecast cashflow assumes that production will ramp up to an average of 34,000 tonnes per month in 2H 2023. With the ramp-up of the Elandsfontein mine still underway and the challenges experienced to date, it is uncertain whether these production volumes will be achieved.

*Reserves and resources:* The LOM plan includes only the measured and indicated resources as defined in the MRE which represents only around 4 years of forecast production. There was a significant reduction in the measured and indicated resource in the MRE issued in December 2022 as set out in the Strategic report. The Directors believe that the inferred resources in the MRE are capable of being accessed giving a mine life of around 15 years, but this has not been taken into account in the discounted cashflows.

*Exchange rates:* Foreign exchange rates are estimated with reference to external market forecasts. The assumed long-term US dollar/ZAR exchange rate over LOM is estimated to be ZAR19/USD and for the forecast cashflows to be ZAR18.50/USD.

*Operating cost:* Operating costs are estimated with reference to contractual and actual current costs adjusted for inflation. Key operating cost estimates are mine and plant operating costs and transportation and port costs.

*Mine and plant operating costs:* The forecast mine and plant costs were based on the contracted rates with the current mine and plant operators.

*Port costs:* The Group has a draft port access agreement with Transnet for Saldanha port but this has not yet been signed. The Group has paid guest port charges for Saldanha for the shipments in 2023 to date, which are higher than the assumed port cost in the LOM model but in line with the draft agreement with Transnet.

*Transportation costs:* Transnet has informed the Group that it may have to export some shipments through Cape Town in 2023 and 2024 which would lead of higher transportation cost to Cape Town. The transportation costs in the discounted cashflows assume that 10% of 2023 and 2024 shipments are through Cape Town at the higher logistic cost.

As production is still ramping up and the port access agreement with Transnet has not yet been signed, the actual operating costs may be higher than the estimates in the discounted cash flows.

*Discount rates:* A discount rate of 12.59% was applied to the discounted cash flows used in the LOM plan. This discount rate is derived from the Group's post-tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings the Group is obliged to service. Specific risk is incorporated by applying beta factors. The beta factors are evaluated annually based on publicly available market data.

There is a risk that revenue is lower and operating costs are higher than the estimates included in the discounted cashflows with the result that the recoverable amount from the Elandsfontein mine is lower than the discounted cashflows. Please also see Note 25 Impairment losses for sensitivity analysis.

## Notes to the Company Financial Statements for the year ended 31 December 2022 (continued)

### *Funding*

The Group is consequently dependent on future fundraisings to meet any production costs, overheads, future development and exploration requirements and quarterly repayments on the BNP loan that cannot be met from existing cash resources and sales revenue.

ARC Fund, on various occasions in the past provided funding to support the Group's operations. In May 2022, Kropz secured a further ZAR equity facility of up to ZAR 177 million from ARC Fund to be used exclusively for the purposes of bringing the Elandsfontein project to first revenues, given a slower ramp-up in operations than originally envisaged. More recently, as announced on 14 March 2023, Kropz, Kropz Elandsfontein and the ARC Fund agreed to further ZAR 285 million (approximately US\$ 15.5 million) bridge loan facilities to meet immediate cash requirements at Kropz Elandsfontein. A first draw down of ZAR 25 million (approximately US\$ 1.4 million) on this was made on 14 March 2023. The loan is unsecured, repayable on demand, with no fixed repayment terms and is repayable by Kropz Elandsfontein on no less than two business days' notice. Interest is payable at the South African prime overdraft interest rate plus 6%, nominal per annum and compounded monthly. A second draw down for an amount of ZAR 90 million was made on 28 March 2023 and a third drawdown of ZAR 30 million was made on 25 April 2023. A fourth drawdown of ZAR 80 million was made on 23 June 2023 for Kropz Elandsfontein to be able to service its quarterly payment of interest and capital to BNP Paribas. ZAR 60 million remains undrawn at the date of this report. Given that BNP Paribas is exiting South Africa, the Group was unable to refinance the existing loan with them. Considering their position, BNP has been supportive of the refinancing strategy and has waived the requirement on the Company to reach project completion at Elandsfontein as well as to fund the debt service reserve account consecutively since December 2022 to 30 September 2023. Kropz Elandsfontein has made all the capital and interest payments to BNP as required to the date of this report.

A further funding shortfall is expected in the year subsequent to the date of these accounts and as a result the Group will need to raise funding to provide additional working capital to finance its ongoing activities.

Management has successfully raised money in the past from its supportive major shareholder, but there is no guarantee that adequate funds will be available if needed in the future. Management has confirmed with ARC and have sufficient comfort that they have no intention to call any outstanding loans over the next 18-months for cash repayment. Management engages frequently with BNP regarding the capital repayment and refinancing of the BNP debt facility. Significant progress has been made with the refinancing of the BNP loan facility and Management, at the date of this report, are in advance discussions with several investors to provide the required funding to repay the BNP debt facility.

### *Going concern basis*

Based on the Company's current available reserves, recent operational performance, forecast production and sales at Kropz Elandsfontein coupled with Managements' track record to successfully raised additional funds as and when required, to meet its working capital and capital expenditure requirements, the Board have concluded that they have a reasonable expectation that the Company will continue in operational existence for the foreseeable future and at least to December 2024.

For these reasons the financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As there can be no guarantee that the required future funding can be raised in the necessary timeframe, a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

## **Notes to the Company Financial Statements for the year ended 31 December 2022 (continued)**

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

### **(b) Interest revenue**

Interest revenue is accrued on a time basis, by reference to the principal outstanding and the effective interest rate.

### **(c) Fixed asset investments**

Fixed asset investments in Group undertakings are carried at cost less any provision for impairment.

### **(d) Foreign currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Exchange differences arising on the translation of the Company's results and net assets from its functional currency of GBP to the presentational currency of US\$ are taken to the foreign currency translation reserve.

### **(e) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, deposits with financial institutions and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

### **(f) Share-based payment arrangements**

The policy for the Company's share-based payment arrangements can be found in Note 2(r) of the Consolidated Financial Statements.

### **(g) Derivative assets / liabilities**

Derivatives that are embedded in a host contract are accounted for separately as derivatives if they are not closely related to the host contract, unless the hybrid (combined) instrument is measured at fair value with changes in fair value recognised directly in the income statement.

Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

A derivative is a financial instrument that changes in value in response to an underlying price and creates the rights and obligations that usually have the effect of transferring between parties to the instrument one or more of the financial risks inherent in an underlying instrument. A key characteristic of derivatives is that they require little or no initial net investment and will be settled at a future date.

Separable embedded derivatives are measured at fair value with all changes in fair value recognised in the income statement.



## Notes to the Company Financial Statements for the year ended 31 December 2022 (continued)

### 3. Investment in subsidiaries

	31 December 2022 US\$'000	31 December 2021 US\$'000
<b>Cost / recoverable amount</b>		
At beginning of the year	108,650	98,991
Purchase of non-redeemable preference shares in Kropz Elandsfontein	41,000	29,000
Impairment of non-redeemable preference shares in Kropz Elandsfontein	(56,104)	(22,239)
Preference shares paid in excess	(2,316)	547
Preference dividends due from subsidiary – Kropz Elandsfontein	5,046	2,156
Impairment of preference dividends due from subsidiary – Kropz Elandsfontein	(10,304)	-
Share-based payment transaction with subsidiaries	57	195
Impairment of investment in subsidiaries	(45,846)	-
<b>At 31 December</b>	<b>40,183</b>	<b>108,650</b>

Details of the Company's subsidiaries as at 31 December 2022 are set out in Note 3 to the Consolidated Financial Statements.

The Company granted a total of 6,700,000 share options to employees in the Group during the year ended 31 December 2020 and a further 7,800,000 during the year ended 2021. The Company has an obligation to settle the transactions with the subsidiary's employees by providing its own equity instruments and has measured its obligation in accordance with the requirements applicable to equity-settled share-based payment transactions through the recognition of an increase to the cost of investment in each subsidiary.

The Company has invested, in aggregate, US\$ 122 million (2021: US\$ 81 million) in non-redeemable preference shares of Kropz Elandsfontein. The non-redeemable preference shares principal is not repayable but bears interest at the 1 month SOFR plus 3%, compounded monthly in arrears, and is payable the earlier of 14 December 2022, or the first date that Kropz Elandsfontein is permitted to pay a distribution pursuant to the provisions of the BNP facility agreement. Pursuant to the amended preference share subscription agreement ("PSSA"), Kropz plc shall apply all amounts borrowed under the Original Equity Facility, ZAR 200 Million Equity Facility, ZAR 177 Million Equity Facility and a proportion of the ZAR 550 Million Equity Facility for purposes of Kropz Elandsfontein to subscribe for further non-redeemable preference shares in Kropz Elandsfontein.

### 4. Debtors

	31 December 2022 US\$'000	31 December 2021 US\$'000
VAT recoverable	22	20
Other debtors	93	118
	<b>115</b>	<b>138</b>

## Notes to the Company Financial Statements for the year ended 31 December 2022 (continued)

### 5. Share capital

Details of the Company's authorised, called-up and fully paid share capital are set out in Note 12 to the Consolidated Financial Statements.

The ordinary shares of the Company carry one vote per share and an equal right to any dividends declared.

### 6. Reserves

#### Foreign exchange translation reserve

The foreign exchange translation reserve comprises all foreign currency differences arising from the translation of the assets, liabilities and equity of the entities included in these financial statements from their functional currencies to the presentational currency.

#### Share premium

The share premium account represents the amount received on the issue of ordinary shares by the Company, other than those recognised in the merger reserve described below, in excess of their nominal value and is non-distributable.

#### Merger reserve

The merger reserve represents the amount received on the issue of ordinary shares by the Company in excess of their nominal value on acquisition of subsidiaries where merger relief under section 612 of the Companies Act 2006 applies. The merger reserve consists of the merger relief on the issue of shares to acquire Kropz SA on 27 November 2018 and Cominco Resources on 30 November 2018.

#### Share-based payment reserve

The share-based payment reserve arises from the requirement to value share options and warrants in existence at the year end at fair value (see Note 12 to the Consolidated Financial Statements).

### 7. Creditors: amounts falling due within one year

	31 December 2022 US\$'000	31 December 2021 US\$'000
Trade creditors	176	137
Taxes and social security	-	11
Provision for bonus	-	130
Other creditors and accruals	144	111
	<b>320</b>	<b>389</b>

### 8. Shareholder loans and derivative

	31 December 2022 US\$'000	31 December 2021 US\$'000
Convertible debt - ARC	15,055	6,191
Derivative liability	23,037	2,656
	<b>38,092</b>	<b>8,847</b>

## Notes to the Company Financial Statements for the year ended 31 December 2022 (continued)

### Convertible debt - ARC

On 20 October 2021, the Company entered into a new convertible equity facility of up to ZAR 200 million ("ZAR 200 Million Equity Facility") with ARC, the Company's major shareholder. Interest is payable at 14% nominal, compounded monthly. At any time during the term of the ZAR 200 Million Equity Facility, repayment of the ZAR 200 Million Equity Facility capital amount will, at the election of ARC, either be in the form of the conversion into ordinary shares of 0.1 pence each ("Ordinary Shares") in the Company and issued to ARC, at a conversion price of 4.5058 pence per Ordinary Share each, representing the 30-day Volume Weighted Average Price ("VWAP") on 21 September 2021, and at fixed exchange rate of GBP 1 = ZAR 20.24 ("Conversion"), or payable in cash by the Company at the end of the term of the ZAR 200 Million Equity Facility which is 27 October 2026. The Company made a drawdown of ZAR 90 million of the ZAR 200 Million Equity Facility on 26 October 2021 and a further ZAR 37 million on 9 December 2021. Two further draw downs were made in 2022, one on 25 March 2022 for ZAR 40 million and ZAR 33 million on 26 April 2022. The ZAR 200 Million Equity Facility is fully drawn at the date of this report.

As announced on 11 May 2022, the Company entered into a new conditional convertible equity facility of up to ZAR 177 million ("ZAR 177 Million Equity Facility") with ARC. Interest is payable at 14% nominal, compounded monthly. At any time during the term of the ZAR 177 Million Equity Facility, repayment of the ZAR 177 Million Equity Facility capital amount will, at the election of ARC, either be in the form of the conversion into Ordinary Shares in the Company and issued to ARC, at a conversion price of 9.256 pence per Ordinary Share each, representing the 30-day Volume Weighted Average Price ("VWAP") on 4 May 2022, and at fixed exchange rate of ZAR 1 = GBP 0.0504 ("Conversion"), or payable in cash by the Company at the end of the term of the ZAR 177 Million Equity Facility which is 2 June 2027. The first drawdown on the ZAR 177 Million Equity Facility occurred on 2 June 2022 for ZAR 103.5 million. The second drawdown on the ZAR 177 Million Equity Facility was made on 7 July 2022 for ZAR 60 million. On 9 August 2022, a final drawdown on the ZAR 177 Million Equity Facility was made for ZAR 13.5 million. The ZAR 177 Million Equity Facility is fully drawn at the date of this report.

As announced on 14 November 2022, the Company entered into a new conditional convertible equity facility of up to ZAR 550 million ("ZAR 550 Million Equity Facility") with ARC. Interest is payable at the South African prime overdraft interest rate plus 6%, nominal per annum and compounded monthly. At any time during the term of the ZAR 550 Million Equity Facility, repayment of the ZAR 550 Million Equity Facility capital amount will, at the election of ARC, either be in the form of the conversion into Ordinary Shares in the Company and issued to ARC, at a conversion price of 4.579 pence per Ordinary Share each, representing the 30-day Volume Weighted Average Price ("VWAP") on 21 October 2022 and at fixed exchange rate of ZAR 1 = GBP 0.48824 ("Conversion"), or payable in cash by the Company at the end of the term of the ZAR 550 Million Equity Facility which is 30 November 2027. The first drawdown on the ZAR 550 Million Equity Facility occurred on 1 December 2022 for ZAR 307.5 million. The second drawdown on the ZAR 550 Million Equity Facility of ZAR 135 million occurred on 22 December 2022. The third drawdown on the ZAR 550 Million Equity Facility of ZAR 60 million occurred on 25 January 2023 and the fourth drawdown of ZAR 40 million occurred on 27 February 2023. ZAR 7.5 million remains undrawn on the ZAR 550 Million Equity Facility.

### Convertible liability

It was determined that the conversion option embedded in the convertible debt equity facility be accounted for separately as a derivative liability. Although the amount to be settled is fixed in ZAR, when converted back to Kropz's functional currency, will result in a variable amount of cash based on the exchange rate at the date of conversion. The value of the liability component and the derivative conversion component were determined at the date of draw down using a Monte Carlo simulation. The debt host liability was bifurcated based on the determined value of the option. Subsequently, the embedded derivative liability is adjusted to reflect fair value at each period end with changes in fair value recorded in profit and loss (refer to Note 30 to the Consolidated Financial Statements).

## Notes to the Company Financial Statements for the year ended 31 December 2022 (continued)

### 9. Related party transactions

The only key management personnel of the Company are the Directors. Details of their remuneration are contained in Note 20 to the Consolidated Financial Statements.

The following transactions and balances with subsidiaries occurred in the year:

	<b>31 December 2022 US\$'000</b>	<b>31 December 2021 US\$'000</b>
Opening balance	<b>49,904</b>	43,926
Loans advanced	<b>612</b>	5,978
Loans repaid	<b>(877)</b>	-
Impairment of loans to subsidiaries	<b>(42,428)</b>	-
	<b>7,211</b>	<b>49,904</b>

### 10. Subsequent events

Disclosures in relation to events after 31 December 2022 are shown in Note 34 to the Consolidated Financial Statements.

In addition to the above, Kropz plc subscribed for a further 5 non-redeemable preference shares of US\$ 1 million each in Kropz Elandsfontein post the reporting period and up to the date of signing of these accounts.

## **Company information**

### **Directors**

Lord Robin William Renwick of Clifton, Non-executive Chairman  
Louis Ronald Loubser, Chief Executive Officer  
Michael (Mike) John Nunn, Non-executive Director  
Gerrit Jacobus Duminy, Non-executive Director  
Linda Janice Beal, Independent Non-executive Director

### **Company secretary**

Fusion Corporate Secretarial Service (Pty) Ltd

### **Company number**

11143400

### **Registered address**

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### **Independent auditors**

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## **Company information (continued)**

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### **Principal bankers**

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### **Financial PR**

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### **Market consultant**

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**Company's website:** [www.kropz.com](http://www.kropz.com)