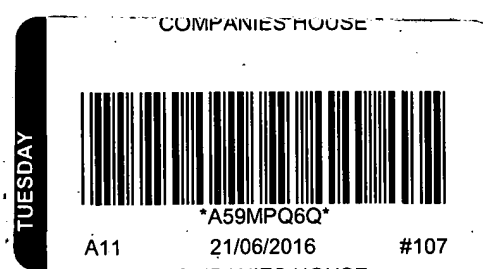


York Potash Ltd

**Directors' report and financial statements
for the period ended 31 December 2015**

Company number: 07251600



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DIRECTORS' REPORT for the period ended 31 December 2015

The directors present the audited financial statements of York Potash Limited ("the Company" or "York Potash") for the period ended 31 December 2015.

Principal activities

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

DIRECTORS

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

CN Fraser (Managing Director and CEO)

T Staley (Chief Financial Officer)

G Clarke (Operations Director)

The Company Secretary who served the Company during the period and up to the date of signing the financial statements is: N King

DATE OF INCORPORATION

York Potash Limited was incorporated on 12/05/2010.

RESULTS AND DIVIDENDS

The Company's year-end cash and cash equivalents position as at 31 December 2015 was £3.3 million (12 months to March 2015: £ 15.5 million). The loss for the Company for the period was £2.6 million (12 months to March 2015: £ 4.4million).

The directors do not recommend a payment of a dividend for the year (31 Mar 2015: £nil).

QUALIFYING THIRD-PARTY INDEMNITY INSURANCE

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

MANDATORY CARBON REPORTING

In its current state the Company has no operations and has not traded in the period. As such the Company does not have greenhouse gas emissions to report from its operations, and it does not have responsibility for any other emissions producing entities as defined under the Companies Act 2006 (strategic and directors' reports) Regulations 2013.

PROVISION OF INFORMATION TO AUDITORS

The directors, at the date of signing, confirm that at the date of approval of this report that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that they have taken all steps they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the Company's financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. 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.

The directors consider that the annual financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Company's performance, business model and strategy.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP has indicated its willingness to continue in office. In accordance with Section 489 of the Companies Act 2006, resolutions will be proposed at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers LLP as independent auditor, and to authorise the directors to determine the auditor's remuneration for the ensuing period.

DIRECTORS' REPORT (continued)

On behalf of the Board

A handwritten signature in black ink, consisting of a stylized 'C' followed by a horizontal line and a diagonal stroke.

CN Fraser
Managing Director

STRATEGIC REPORT for the period ended 31 December 2015

The directors present their strategic report on the Company for the period ended 31 December 2015.

The strategy has remained consistent for some years and is aligned to the board's view of how to deliver the best value - this is to bring the Company's North Yorkshire polyhalite project (the Project) into production.

The Company has been progressively de-risking the Project and moving closer to construction and ultimately, therefore, to production. This began with the successful exploration programme and resource definition and moved through the successful planning approvals stages for the key permissions needed to start construction. It has included the securing of multiple customer contracts and commitments for the Project's POLY4 product. It has also delivered an improved business model through the progression of a number of project studies, culminating in the recent (post financial period) publication of the material findings of the DFS.

Our underlying strategy is underpinned by the following principles:

1. Large scale

The Company is targeting the bulk production of polyhalite, in order to allow it to become a disruptive influence in the market. It is aiming initially to extract over 10 Mtpa of multi-nutrient fertilizer and more recently the Company has adapted its Project to ultimately extract up to 20 Mtpa of polyhalite.

2. Low cost

Linked to the disruptive attributes of targeting large-scale production, a low-cost operation helps to facilitate this disruption in the market. The Project has access to the world's largest and highest grade resource of polyhalite, with a simple business model in place to extract it. The high-quality nature of the polyhalite deposit, the proposed efficiency of the mining operation and close proximity to a deep water port will allow the Project to be one of the most cost-competitive producers of multi-nutrient fertilizer in the world.

3. Long life

York Potash's parent company, Sirius Minerals, seeks to develop assets with long-life resources, ideally over 50 years. The Project more than meets this criterion, with an inferred resource of 2.66 billion tonnes of polyhalite from just seven per cent of the Project's area of interest. High-quality and long-life assets provide the Company with greater certainty of future outcomes.

4. Independent and customer aligned

Much of the fertilizer industry, especially in the potassium space, is highly consolidated and controlled by a limited number of industry players. The Company believes there is a competitive

STRATEGIC REPORT (continued)

advantage to be gained by engaging directly with major customers, many of which are eager to see additional sources of supply enter the market.

Approvals

The financial period saw the key approvals granted for the Project that everyone at the Company has worked so hard to achieve for a number of years. In April 2015 we received approval from the Redcar and Cleveland Borough Council (RCBC) regulatory committee for the mine and mineral transport system (MTS). The formal decision notice was received in August 2015 and its judicial review window closed six weeks later, leaving an implementable planning permission beyond legal challenge. A similar pattern was followed for the materials handling facility (MHF) and the two supporting park-and-ride applications from other local authorities.

Whilst all the approvals for the Project are vital, the positive determination of the mine and MTS application by the North York Moors National Park Authority (NYMNPA) in June 2015 was a defining moment for the Company. It is difficult to properly articulate the level of hard work, personal sacrifice and commitment made by so many of our staff to achieve this very hard-earned milestone. The good wishes and our celebrations that followed this success are, I believe, just a prelude to many more as the Company continues to strive to achieve future goals.

The formal decision notice was also issued during the period (in October 2015) and now stands beyond legal challenge. The success of this application validated what the board and management team had been saying from the outset of the Project – that we had an extremely strong planning case, that we did not believe there were any environmental show-stoppers and that we would adopt extremely high levels of environmental mitigation and enhancement. The many benefits of the Project will be felt not just by the Company, but also by the local region and the UK as a whole in terms of investment, growth and employment opportunities, as well as export and tax revenues.

Sales

It has been a notable period for further developments with sales, with the main highlight being the tripling of the POLY4 take-or-pay supply agreement that we have with our major North American customer, a US-based Fortune 500 agri-business. The agreement is now for 1.5 million tonnes per annum and has been extended from five to seven years. There are possible extension options for two additional five-year periods.

The agreement is the furthering of a relationship with our valued counterparty. It is a forward-looking business, and we have spent much time with its team in analysing the breadth of opportunity in the markets they intend to supply our product to. As we progress towards our goals we expect them to share in our successes, having been an early adopter to the benefits of the product and understanding the valuable role it can play in their supply mix.

STRATEGIC REPORT (continued)

These commercial conversations are ongoing with customers all around the world. As we have already seen, there is a strong desire to see our POLY4 product come to market, as customers want new sources of supply of multi-nutrient fertilizer. Our discussions are aided by our ongoing agronomic work, which develops year-on-year, with results published on the Company website. This work is not about proving that polyhalite works as a fertilizer, it is about helping our customers to fully understand the value opportunities that it brings.

Project studies and development

Work on the definitive feasibility study (DFS) has been an ongoing theme for this financial period. Having initially started in 2014, the work on it has ebbed and flowed as the Project has developed, particularly to incorporate the final approvals outcomes. We had hoped that the DFS would be complete by the end of 2015, although this timescale slipped to early 2016. Whilst disappointing, the complexity of the inputs led us to ensure that we were confident with the accuracy of the outputs before releasing the material findings. As a non-adjusting post-balance sheet event, I'm pleased to report that the material findings of the DFS were published in March 2016 and confirmed the definition of a world-class fertilizer business.

The DFS defined a world-class fertilizer business and underlined the compelling economics behind the Project. It is one that has a net present value of US\$15 billion today, with the potential to rise to US\$27 billion upon commencement of production. The production capacity of the Project would be up to 20 Mtpa of polyhalite, rising from an initial installed capacity of 10 Mtpa. It is a high-margin business model, with average cash operating costs estimated at US\$27.2 per tonne at full production and industry leading cash margins of 70 to 85%.

Whilst the DFS is a technical study of the Project and its construction, and a blueprint for delivering it into steady-state operations, there has also been parallel value engineering work ongoing with contractors bidding for the main work packages. Two of these packages cover the construction of the MTS and the mine shafts and mine site infrastructure. The Company has been working with contractors to refine their tenders for the work, with a view to selecting a preferred contractor in mid-2016.

There has been other work ongoing which contributes to the Project's development. This has included geotechnical investigation (drilling and analysis) along the route of the MTS, investigation at the MHF site and ongoing environmental monitoring. As a post-balance sheet event we have committed the financing and internal resources required to deliver the improvement of Mayfield junction in Whitby – one of the critical highways works required for construction of the Project to begin. This has been done in conjunction with the highways department at North Yorkshire County Council.

STRATEGIC REPORT (continued)

People

Our people remain one of the business's strongest assets. It takes a special mind-set for people to both commit their careers to the development of a Project like ours and possess the skills, knowledge and flexibility to adapt to the Company's changing needs. We have built a team, largely

based at our Scarborough head office, that has a breadth of skills and experience which is ultimately helping us to deliver our goals.

We continue to develop our employees wherever possible. Our five office-based apprentices have progressed to take on full time roles with the Company. Another of the undergraduates we supported through university has joined the business as a full-time employee. We remain committed to supporting talented graduates and to the expansion of our apprenticeship programme during the construction period of the Project.

In the financial period our staffing has remained very settled and the management team has also remained consistent. The board and management are however cognisant of the fact that, as we head into the construction phases of the Project, there will inevitably be greater changes aligned to this development. We will retain our efforts to maintain a strong culture that leaves us well-suited to these transitions.

Finance

The consolidated financial statements for the year ended 31 December 2015 have been prepared under the going concern assumption. However, the directors recognise that the material uncertainty remains around financing for the Project. The impact of this uncertainty on the directors' consideration of the going concern assumption is set out in note 1 to the financial statements.

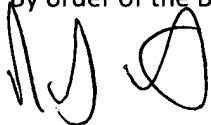
During the nine-month period ended 31 December 2015 the Group made a consolidated loss of £7.0 million compared to a loss of £9.6 million for the year ended 31 March 2015.

The year ahead

We are in another exciting phase in the Company's development. With the announcement of the material findings of the DFS in March 2016 (out of financial period) the platform has been set to undertake the first phase of funding for the Project. This will be yet another significant step in de-risking the Project and continuing to deliver shareholder value as we progress towards becoming a major multi-nutrient fertilizer producer.

Thank you for your ongoing support and I look to reporting further successes in next year's report.

By order of the Board



NA King
Company Secretary
22 April 2016

Independent auditors' report to the members of York Potash Ltd

Report on the financial statements

Our opinion

In our opinion:

- York Potash Ltd company financial statements (the "financial statements") give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss and cash flows for the 9 month period (the "period") then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going concern

In forming our opinion on the company financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company (and the group of which it is part) is involved in efforts to secure short and long term finance for its polyhalite project in North Yorkshire, the outcome of which is uncertain. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The company financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the statement of financial position as at 31 December 2015;
- the income statement and statement of comprehensive income for the period then ended;
- the statement of cash flows for the period then ended;
- the statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ian Morrison

Ian Morrison BA ACA (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

22 April 2016

STATEMENT OF TOTAL COMPREHENSIVE INCOME for the period ended 31 December 2015

		9 month period ended Dec 2015	Mar 2015
	Notes	£000s	£000s
Continuing operations			
Revenue		-	-
Administrative expenses	3	(3,200)	(5,023)
Operating loss		(3,200)	(5,023)
Finance income	4	42	248
Finance costs		(14)	(19)
Loss before taxation	3	(3,172)	(4,794)
Taxation	6	550	438
Total comprehensive loss for the period		(2,622)	(4,356)

STATEMENT OF FINANCIAL POSITION as at 31 December 2015

	Notes	Dec 2015 £000s	Mar 2015 £000s
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,849	1,926
Intangible assets	8	105,775	89,525
		107,624	91,451
Current assets			
Other receivables	9	1,012	1,043
Loans to group companies	10	1,455	992
Cash and cash equivalents	11	3,307	15,527
Loans and receivables	12	-	-
		5,774	17,562
TOTAL ASSETS		113,398	109,013
EQUITY AND LIABILITIES			
Equity			
Share capital	13	50	50
Share premium account		168	168
Share based payment reserve		3,615	3,098
Accumulated losses		(12,757)	(10,135)
Total equity		(8,924)	(6,819)
Current liabilities			
Trade and other payables	15	2,896	2,637
Loan from third party	12	748	748
Loan from parent company	14	118,678	112,447
Total liabilities		122,322	115,832
TOTAL EQUITY AND LIABILITIES		113,398	109,103

The financial statements on pages 13 to 16 were issued and approved by the Board of Directors on 22 April 2016 and were signed on its behalf by:



CN Fraser
Managing Director

Company Registration Number 07251600

STATEMENT OF CHANGES IN EQUITY for the period ended 31 December 2015

	Share capital £000s	Share premium account £000s	Share based payment reserve £000s	Accumulated losses £000s	Total Equity £000s
At 1 April 2015	50	168	3,098	(10,135)	(6,819)
Total comprehensive income				(2,622)	(2,622)
Share based payments			517		517
At 31 December 2015	50	168	3,615	(12,757)	(8,924)

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

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

The share based payment reserve is used to record the share based payments made by the Company.

STATEMENT OF CASH FLOWS for the period ended 31 December 2015

		9 month period ended Dec 2015	Mar 2015
	Notes	£000s	£000s
Cash (outflow)/inflow used in operating activities	16	(2,496)	(5,693)
Cash outflow from investing activities			
Purchase of intangible assets	8	(15,533)	(27,187)
Purchase of plant and equipment	7	(1)	(62)
Loan to group companies	10	(463)	(126)
Net cash used in investing activities		(15,997)	(27,375)
Cash flow from financing activities			
Loan from third party	12	-	-
Loan from parent company	14	6,231	46,994
Finance income		42	248
Net cash generated from financing activities		6,273	47,242
Net (decrease)/increase in cash and cash equivalents		(12,220)	14,174
Cash and cash equivalents at beginning of the period		15,527	1,353
Cash and cash equivalents at end of the period	11	3,307	15,527

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015

1. Accounting policies

Basis of preparation

The financial statements of York Potash Ltd ("the Company") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

IFRS is subject to amendment and interpretation by the International Accounting Standards Board ("IASB") and the International Financial Reporting Standards Interpretations Committee ("IFRIC") and there is an ongoing process of review and endorsement by the European Commission. The financial statements have been prepared on the basis of the recognition and measurement principles of IFRS that were applicable at 31 December 2015.

The financial statements have been prepared under the historical cost convention. The principal accounting policies set out below have been consistently applied to all periods presented.

The Company is a private limited company which is incorporated and domiciled in the UK. The address of its registered office is shown on page 31.

Going concern

The Company incurred a loss for the financial period after taxation of £2,622,000 (Mar 2015 £4,356,000) and as at 31 December 2015, its liabilities exceeded its assets by £8,924,000 (Mar 2015 £6,819,000).

Whilst the Directors remain confident of a positive outcome in each of the following areas they recognise that there are a number of material uncertainties inherent in the York Potash Project, namely;

- Securing sufficient financing to fund full operational development
- The recoverability of the inter-group loan

An unsuccessful outcome in respect of any of these material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. However the Directors remain positive, following recent planning decisions covering the Project's mine and mineral transport system, about the Group's ability to raise finance in the future. The Directors are of the view that additional funding will be secured as necessary.

The Group retains the ability to defer certain expenditure and operate within the level of its existing funds for a period which the Directors believe to be sufficient to enable them to secure funding. On this basis the Directors have concluded that the Group retains sufficient resources to meet its obligations as they fall due for a period of at least 12 months from the date of approval of these financial statements. The financial statements do not include the adjustments which would result if the Group were unable to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

International Financial Reporting Standards in "issue" but not yet effective

At the date of authorisation of these financial statements, the IASB and IFRIC have issued standards and interpretations which are effective for annual accounting periods beginning on or after the stated effective date. Whilst these standards and interpretations are not effective for and have not been applied in the preparation of these financial statements, the following may have a material impact going forward:

- IAS 32 (Amendment) 'Financial Instruments: Presentation' (effective from 1 January 2014).
- IFRS 9 'Financial Instruments' (effective from 1 January 2015).

Plant and equipment

Plant and equipment are stated at cost less depreciation less any recognised impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of these items. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the costs can be measured reliably. All other costs, including repair and maintenance costs are charged to the income statement in the period in which they are incurred. Depreciation is provided on all tangible fixed assets and is calculated on a straight-line basis to allocate cost, other than assets in the course of construction, over the estimated useful lives, as follows:

Computer equipment	33.3% per annum
Furniture & fixtures	33.3% per annum
Plant & machinery	33.3% per annum
Motor vehicles	20% per annum
Leasehold improvements	20% per annum

Freehold land is not depreciated.

Software

Computer software is carried at cost less accumulated amortisation and impairments, and is amortised on a straight-line basis over 3 years. Amortisation of software is included within administrative expenses in the statement of comprehensive income.

Exploration and evaluation assets

Costs arising from exploration and evaluation activities are accumulated separately for each area of interest and only capitalised where such costs are expected to be recouped through successful development, or through sale, or where exploration and evaluation activities have not, at the reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

Expenditure capitalised comprises direct costs that have a specific connection with a particular area of interest.

Capitalised expenditure in respect of areas of interest is written off in the income statement when the above criteria do not apply or when the Directors assess that the carrying value may exceed the recoverable amount.

Capitalised costs in respect of an area of interest that is abandoned are written off in the period in which the decision to abandon is made.

Once production commences, capitalised expenditure in respect of an area of interest is amortised on a unit of production basis by reference to the reserves of that area of interest. Amortisation of all classes of intangible assets is included within administrative expenses in the statement of comprehensive income.

Impairment

At each statement of financial position date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of the impairment loss is recognised in the income statement immediately.

Cash and cash equivalents

Cash and cash equivalents include various instant access deposits and short term fixed deposits.

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

Loans and other receivables

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

Trade and other payables

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

Equity instruments

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

Share based payments

The Group has applied the requirements of IFRS 2 'Share Based Payments'.

The Group issues equity settled share based payments to certain directors, senior managers and employees. Equity settled share based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates and laws that have been enacted (or substantially enacted) by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

Employee benefits

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

Foreign currencies

The reporting and functional currency of the Company is Sterling. Transactions denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are dealt with in the income statement.

2. Critical accounting estimates and judgements

The critical accounting estimates and judgements made by the Company regarding the future or other key sources of estimation, uncertainty and judgement that may have a significant risk of giving rise to a material adjustment to the carrying values of assets and liabilities within the next financial period are:

Impairment of exploration and evaluation assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015
(continued)

3. Loss before taxation is stated after charging:

	9 month period ended Dec 2015	Mar 2015
	£000s	£000s
Auditors' remuneration		
Fees payable to the Company's auditor and their associates		
– the audit of the Company pursuant to legislation	30	30
– tax services	-	11
Depreciation	78	157
Amortisation	6	18
Foreign Exchange	14	19
	<hr/>	<hr/>

4. Finance income

	9 month period ended Dec	Mar 2015
	£000s	£000s
Bank interest received	42	80
Other Interest Received	-	168
	<hr/>	<hr/>
	42	248

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

5. Staff numbers and costs

	9 month period ended Dec 2015 Number	Mar 2015 Number
Average monthly number of staff	44	45

Total staff costs during the period were:

	9 month period ended Dec 2015 £000s	Mar 2015 £000s
Wages and salaries	2,617	3,231
Social security costs	339	407
Other benefits & pension costs	158	95
	<u>3,114</u>	<u>3,733</u>

Of the above total costs, £1,831,000 (to Mar 2015: £2,183,000) have been capitalised within intangible exploration costs. The charge to the statement of comprehensive income is therefore as follows:

	9 month period ended Dec 2015 £000s	Mar 2015 £000s
Wages and salaries	1,014	1,301
Social security costs	134	154
Other pension costs	135	95
	<u>1,283</u>	<u>1,550</u>

Directors of the company are remunerated in the parent company Sirius Minerals Plc.

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

6. Taxation

	9 month period ended Dec 2015 £000s	Mar 2015 £000s
Corporation tax payable based on the loss for the period at 20% (Mar 2015: 21%)	-	-
Taxation reconciliation		
Loss on ordinary activities before taxation	(3,172)	(4,794)
Loss on ordinary activities multiplied by the standard rate of corporation taxation in the UK of 20% (Mar 2015: 21%)	(635)	(1,007)
<i>Taxation effects of:</i>		
Expenses not deductible for tax purposes	17	35
Trading losses utilised	(14)	(56)
Trading losses not utilised	632	1,036
Capital allowances in excess of depreciation	-	(8)
Tax charge for the period	-	-

The standard rate of Corporation Tax in the UK changed from 21% to 20% with effect from 1 April 2015.

The Company has unused tax losses of £13,789,000 (Mar 2015: £10,701,000). The related deferred tax asset has not been recognised in the accounts due to the uncertainty surrounding its recoverability. The deferred tax asset can be recovered against suitable future trading profits.

During the period the company had an approved tax credit of £550,000 in relation to the HMRC Research and Development Relief Scheme for SME's.

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

7. Property plant and equipment

	Freehold Property £000s	Computer equipment £000s	Furniture & Fixtures £000s	Plant and Machinery £000s	Motor vehicles £000s	Leasehold Improve- ments £000s	Total £000s
Cost							
At 1 April 2013	309	142	164	92	110	93	910
Additions	1,456	3	1	1	-	-	1,461
Disposal	-	-	-	(14)	-	-	(14)
Expensed	-	(8)	-	-	-	-	(8)
At 1 April 2014	1,765	137	165	79	110	93	2,349
Additions	-	50	2	10	-	-	62
At 31 March 2015	1,765	187	167	89	110	93	2,411
Additions	-	1	-	-	-	-	1
At 31 December 2015	1,765	188	167	89	110	93	2,412
Accumulated depreciation							
At 1 April 2013	-	29	47	48	31	12	167
Charge for year	-	45	54	29	21	21	170
Eliminated on disposal	-	-	-	(9)	-	-	(9)
At 1 April 2014	-	74	101	68	52	33	328
Charge for year	-	51	51	13	21	21	157
At 31 March 2015	-	125	152	81	73	54	485
Charge for period	-	30	13	3	16	16	78
At 31 December 2015	-	155	165	84	89	70	563
Net book value							
At 31 December 2015	1,765	33	2	5	21	23	1,849
At 31 March 2015	1,765	62	15	8	37	39	1,926
At 31 March 2014	1,765	63	64	11	58	60	2,021

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

8. Intangible assets

	Exploration costs & rights £000s	Software £000s	Total £000s
Cost			
At 1 April 2013	41,494	69	41,563
Additions	19,097	-	19,097
At 1 April 2014	60,591	69	60,660
Additions	28,927	-	28,927
At 31 March 2015	89,518	69	89,587
Additions	16,256	-	16,256
At 31 December 2015	105,774	69	105,843
Accumulated amortisation			
At 1 April 2013	-	22	22
Charge for year	-	22	22
At 1 April 2014	-	44	44
Charge for year	-	18	18
At 31 March 2015	-	62	62
Charge for period	-	6	6
At 31 December 2015	-	68	68
Net book value			
At 31 December 2015	105,774	1	105,775
At 31 March 2015	89,518	7	89,525
At 31 March 2014	60,591	25	60,616

9. Other receivables

	9 month period ended Dec 2015 £000s	Mar 2015 £000s
Prepayments	262	355
Other receivables	750	688
	1,012	1,043

The Directors consider that the carrying amount of other receivables approximates to their fair value.

No bad and doubtful debt charges have been recognised by the Company in the income statement during the period (Mar 2015: £nil).

At 31 December 2015, no receivables were either impaired (Mar 2015: £nil) or past due but not impaired (Mar 2015: £nil).

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

10. Loans to group companies

	9 month period ended Dec 2015 £000s	Mar 2015 £000s
Loan to York Potash Holdings	85	85
Loan to York Potash Processing and Ports	1,370	907
	1,455	992

The loans are interest free and repayable on demand.

The Directors consider the carrying amount of the borrowings approximate to their fair values.

11. Cash and cash equivalents

	9 month period ended Dec 2015 £000s	Mar 2015 £000s
Cash at bank in Sterling	3,307	15,527

The credit risk on the liquid funds is limited because the counter-parties are banks with high credit ratings.

The Directors consider that the carrying amount of the assets approximate to their fair value.

The Company's cash at bank is held in the following currencies:

	9 month period ended Dec 2015 £000s	Mar 2015 £000s
Sterling	2,774	15,518
Euro	9	-
US Dollars	236	4
Canadian Dollars	-	-
Australian Dollars	1	2
South African Rand	287	3
	3,307	15,527

12. Loans payable

	9 month period ended Dec 2015 £000s	Mar 2015 £000s
Loan from third party	(748)	(748)

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

During the period a loan was rolled over by a third party which was used to fund the purchase of the mine head site.

13. Share capital

	9 month period ended Dec 2015 £000s	Mar 2015 £000s
<i>Authorised</i>		
50,001 (Mar 2015: 50,001) ordinary shares of £1	50	50
	Dec 2015 £000s	Mar 2015 £000s
<i>Allotted, called up and fully paid</i>		
50,001 (Mar 2015: 50,001) ordinary shares of £1	50	50

14. Loan from parent company

	9 month period ended Dec 2015 £000s	Mar 2015 £000s
Loan from ultimate parent undertaking	-	1,994
Loan from immediate parent undertaking	118,678	110,453
	118,678	112,447

The loans are interest free and repayable on demand.

The Directors consider the carrying amount of the borrowings approximate to their fair value.

15. Trade and other payables

	9 month period ended Dec 2015 £000s	Mar 2015 £000s
Trade payables	111	729
Other payables	81	73
Accruals	2,704	1,835
	2,896	2,637

The Directors consider the carrying amount of the trade and other payables approximate to their fair values.

At 31 December 2015, no receivables were either impaired (Mar 2015: £nil) or past due but not impaired (Mar 2015: £nil).

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

16. Cash (outflow) /inflow from operating activities	9 month period ended Dec 2015 £000s	Mar 2015 £000s
Loss before tax	(2,622)	(4,356)
Depreciation	78	157
Assets expensed to income statement	-	-
Finance income	(42)	(248)
Amortisation	6	18
Share based payment	517	1,475
Operating cash flow before changes in working capital	(2,063)	(2,954)
(Increase)/Decrease in receivables	30	(254)
(Decrease)/Increase in payables	(463)	(2,485)
Net cash (outflow)/ inflow from operating activities	(2,496)	(5,693)

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

17. Share based payments

Share options

During the period, the movement in share options over shares in the ultimate parent undertaking was as follows:

	Number of options 000s	Weighted Average exercise price £
At 31 March 2015	20,266	0.27
Granted during the period	-	-
Transferred from parent company	-	-
Forfeited during the period	-	-
At 31 December 2015	20,266	0.27
Exercisable at 31 December 2015	11,750	0.21

	Number of options 000s	Weighted Average exercise price £
At 31 March 2015	18,753	0.24
Granted during the period	2,750	0.32
Transferred from parent company	-	-
Forfeited during the period	(1,237)	0.25
At 31 December 2015	20,266	0.27
Exercisable at 31 December 2015	1,500	0.11

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015
(continued)

The fair value of the options is measured by use of the Black Scholes model. The inputs into the model are noted in the tables above. Expected volatility was determined by calculating the historical volatility of the share price of the ultimate parent undertaking.

The options outstanding at the period-end had a weighted average remaining contractual life of 6.8 years (Mar 2015: 7.5 years).

The fair value of the options determined at the grant date is expensed on a straight line basis over the vesting period.

The aggregate of the fair values of the options granted during the period is £nil of which £0 was expensed to the income statement (Mar 2015: £67,000). The fair value of the options that were forfeited during the period is zero (Mar 2015: £231,000). The fair value of options that were granted in the prior year but expensed during the period is £62,000 (Mar 2015: £44,000).

The total expense recognised within the income statement in the period in relation to share options is £365,000 (Mar 2015: £500,000).

Share Awards

During the period, the movement in share awards in relation to shares in the ultimate parent undertaking was as follows:

	Number of shares 000s	Weighted Average exercise price £
At 31 March 2015	14,943	0.00
Granted during the period	-	0.00
Awarded during the period	(328)	0.00
Forfeited	-	0.00
At 31 December 2015	14,615	0.00
Exercisable at 31 December 2015	-	-

The fair value of the share awards is measured by multiplying the number of shares under the award by the closing share price of the ultimate parent undertaking, on the day before the date of grant.

The shares generally vest if the holders are still employed by or engaged with the Company on the vesting dates. Some of the shares carry additional performance related conditions which must be satisfied in order for them to vest.

The fair value of the share awards determined at the grant date is expensed on a straight line basis over the vesting period.

**NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015
(continued)**

The aggregate of the fair values of the share awards granted during the period is £229,000 (Mar 2015: £1,154,000). The fair value of the shares that were forfeited during the period is £nil (Mar 2015: £nil).

The total expense recognised within the income statement in the period in relation to share awards is £145,000 (Mar 2015: £963,000).

At the period-end, the share based payment reserve was made up as follows:

	Dec 2015 £000s
Equity settled share based payments – directors	675
Equity settled share based payments – senior managers	2,941
Equity settled share based payments – employees	5
Equity settled share based payments – previous employees, consultants and advisers	27
	<u>3,648</u>

18. Related party transactions

During the period, the Company paid £463,000 (Mar 2015: £126,000) to York Potash Processing & Ports Ltd and £Nil (Mar 2015: £Nil) to York Potash Holdings Limited, both for working capital purposes. At the period-end, the Company was owed £1,455,000 by the group companies (see note 10).

During the period, the Company received £Nil from Sirius Minerals Plc (the ultimate parent undertaking) and £8,225,000 from York Potash Holdings Limited (the immediate parent undertaking), for working capital purposes. At the period-end, the Company owed £Nil to Sirius Minerals Plc and £118,678,000 to York Potash Holdings Limited (see note 14).

19. Ultimate parent undertaking and controlling party

The immediate parent undertaking is York Potash Holdings Limited.

The ultimate parent undertaking and controlling party is Sirius Minerals Plc, a company incorporated in the UK.

Sirius Minerals Plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2015. The consolidated financial statements of Sirius Minerals Plc can be obtained from www.siriusminerals.com.

20. Financial instruments

The Company's financial instruments comprise cash and cash equivalents, loans and items such as other payables and other receivables which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Company's operations.

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

The Company's operations expose it to a variety of financial risks including credit risk, liquidity risk, interest rate risk and foreign currency exchange rate risk. The Directors believe the Company is not exposed to any material equity price risk. Given the size of the Company, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board are implemented by the Company's finance department.

Classification of financial instruments

The Company's financial assets as disclosed in notes 9 to 12 are classified as loans and receivables and their carrying values approximate to their fair values. The Company's financial liabilities are held at amortised cost.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Company defines capital as being share capital plus reserves. The Board monitor the level of capital as compared to the Company's commitments and if determined to be necessary, adjusts the level of capital by issuing new shares. The Company are not subject to any externally imposed capital requirements.

Credit risk

The Company's credit risk is primarily attributable to its other receivables, cash and cash equivalents and loan to a third party. The Company has implemented policies that require appropriate credit checks. The amount of exposure to any individual counterparty is reviewed regularly by the Board.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the period-end was:

	9 month period ended Dec 2015	Mar 2015
	£000s	£000s
Other receivables	1,012	1,043
Loans to group companies	1,455	992
Cash and cash equivalents	3,307	15,527
Loans and receivables	-	-
	5,774	17,562

The total of other receivables and cash and cash equivalents constitutes all of the financial assets within the IAS 39 category loans and receivables held by the Company.

Interest rate risk

The Company's interest bearing assets comprise cash and cash equivalents earning interest at a variable rate and a loan to a third party earning interest at a fixed rate. The Company borrowing at the period-end was £118,678,000 (Mar 2015: £112,447,000) which is interest free. The Company has not entered into any derivative transactions during the period.

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2015 (continued)

Cash and cash equivalents of the Company are disclosed above under credit risk. The impact of a movement of 5% in the rate of interest on Company's cash and cash equivalents will have no material impact to the Company's results and financial position as at 31 December 2015 and 31 March 2015.

Liquidity risk

The Company is funded by loans from its parent company that are provided according to the Company's cash needs. The following table shows the contractual maturities of the Company's financial liabilities, all of which are measured at amortised cost:

	Trade payables £000s	Accruals £000s	Loan from parent company £000s	Total £000s
As at 31 December 2015				
6 months or less	192	2,704	118,678	121,574
Total contractual cash flows	192	2,704	118,678	121,574
Carrying amount of financial liabilities measured at amortised cost	192	2,704	118,678	121,574

	Trade payables £000s	Accruals £000s	Loan from parent company £000s	Total £000s
As at 31 March 2015				
6 months or less	802	1,835	112,447	115,084
Total contractual cash flows	802	1,835	112,447	115,084
Carrying amount of financial liabilities measured at amortised cost	802	1,835	112,447	115,084

Foreign currency exchange rate risk

The reporting currency of the Company is Sterling. Transactions denominated in a foreign currency are translated into Sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are charged or credited to the income statement as appropriate.

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