York Potash Ltd

Directors' report and financial statements

for the year ended 31 December 2016

Company number: 07251600

Contents

DIRECTORS' REPORT for the year ended 31 December 2016

The directors present the audited financial statements of York Potash Ltd ("the Company" or "York Potash") for the year ended 31 December 2016.

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 year and up to the date of signing the financial statements are as follows:

CN Fraser
SA Carter (appointed 9 March 2017)
G Clarke
TJ Staley (appointed 9 March 2017)

RESULTS AND DIVIDENDS

The Company's total comprehensive expense for the year was £6,264,000 (2015: £2,622,000). The year-end cash and cash equivalents position as at 31 December 2016 was £1,563,000 (2015: £3,307,000) while net liabilities were £14,999,000 (2015: £8,924,000).

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

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Company relate to its long term viability which is significantly dependent upon the successful outcome of construction of the Project. The Company and wider Group do not expect to generate any revenue for a number of years and ongoing solvency is dependent upon the success of the outcome of construction which itself is reliant on future fundraising. For further details refer to the Going Concern section below.

GOING CONCERN

The financial statements for the year ended 31 December 2016 have been prepared under the going concern assumption. The Company's ability to continue as a going concern is dependent upon it continuing to receive financial support from fellow Group companies. Having made enquiries, the directors have satisfied themselves that such support will be enable the Company to allow it to meet its liabilities as they fall due for a period of no less than 12 months following the signing of these financial statements. As a result the directors have deemed it appropriate to prepare these financial statements under the going concern assumption.

FUTURE DEVELOPMENTS

The directors anticipate that the Company's scale of activities will substantially increase in the coming years with the successful completion of the stage 1 financing. As a result it is also expected that the Company's losses will also increase as a greater volume of operating overheads will also be incurred. The Company expects to be able to draw upon funding from fellow group companies in order to fund these activities until commercial ore sales commence subsequent to the completion of construction of the Project.

DIRECTORS' REPORT for the year ended 31 December 2016 (continued)

QUALIFYING THIRD-PARTY INDEMNITY INSURANCE

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

DIRECTORS' REPORT for the year ended 31 December 2016 (continued)

FINANCIAL RISK MANAGEMENT

The Company's operations expose it to a variety of financial risks. The Company's ultimate parent undertaking, Sirius Minerals Plc, has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company. This is disclosed on pages 83 to 88 of Sirius Minerals Plc's annual report and accounts available from www.siriusminerals.com

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 year.

On behalf of the Board

TJ Staley
Finance Director
21 June 2017

STRATEGIC REPORT for the year ended 31 December 2016

The directors present their strategic report on the Company for the year ended 31 December 2016.

Much of the context to the business operations was laid out in the Company's definitive feasibility study ("DFS") this year. It detailed that independent studies and Group's direct engagement in the fertilizer market over the last five years have confirmed the very large opportunity for bulk, high-quality multi-nutrient fertilizers like the Company's POLY4 product. The size of the market opportunity is framed in three key areas:

- Substitution of existing products in the market;
- Market growth; and
- Premium performance.

Independent analysis by groups such as CRU Strategies and Fertecon have assessed the substitute market opportunity for polyhalite to be between 30 and 50 million tonnes per annum (Mtpa). However, these independent assessments did not consider the longer-term growth within different sectors or factor in any value for the premium performance above nutrient value. Sirius Minerals believes the potential aggregate substitution market for polyhalite could be in excess of 300 Mtpa.

The Company has identified multiple market growth opportunities in both high-value and broad-acre crops. 32% of potassium used in the world today is used on chloride-sensitive crops, but only 9% of the world's potassium supply is currently chloride free. This represents an incremental opportunity of circa 70 Mtpa of POLY4.

The Sulphur Institute estimates a world plant nutrient sulphur deficit. This could represent a potential demand for 60 Mtpa of polyhalite to address the imbalance. In addition to these significant opportunities, several key agricultural regions are magnesium deficient, thereby representing further market growth opportunities for POLY4.

The Company's agronomic studies undertaken over the last five years have confirmed the importance and value of polyhalite as a premium multi-nutrient fertilizer. Demand for multi-nutrient fertilizers continues to grow and outpace that of the underlying straight products due to the inherent efficiencies of having more nutrients in a single product and the natural agronomic synergies available from products like POLY4. Crop trials undertaken on broad-acre crops (corn, soybean, wheat and sugarcane) have consistently demonstrated POLY4's premium performance over potassium sources such as muriate of potash (MOP). These four crops alone could represent a potential global demand of over 200Mtpa.

Existing, well-established and comparable multi-nutrient products command a significant premium to the nutrient sum-of-the-parts. Analysis of some of these comparable products reveals a volume weighted average premium of approximately 64%. The Company's base-case polyhalite price path is linked to the initial discounted pricing mechanism in the current offtake agreements. Over time, as the performance of POLY4 becomes more widely known and available, and the initial offtake agreement discount pricing mechanisms begin to unwind, prices are expected to trend towards nutrient parity.

Coupled with the potential market size and pricing and margin opportunities for the Company's POLY4 product, the context is underpinned by the fact that the Company has defined what it believes to be the world's largest, high-grade known deposit of polyhalite.

STRATEGIC REPORT for the year ended 31 December 2016 (continued)

The Company's strategy was also articulated in the DFS. It sets out a path by which it believes the Company can extract maximum value from its exceptional polyhalite resource, which includes:

- **Adopting a disruptive market penetration strategy**
  The Company's POLY4 product will be made widely available through established distribution channels. By operating an independent model, outside of any collective marketing agreements or other industry mechanisms, the Company will align closely with customers. It believes it can offer an attractive supply of bulk volumes of premium product to customers, with a secure supply over many years.

- **Installing large production capacities**
  This will capitalise on the value opportunity created by the unique nature of the large-scale, high-quality polyhalite deposit in North Yorkshire. The initial installed capacity of the Project will be 10 Mtpa. However, each component has different embedded capacities from the initial installation, all of which are readily scalable to 20 Mtpa.

- **Designing sustainably low cash operating costs**
  The ability to achieve this is driven by the resource quality and core infrastructure implementation decisions. The Company believes the resource to represent the largest and highest grade polyhalite resource in the world, reported using the internationally accepted JORC code.

  The resource characteristics make it amenable to a low-cost bulk mining – it has an average thickness of 25 metres and areas within the deposit that are up to 70 metres thick. Thickness and consistency enables high-efficiency bulk mining methods to be adopted. The effective 1:1 ore to product ratio combined with large scale bulk mining methods means the Project can produce large volumes of product for very low comparative costs – a key sustainable competitive advantage.

- **Select quality over cost where it leads safely to either reduced operational risk or operating cost**
  The Company has made a conscious decision to opt for higher quality where it could either enhance the sustainable competitive advantage of low cash operating costs or reduce the risk of implementation delays and capital variation risks.

  An example of this approach is the Company's upgrading of the mineral transport system design specification. Initially this system was scoped as a 'mining roadway' in order to reduce capital costs. During the design process and engagement with the tunnelling contractors it became apparent that a fully segmented tunnel would deliver a solution that was more certain in construction schedule and capital cost, reduce risks and also deliver a lower operating cost solution for the long term.

- **Mitigate risk where possible through strategy, design, or implementation approach**
  The Company continues to progressively de-risk the Project by moving towards production at the Woodsmith Mine. This began with the exploration programme and resource definition and moved through the successful planning approvals stages for 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

STRATEGIC REPORT for the year ended 31 December 2016 (continued)

delivered an improved business model through the progression of several project studies, culminating in the publication of the material findings of the DFS and then the cost reductions made possible through contractor engagement.

Our business model aims to articulate how the Company seeks to operate in its drive to generate shareholder value. The Board and management have long committed to trying to develop the Project in a way that is socially responsible, conscious of the environments that the Company operates in and is beneficial for a wide range of stakeholders.

Safety – We will continue to drive a safety culture within the Company and its contractor teams so that safety sits at the heart of everything we do. We want everyone to go home safely every day in all our operations. The Company faces increasing and ongoing safety challenges as it progresses through construction and into operations. This focus will remain an integral part of the business model.

Customers – Since the outset of the Project we have been clear that we will operate outside the consolidation of much of the fertilizer industry. By doing so we can offer our customers long-term access to POLY4 and in turn this certainty allows our customers to successfully plan their own product offerings for the mid to long term.

Our people – Our dedicated team are our strongest asset and share a common, uncompromising belief in the delivery of the Project. They act with urgency to find innovative, cost-effective and safer ways to do things better. Underpinning this is the understanding to deliver an efficient operation that can protect the business in downside price scenarios for the product whilst also maximising shareholder value during times of better pricing. We develop our staff wherever possible and seek to nurture new talent, supporting apprentices, internships and undergraduates.

The environment – Key aspects of the Project, such as the Woodsmith Mine itself, are located within a sensitive area – the North York Moors National Park. From the outset the Board and management have taken the responsibility of developing in this area seriously, with infrastructure being moved away from the mine site to the port, by utilising sub-surface buildings and by screening at the mine site and opting for an underground mineral transport system. The Company has committed £175 million to environmental offsets, tourism promotion and community enhancements over the envisaged 100-year life of the Project.

The planning approvals for the Project have, following detailed analysis and technical study, provided an envelope of environmental impact within which the construction of the Woodsmith Mine and the associated infrastructure must be built. As construction progresses, the development team continues review options of delivering the Project in a less impactful way.

Community – In keeping with the desire to deliver the Project in a socially responsible fashion, we have adopted a strong community focus from the beginning of the Project. Communities have been extensively engaged throughout the planning consultation process and before any site works have commenced. This has continued into the construction enabling works. The creation of the York Potash Foundation, a charity set up to fund community projects for the life of the Project and benefiting from 0.5% of the Project's revenue, is further evidence of this ongoing commitment.

STRATEGIC REPORT for the year ended 31 December 2016 (continued)

Project studies and approvals

The financial year began with the completion of the DFS and the publication of its material findings in March. The findings were detailed extensively at the time and were also covered in the interim results.

The subsequent selection of our preferred contractors for the mine and mineral transport system works was the culmination of 19-month competitive tendering processes. In turn our discussions allowed them to refine their construction methodologies, update their competitive tender rates and evolve their designs. This resulted in a total Project capital funding requirement of US$2.9 billion which was reduced in comparison with the DFS numbers and provided an important catalyst for us to progress into the stage 1 financing.

This backdrop to financing was also enhanced by several other studies. In May we announced an increase to our polyhalite probable reserve to 280 million tonnes at an average grade of 88.4%. We also announced details of a potential de-icing salt opportunity where the extraction of our salt deposits could be used in the future as a strategy to generate additional revenues in severe winters and if full mine capacity is not being used for polyhalite.

The financial year also saw the successful completion of the last major planning approval needed for the delivery of the Project. In July, we confirmed that we had received government approval for the harbour facilities which included the new berth, ship loading facilities and the conveyor linkage to the materials handling facility, and all the compulsory purchase powers needed to develop them. The approval subsequently passed through its judicial review period unchallenged. We now have all the major key planning approvals in place to take the Project forward.

Financing

The Company's activities in the financial year have been an essential prelude to the completion of stage 1 financing. Equally as important was the update we provided on the stage 2 financing progress in September, when we detailed that we had mandated a group of six financial institutions (mandated lead arrangers (MLAs) based on a non-binding but mutually agreed term sheet. At the same time, the Infrastructure and Projects Authority (formally IUK) confirmed its interest in supporting the stage 2 financing for the Project.

Although the appointment of the MLAs does not constitute external commitment to provide financing, it was important to set out both the Company's strategy and progress on stage 2 matters before stage 1 was implemented.

From the outset of the Project we were aware that many commentators did not believe that mine approvals and financing were the two key hurdles for the Project's development. With this backdrop, we were very aware that many in the market did not believe we would be able to successfully finance the Project. However, the Company's strategy was clearly laid out several times, and your Board and management team have shared a common belief and drive to deliver stage 1 financing to enable the start of Project's construction.

STRATEGIC REPORT for the year ended 31 December 2016 (continued)

Given the large amounts of capital required to commence construction – circa US$1.2 billion – this was always going to require an innovative approach. The ultimate financing package consisted of three separate but inextricably linked parts conducted at one time.

The first tranche was a strategic investment of US$300 million by Hancock British Holdings Ltd (Hancock), comprising a US$250 million revenue royalty (paying 5% up to 13 million tonnes per annum (Mtpa) and 1% thereafter) and US$50 million of equity, determined by the placement price for the subsequent equity raise. In Hancock, the royalty financing delivered a high-quality partner, well known in the industry and with an experienced and successful track record of royalty deals.

This allowed us to launch the remainder of the financing components in November 2016, with the launch and subsequent successful completion of a US$400million convertible note and a firm placing and placing and open offer of £370million. We followed through a long-running commitment enabling existing and retail shareholders to participate at the same level as institutions through the open offer. I would also like to mention the huge level of work that was required from our advisors and the Sirius' team to produce a prospectus and subsequently execute these complex transactions.

Given the ongoing uncertainty of the global financial markets and the generally depressed nature of the broader fertilizer market, the Board unanimously believed the successful completion of stage 1 financing to be in the best long and short-term interest of shareholders. We were naturally delighted that this was resoundingly ratified at the subsequent general meeting.

The year ahead

As we continue to provide construction updates through the year, we will continue to get ever closer to our goal of becoming a multi-nutrient fertilizer producer.

Of course, there remain a number of significant hurdles to overcome, but, as we have demonstrated to date, we will continue to relish those challenges while seeking to deliver increasing shareholder value. We very much believe that the Woodsmith Mine is on a clear path to long-term, low-cost and high-volume production.

By order of the Board

TJ Staley
Finance Director
21 June 2017

Independent auditors' report to the members of York Potash Ltd

Report on the financial statements

Our opinion

In our opinion, York Potash Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Directors' report and financial statements (the "Annual Report"), comprise:

- the Statement of financial position as at 31 December 2016;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year 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 United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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.

Opinions on other matters prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

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

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.

Independent auditors' report to the members of York Potash Ltd

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements 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. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Ian Morrison

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
21 June 2017

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2016

	Note	**Year ended Dec 2016 £000s**	9 months ended Dec 2015 £000s
Revenue		**-**	-
Administrative expenses		**(6,717)**	(3,200)
Operating loss	3	**(6,717)**	(3,200)
Finance income		**2**	42
Finance costs		**(18)**	(14)
Loss before taxation		**(6,733)**	(3,172)
Tax on loss	5	**469**	550
Total comprehensive expense for the year		**(6,264)**	(2,622)

All activities relate to continuing operations.

There is no other comprehensive income in the year.

STATEMENT OF FINANCIAL POSITION as at 31 December 2016

	Notes	2016 £000s	2015 £000s
ASSETS			
Fixed assets			
Property, plant and equipment	6	**6,136**	1,849
Intangible assets	7	**118,009**	105,775
		124,145	107,624
Current assets			
Other receivables	8	**493**	1,012
Loans to group companies	9	**1,739**	1,370
Cash and cash equivalents		**1,563**	3,307
		3,795	5,689
TOTAL ASSETS		**127,940**	113,313
EQUITY AND LIABILITIES			
Equity			
Called up share capital	10	**50**	50
Share premium account		**168**	168
Capital contribution reserve		**3,804**	3,615
Accumulated losses		**(19,021)**	(12,757)
Total equity		**(14,999)**	(8,924)
Current liabilities			
Trade and other payables	11	**2,282**	2,896
Loan from third party		**-**	748
Loan from parent company	12	**140,657**	118,593
Total liabilities		**142,939**	122,237
TOTAL EQUITY AND LIABILITIES		**127,940**	113,313

The financial statements on pages 12 to 25 were issued and approved by the Board of Directors on 21 June 2017 and were signed on its behalf by:

TJ Staley
Finance Director

Company Registration Number 07251600

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2016

	Called up Share capital £000s	Share premium account £000s	Capital contribution reserve £000s	Accumulated losses £000s	Total Equity £000s
At 1 April 2015	**50**	**168**	**3,098**	**(10,135)**	**(6,819)**
Total comprehensive expense	-	-	-	(2,622)	(2,622)
Share based payments	-	-	517	-	517
At 31 December 2015	**50**	**168**	**3,615**	**(12,757)**	**(8,924)**
Total comprehensive expense	-	-	-	(6,264)	**(6,264)**
Share based payments	-	-	189	-	**189**
At 31 December 2016	**50**	**168**	**3,804**	**(19,021)**	**(14,999)**

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 capital contribution reserve is used to record the fair value of share based payments made on the Company's behalf by its ultimate parent in relation to employees of the Company who participate in share based payment schemes which provide employees with shares in the ultimate parent company for their services to the Company.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016

1. Accounting policies

Basis of preparation

York Potash Ltd (the "Company") meets the definition of a qualifying entity under Financial Reporting Standard 100 ("FRS 100") issued by the Financial Reporting Council. The Company has therefore elected to prepare these financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101") and ceased applying the full requirements of International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The adoption of FRS 101 has led to no changes in the reported comparative balances presented within these financial statements for the 9 months ended 31 December 2015 since the recognition and measurement criteria under FRS 101 are identical to those of financial statements prepared under EU-adopted IFRS. The only change to these financial statements resulting from the adoption of FRS 101 relates to the disclosure exemptions set out below. These financial statements have also been prepared in accordance with the requirements of the Companies Act 2006.

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, limited by shares, which is incorporated and domiciled in England. The address of its registered office is shown on page 26.

Going concern

During the year the Company recognised a total comprehensive expense of £6,264,000 compared to an expense of £2,622,000 for the nine-month period to 31 December 2015. Net liabilities were £14,999,000 at 31 December 2016 (2015: £8,924,000). The Company's ability to continue as a going concern is wholly dependent upon the continued financial support of the Sirius Minerals Group.

The Company's ultimate parent company, Sirius Minerals Plc, successfully completed its stage 1 financing in late November 2016. As a result of this fundraising, the Sirius Minerals Group (the "Group") is now able to commence significant development work on the Project with latest cash flow forecasts indicating that the Group has sufficient assets to meet its planned liabilities as they fall due until 2019.

The Group has publicly announced its intention to conduct stage 2 of fundraising in 2018 in order to raise sufficient further funds to complete development of the Project and reach commercial production which will ultimately allow the Company to generate sufficient cash to sustain itself as a going concern for the foreseeable future. The directors are confident of a positive outcome to the stage 2 financing negotiations and have mandated a group of six financial institutions on the basis of a non-binding but mutually agreed term sheet. At the same time, the Infrastructure and Projects Authority (formally IUK) confirmed its interest in supporting the stage 2 financing for the Project.

Having assessed the principal risks and having regard for the above, as well as having received written ongoing funding commitments from Sirius Minerals Plc, the directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

1. Accounting policies (continued)

Financial Reporting Standard 101 – reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions which are available under FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
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- The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
    - (i) paragraph 79(a)(iv) of IAS 1;
    - (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment;*
    - (iii) paragraph 118(e) of IAS 38 *Intangible Assets;*
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of *IAS 1 Presentation of Financial Statements;*
- The requirements of IAS 7 *Statement of Cash Flows*;
- The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures; and
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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

There are no new standards, amendments to standards or interpretations that are effective for the first time for the financial year beginning after 1 January 2016 that have had a material impact on the Company.

New standards, amendments to standards and interpretations not yet adopted – a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

IFRS 9 "Financial Instruments" – IFRS 9 includes requirements for classification and measurement, impairment and hedge accounting. This standard replaces the classification and measurement models for financial instruments in IAS 39 with three classification categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The standard is expected to become effective for periods ending on or after 1 January 2018. The Company is in the process of assessing the impact of this standard. Given the lack of complex financial instruments held by the Company it is not expected to have a material impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

1. Accounting policies (continued)

IFRS 15 "Revenue from Contracts" – IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. Given that the Company has not yet recognised revenue and is not due to make its first commercial sales until after the effective date of the standard this is not expected to have a material impact on the Company's financial statements.

IFRS 16 "Leases" – IFRS 16 will require lessees to recognise a lease liability reflecting future lease payments and a "right-of use asset" for virtually all lease contracts. Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). The IASB has included an optional exemption for certain short term leases and leases of low value assets. However, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after 1 January 2019. At this stage the Company is not able to fully estimate the impact of the new rules on its financial statements though it is not expected to have a material impact. The Company will continue to perform a detailed assessment of the impact over the next twelve months.

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 property 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

1. Accounting policies (continued)

Exploration costs & rights

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.

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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

1. Accounting policies (continued)

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.

Loans and other receivables

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

Trade and other payables

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

Equity instruments

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

Share based payments

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

Certain directors, senior managers and employees participate in equity-settled award schemes operated by Sirius Minerals Plc. 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 Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

1. Accounting policies (continued)

Taxation

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

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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

2. Critical accounting estimates and judgements (continued)

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.

3. Operating loss

Operating loss is stated after charging:	**Year ended Dec 2016 £000s**	9 months ended Dec 2015 £000s
Audit fees payable to the Company's auditor	**37**	30
Depreciation	**56**	78
Amortisation	**1**	6
Operating lease expense	**179**	145
Foreign Exchange losses	**26**	14

4. Staff numbers and costs

	Year ended Dec 2016 Number	9 months ended Dec 2015 Number
Average monthly number of staff	**49**	44

Total staff costs during the year were:	**Year ended Dec 2016 £000s**	9 months ended Dec 2015 £000s
Wages and salaries	**4,111**	2,617
Social security costs	**682**	339
Pension contributions	**18**	158
Compensation for loss of office	**373**	-
Relocation	**65**	-
Other benefits	**68**	-
	5,317	3,114

Of the above total costs, £3,541,000 (2015: £1,831,000) have been capitalised within intangible exploration costs.

Directors of the company are remunerated by the ultimate parent company Sirius Minerals Plc and no charge is made to the Company for the directors' services.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

5. Tax on loss

	Year ended Dec 2016 £000s	9 months ended Dec 2015 £000s
Corporation tax credit received	**469**	550
Tax on loss	**469**	550

The tax credit for the year is lower (2015: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2016 of 20% (2015: 20%). The differences are explained below:

Taxation reconciliation		
Loss before taxation	**(6,733)**	(3,172)
Loss multiplied by the standard rate of corporation taxation in the UK of 20% (2015: 20%)	**1,347**	634
Taxation effects of:		
Expenses not deductible for tax purposes	**(15)**	(17)
Trading losses utilised	**-**	14
Trading losses not utilised	**(1,332)**	(631)
Research & Development tax credit	**469**	550
Tax credit for the year	**469**	550

The Company has unused tax losses of £9,696,000 (2015: £6,198,000). 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.

The Research & Development tax credit is in relation to the HMRC Research and Development Relief Scheme for SME's and enables the Company to realise its tax losses in cash rather than waiting for taxable profits to set them against in the future.

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Company's profits for this accounting year are taxed at an effective rate of 20%. From 1 April 2016, the rate remained at 20%.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate from 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

6. 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
At 31 December 2015							
Cost	1,765	188	167	89	110	93	2,412
Accumulated depreciation	-	(155)	(165)	(84)	(89)	(70)	(563)
Net book value	**1,765**	**33**	**2**	**5**	**21**	**23**	**1,849**
Year ended 31 December 2016							
Additions	4,328	8	3	4	-	-	4,343
Depreciation charge	-	(17)	(2)	(6)	(16)	(15)	(56)
Closing net book value	**6,093**	**24**	**3**	**3**	**5**	**8**	**6,136**
At 31 December 2016							
Cost	6,093	196	170	93	110	93	6,755
Accumulated depreciation	-	(172)	(167)	(90)	(105)	(85)	(619)
Net book value	**6,093**	**24**	**3**	**3**	**5**	**8**	**6,136**

7. Intangible Assets

	Exploration costs & rights £000s	Software £000s	Total £000s
At 31 December 2015			
Cost	105,774	69	105,843
Accumulated amortisation	-	(68)	(68)
Net book value	**105,774**	**1**	**105,775**
Year ended 31 December 2016			
Additions	12,235	-	12,235
Amortisation charge	-	(1)	(1)
Closing net book value	**118,009**	**-**	**118,009**
At 31 December 2016			
Cost	118,009	69	118,078
Accumulated amortisation	-	(69)	(69)
Net book value	118,009	-	118,009

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

8. Other receivables

	2016	2015
	£000s	£000s
Prepayments	**290**	262
Other receivables	**203**	750
	493	1,012

9. Loans to group companies

	2016	2015
	£000s	£000s
Loan to York Potash Processing and Ports	**1,739**	1,370
	1,739	1,370

The loans are interest free and repayable on demand.

10. Share capital

	2016	2015
	£000s	£000s
Authorised		
50,001 (2015: 50,001) ordinary shares of £1 each	**50**	50
Allotted, called up and fully paid		
50,001 (2015: 50,001) ordinary shares of £1 each.	**50**	50

All shares rank parri passu in all respects.

11. Trade and other payables

	2016	2015
	£000s	£000s
Trade payables	**119**	111
Other payables	**82**	81
Accruals	**2,081**	2,704
	2,282	2,896

12. Loan from parent company

	2016	2015
	£000s	£000s
Loan from York Potash Holdings Limited	**140,657**	118,593
	140,657	118,593

The loans are interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

13. Share based payments

Certain employees of the Company along with other Group employees have been granted options and awards over ordinary shares in Sirius Minerals Plc. The options are granted with a fixed exercise price, are exercisable 1-3 years after the grant date and generally expire 10 years after the date of grant. The timing of share awards are dependent on the occurrence of the achievement of key business milestones.

The Company recognises a share-based payment expense based on the fair value of the option/award granted and an equivalent credit directly in equity as a capital contribution.

During the year no options were exercised by employees of the Company.

As at 31 December 2016 the range of expiry prices for outstanding options was 10.2p to 34.0p (2015: 10.5p to 35.0p) and the weighted average remaining contractual life of share options was 5.7 years (2015: 6.8 years).

14. Operating lease commitments

The Company leases various properties under operating lease agreements. The lease terms are between two and five years and, the majority of agreements are renewable at the end of the lease period, at market rate. The lease expenditure charged to the income statement during the year is disclosed in note 3.

The future aggregate minimum lease payments under operating leases agreements are:

	2016	2015
	£000s	£000s
No later than 1 year	**109**	175
Later than 1 year and no later than 5 years	**118**	227
	227	402

15. Ultimate parent undertaking and controlling party

The immediate parent undertaking is York Potash Holdings Limited, a company domiciled in UK.

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 2016. The consolidated financial statements of Sirius Minerals Plc can be obtained from www.siriusminerals.com.

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