York Potash Ltd

Annual report and financial statements

for the year ended 31 December 2017

Company number: 07251600

Contents

STRATEGIC REPORT for the year ended 31 December 2017

The directors present their strategic report on York Potash Ltd (the "Company" or "York Potash") for the year ended 31 December 2017.

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

RESULTS AND DIVIDENDS
The Company's total comprehensive expense for the year was £12,058,000 (2016: £6,264,000). Total year-end cash and cash equivalents and bank deposits as at 31 December 2017 was £63,447,000 (2016: £1,563,000) while net liabilities were £25,521,000 (2016: £14,999,000).

The directors do not recommend a payment of a dividend for the year (2016: £nil).

BUSINESS REVIEW
2017 was a milestone year for the Company with construction commencing and offtakes of 4.4 million tonnes per annum signed among the highlights. The Company's numerous successes along the development journey drive it to approach this next phase of development with the same ownership, belief and urgency which are some of the key values which define the Company.

Safety
Safety is paramount to the success of the business. The Company's culture places safety at the forefront of everything it does and the Company is continuously engaged with its contractors and consultants to ensure they adopt our safety culture and Company values. A small number of incidents have occurred during the first year of construction and the Company is constantly working to improve its processes and find safer ways of working in order to ensure that its workforce returns home to their families at the end of the day.

Our strategy
The Company has a clear and robust strategy and is focussed on executing this strategy successfully. Along the development pathway a number of changes have been made to the project plan and the approach to execution.

The Company's strategy is to:

- Build a world class, long life asset;
- Develop an industry leading product;
- Disrupt existing markets and drive long term value; and
- Execute a financing plan that delivers value for shareholders.

Along its journey the Company has made strategic decisions within this framework, whether it be switching to a more efficient, low impact transport system or even the nature of its product. Optimisation through evolution will always be at the heart of strategic decision-making process. Through this process, the Company believes that its value proposition will continue to grow and be further enhanced.

STRATEGIC REPORT for the year ended 31 December 2017 (continued)

Build a world class, long life asset
It has always been the Company's intention to construct a mine which enables it to maximise the potential of its incredible polyhalite resource. The scale, thickness and quality of the deposit means highly efficient, bulk mining methods can be employed to maximise output over hundreds of years and these considerations are at the forefront of the Company's approach to mine design and construction. The Company believes that the asset it is constructing will be among the most cost-competitive multi-nutrient fertilizer producers globally.

Formal commencement of construction started officially on 4 May 2017 and the work completed over the course of the year is the first step in executing on this part of the Company's strategy.

Develop an industry leading product
POLY4 is a natural low chloride, multi-nutrient fertilizer, the likes of which has never been widely available in the major growing regions of the world. The Company's ever-expanding global agronomy programme provides partners and potential customers with an independently validated dataset which demonstrates the efficacy of POLY4 on a wide range of different crops in varying geographic and climatic conditions. Leading industry participants and potential customers are excited by the prospects of POLY4 and are enthusiastic about introducing it into their product portfolios.

During 2017 the Company articulated the four cornerstones of POLY4 – Effectiveness, Efficiency, Flexibility and Sustainability. The cornerstones describe POLY4's unique value proposition and are proving to be an effective marketing tool.

Disrupt existing markets and drive long term growth
The Company has a three-step approach to its marketing strategy:

- Substitution – positioning POLY4 as a substitute for other existing fertilizers which include one or more of the same primary nutrients contained in polyhalite. This disruptive approach will ensure POLY4 is widely available in all markets.
- Market growth – today there is an unmet demand for lower chloride potassium sources and making POLY4 widely available at a commercial price point will provide new demand opportunities for the product to be used on crops.
- Performance – The Company's successful extensive crop trial programme consistently demonstrates strong performance from POLY4 and the Company believes this performance will underpin premium pricing for the product over the long term.

The Company continues to work hard at building its customer base and was pleased to welcome Wilmar International as a customer during 2017. They are the leading agribusiness in South East Asia and will be a strong partner for the Company.

Execute a financing plan that drives value for shareholders
The Company is wholly dependent upon the ongoing support of its ultimate parent company, Sirius Minerals Plc ("Sirius"), in order to finance the ongoing development of its Project.

Sirius has taken a stepping stone approach to financing the execution plan. At each stage of development, appropriate capital has been raised to deliver the next development milestone. 2016 saw the first successful completion of the stage 1 financing, which provided the equity like capital component of the construction financing plan.

STRATEGIC REPORT for the year ended 31 December 2017 (continued)

Work has begun to prepare for the execution of Sirius' stage 2 financing in late 2018. It is intended that this financing will be 100% debt in nature and ultimately provide all of the capital required to complete the construction component of the Company's strategy.

The year ahead
2017 has been a year of meaningful progress on the ground in North Yorkshire and in the global fertilizer markets. 2018 will be another year of significant progress on all fronts, with that progress ultimately culminating in the successful completion of Sirius' stage 2 financing.

There is a lot more work to do in order to successfully execute on the Company's strategy but the Company is confident that its team has the necessary expertise to deliver. The culture the Company has throughout its organisation is reflected in its corporate values. These identify how the Company has succeeded in achieving a number of challenging milestones but also how it will continue to deliver on what it has set out to achieve. It is the Company's belief in achieving its goals and its unwavering drive to succeed that will see it successfully through the next phase of development.

KEY PERFORMANCE INDICATORS
Based on the nature of its current Project-development focus, the Company does not measure performance against any financial key performance indicators. Instead the Company measures its performance against the completion of key operational milestones relating to the development of its Project. As such, the progress of the Company during 2017 is as follows:

Complete site preparation works at Woodsmith Mine and Lockwood Beck
Status: Complete

- Site access works complete.
- Haul road, drainage, concrete batch plant and general infrastructure complete.
- Site welfare facilities installed and operational.
- MTS and reinjection pads complete.

Substantially complete D-wall installation for production and service shafts
Status: Partially complete - approximately two months behind schedule

- Scope of D-walling activities was substantially increased with the change to wider foreshafts.
- Progress on production shaft has been deferred to allow for the SM14B drilling programme.
- Delay is estimated by comparing progress against like for like scope (total m^2 of panels).

Progress design activities for MTS and front-end design for harbour and MHF
Status: Complete

- MTS scope of work at advanced commercial discussion stage with multiple contractors.
- Design scope for MHF and overland conveyor complete and out for commercial tender.
- Port outsourcing opportunities are being negotiated in parallel with internal design and build process.

Execute incremental offtake agreements
Status: Partially complete

- Offtake agreement signed with Wilmar International for South East Asia. Seven years, peaking at 0.75 million tonnes per annum.
- Commercial discussions for other key regions (Europe, Brazil, China, Africa) progressing well.
- On track for stage 2 financing requirements.

STRATEGIC REPORT for the year ended 31 December 2017 (continued)

Expand breadth and depth of the agronomy programme
Status: Complete
- 260 trials on 32 crops in 17 countries.
- Over 60 new trials commenced during the period.

The Company has defined its 2018 milestones as follows:
- Complete main service shaft foreshaft construction and excavation
- Complete the installation of the main production shaft foreshaft and commence excavation
- Commence MTS access shaft construction at the Woodsmith Mine site
- Complete construction of the MTS portal at Wilton
- Commence shaft sinking at Lockwood Beck intermediate shaft site
- Commence early works for the Materials Handling Facility
- Finalise Harbour facility strategy and complete procurement
- Expand global agronomic programme and establish 80 new trials
- Execute 2 million tonnes per annum of incremental Offtake Agreements

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 within the Directors' Report.

On behalf of the Board

TJ Staley
Finance Director
5 March 2018

DIRECTORS' REPORT for the year ended 31 December 2017

The directors present the audited financial statements of the Company for the year ended 31 December 2017.

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)

GOING CONCERN

The financial statements for the year ended 31 December 2017 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 its ultimate parent company, Sirius Minerals Plc. Having received written assurances from the directors of Sirius Minerals Plc, 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 continue to 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.

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:

DIRECTORS' REPORT for the year ended 31 December 2017 (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS (continued)

- 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.

Statement of disclosure of information to auditors
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.

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 within Sirius Minerals Plc's annual report and financial statements 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
5 March 2018

Independent auditors' report to the members of York Potash Ltd

Report on the audit of the financial statements

Opinion

In our opinion, York Potash Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements for the year ended 31 December 2017 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive expense and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of York Potash Ltd (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on pages 6 and 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Randal Casson

Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
5 March 2018

STATEMENT OF COMPREHENSIVE EXPENSE for the year ended 31 December 2017

	Note	**2017 £000s**	2016 £000s
Revenue		-	-
Administrative expenses		**(11,442)**	(6,717)
Operating loss	3	**(11,442)**	(6,717)
Finance income		**58**	2
Finance costs		**(126)**	(18)
Loss before taxation		**(11,510)**	(6,733)
Tax on loss	5	**362**	469
Loss for the year		**(11,148)**	(6,264)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging movement		**(910)**	-
Other comprehensive expense for the year		**(910)**	-
Total comprehensive expense for the year attributable to the owner of the Company		**(12,058)**	(6,264)

All activities relate to continuing operations.

STATEMENT OF FINANCIAL POSITION as at 31 December 2017

	Note	2017 £000s	2016 £000s
ASSETS			
Non-current assets			
Property, plant and equipment	6	**242,318**	6,136
Intangible assets	7	**8,067**	118,009
Restricted cash		**34,584**	-
		284,969	124,145
Current assets			
Restricted cash		**671**	-
Other receivables	8	**5,580**	493
Loans to group companies	9	**17,406**	1,739
Bank deposits		**38,996**	-
Cash and cash equivalents		**24,451**	1,563
		87,104	3,795
TOTAL ASSETS		**372,073**	127,940
EQUITY AND LIABILITIES			
Equity			
Called up share capital	10	**50**	50
Share premium account		**168**	168
Capital contribution reserve		**5,221**	3,804
Cash flow hedge reserve		**(791)**	-
Accumulated losses		**(30,169)**	(19,021)
Total equity		**(25,521)**	(14,999)
Non-current liabilities			
Provisions	11	**2,753**	-
		2,753	-
Current liabilities			
Trade and other payables	12	**26,537**	2,282
Loans from group companies	13	**368,304**	140,657
		394,841	142,939
Total liabilities		**397,594**	142,939
TOTAL EQUITY AND LIABILITIES		**372,073**	127,940

The financial statements on pages 10 to 23 were issued and approved by the Board of Directors on 5 March 2018 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 2017

	Called up share capital £000s	Share premium account £000s	Capital contribution reserve £000s	Cash flow hedge reserve £000s	Accumulated losses £000s	Total Equity £000s
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)**
Total comprehensive expense	-	-	-	**(910)**	**(11,148)**	**(12,058)**
Transferred to non-current assets	-	-	-	**119**	-	**119**
Share based payments	-	-	**1,417**	-	-	**1,417**
At 31 December 2017	**50**	**168**	**5,221**	**(791)**	**(30,169)**	**(25,521)**

The called up 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.

The cash flow hedge reserve is used to accumulate unrecognised gains or losses of instruments in designated cash flow hedge relationships.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

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"). 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 24.

Going concern

The Company's ability to continue as a going concern is wholly dependent upon the continued financial support of the Sirius Minerals Group (the "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 Group began significant development work on the Project during the year.

The Group is in the process of negotiating its stage 2 financing and has mandated a group of six financial institutions on the basis of a non-binding but mutually agreed term sheet. The UK Government's Infrastructure and Projects Authority (formally IUK) has also confirmed its interest in supporting the stage 2 financing for the Project. The Group intends for the stage 2 financing negotiations to be successfully completed within the next year.

The Group's latest cash flow forecasts indicate that it will have sufficient liquidity to continue development of the Project on its current schedule for at least the next 12 months. Should there be any delay in securing the stage 2 financing, the Group would be able to curtail certain expenditures until further financing was secured.

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 2017 (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;
- 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 2017 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 2017, 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* is effective for annual reporting periods beginning on or after 1 January 2018. The Company is in the process of assessing the full impact of adopting IFRS 9, but based on the current nature of the Company's financial instruments it is not currently expected that this will have a material impact upon adoption.

IFRS 16 *Leases* is effective for annual reporting periods beginning on or after 1 January 2019. The Company is yet to complete its impact assessment of the new standard however, based on the current level of operating lease commitments the Company has entered into (as set out in note 15), as well as the absence of any finance leases, then the effect of transition to this new standard is unlikely to materially impact the Company's financial statements.

The Company currently expects to adopt each of these standards in the period that they become mandatory.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (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 as part of intangible assets where such costs are expected to be recouped through successful development. 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 expected 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.

When technical feasibility and commercial viability of an area of interest have been demonstrated, all capitalised exploration and evaluation expenditure in respect of that area of interest is reclassified from intangible assets to capital works in progress within property, plant and equipment. All subsequent development expenditures on that area of interest are capitalised and classified as capital works in progress within property plant and equipment, provided commercial viability conditions continue to be satisfied.

Other intangible assets
Research expenditure is expensed to the income statement as incurred. Development costs on activities that have moved past the research phase are capitalised and depreciated over their expected useful lives. Prior to any sales occurring of the products to which the development costs relate, they are held at cost and tested annually for impairment.

Computer software is carried at cost less accumulated amortisation and impairments, and is amortised on a straight-line basis over its useful life (ranging between 3 and 5 years). Amortisation of software is included within operating costs in the income statement.

Plant and equipment
Property, plant and equipment are stated at cost less depreciation and any recognised impairment losses. Cost includes all expenditure that is directly attributable to the acquisition or construction of these items and, for assets that take a substantial period of time to get ready for their intended use, borrowing costs. 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 repairs and maintenance costs are charged to the income statement in the period in which they are incurred.

Depreciation is provided on all plant and equipment over the estimated useful lives of the assets, which are generally between 3 and 5 years. Freehold land is not depreciated.

Capital works in progress are measured at cost less any recognised impairment. Depreciation commences when the assets are capable of operating in the manner intended by management, at which point they are transferred to the appropriate asset class.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

1. Accounting policies (continued)

Impairment

At each reporting date, the Company assesses whether there is any indication that any of its intangible assets may be impaired. Where an indication of impairment exists (or, on an annual basis in the case of Goodwill), the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount (estimated as the value-in-use of the asset) the asset is considered impaired and is written down to its recoverable amount.

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 based on the Company's latest approved forecasts.

Cash and cash equivalents

Cash and cash equivalents include various instant access deposits and short-term fixed deposits with original maturities of three months or less.

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 (generally ordinary shares) issued by the Company are recorded at the proceeds received, with the par value of shares issued being recorded within ordinary share capital and any surplus, net of any direct issue costs, being recorded in the share premium account.

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, except for those relating to hedging instruments in designated cash flow hedge relationships which are recognised in other comprehensive expense.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

1. Accounting policies (continued)

Share based payments
Certain directors, senior managers and employees participate in equity-settled award schemes operated by the Company's ultimate parent company. 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 to the income statement 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. For employees employed directly in relation to the Project's development, any charge in relation to options or awards held by them is capitalised as part of additions to property, plant and equipment.

At each reporting date, the Company revises its estimates of the number of options and awards that are expected to vest and immediately recognises any impact of the revision to original estimates. The accumulated expense recorded prior to vesting in respect of each share based payment is recognised within the Capital contribution reserve.

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. Research and Development tax credits are recognised within current tax when they can be reasonably estimated.

Deferred taxation represents temporary differences the accounting carrying values of assets and liabilities and the tax base of those same assets and liabilities. 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 consolidated financial statements. In line with IAS 12 *Income taxes*, no deferred tax is recognised on the initial recognition of an asset or liability that at the time of the transaction affects neither accounting, nor taxable profit or loss (unless the transaction is a business combination).

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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised, or to the extent that they offset deferred tax liabilities. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

1. Accounting policies (continued)

Loan commitments
Loan commitments are a financial instrument, to be accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. IAS 39 specifically excludes loan commitments from recognition and measurement prior to drawdown. Once drawdown of the loan commitment occurs, the loan will be initially recognised at fair value (generally the value of loan proceeds received) and is subsequently re-measured at amortised cost using the effective interest rate method.

Provisions
The Company is required to rehabilitate sites and associated facilities during construction and at the end of their lives to a condition acceptable to the relevant authorities in compliance with license requirements and other commitments made to stakeholders. The costs associated with these obligations are provided for in the accounting period when the obligation arising from the related disturbance occurs. Such costs do not include any additional obligations which are expected to arise from future disturbance. Provisions are initially recognised at the net present value of the future cash flows associated with them. When provisions are initially recognised, the corresponding cost is capitalised as an asset within property, plant and equipment, representing part of the cost of acquiring the future economic benefits of the operation.

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:

Accounting for royalty instrument
The Company entered into a royalty purchase agreement during 2016. Significant judgment is required in determining how the agreement should be accounted for due to the lack of explicit guidance for these types of arrangements under IFRS. Based on the precise contractual terms of the agreement, the Company has concluded that the agreement should be accounted for as a financial instrument, to be accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* rather than being treated as the permanent disposal of an interest in the Project. Furthermore, the Company has concluded that prior to drawdown occurring the agreement is analogous to a loan commitment and therefore no recognition of it is necessary in the financial statements until drawdown occurs.

Provisions
The Group is required to estimate the net present value of future restoration obligations in settling upon the value of provision to recognise at each measurement date. The actual costs of restoration may vary from estimates made at the reporting date. Such obligations will not be settled for a number of years and the extent of remediation works that will ultimately be required is inherently uncertain. Estimates can also be impacted by the emergence of new restoration techniques and experience gained between the measurement date and prior to the costs incurrence. Where possible, the Group relies upon third-party valuations to assist with reliably estimating the value of provisions liable at each measurement date.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

3. Operating loss

Operating loss is stated after charging:	2017 £000s	2016 £000s
Audit fees payable to the Company's auditor	50	37
Depreciation	269	56
Amortisation	26	1
Operating lease expense	462	179
Share-based payments	198	64
Sirius Minerals foundation donation	2,000	-

4. Staff numbers and costs

	2017 Number	2016 Number
Average monthly number of staff	51	49

Total staff costs during the year were:	2017 £000s	2016 £000s
Wages and salaries	6,549	4,111
Social security costs	848	682
Pension contributions	45	18
Share-based payments	1,417	189
	8,859	5,000

Of the above total costs, £6,352,000 (2016: £3,541,000) have been capitalised within additions to non-current assets during the year.

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.

5. Tax on loss

	2017 £000s	2016 £000s
Corporation tax credit received	362	469
Total tax recognised in statement of comprehensive income	362	469

The research and development tax credit is in relation to the HMRC Research and Development Relief Scheme for SME's and enables the Company to realise tax losses on certain qualifying expenditure to be received immediately in cash rather than waiting for taxable profits to set them against in the future.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

5. Tax on loss (continued)

The tax credit for the year is lower (2016: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20%). The differences are explained below:

	2017	2016
	£000s	£000s
Loss before taxation	**(11,510)**	(6,733)
Loss multiplied by the standard rate of corporation taxation in the UK of 19.25% (2016: 20%)	**2,216**	1,347
Taxation effects of:		
Expenses not deductible for tax purposes	**(486)**	(15)
Trading losses not utilised	**(1,730)**	(1,332)
Research & Development tax credit	**362**	469
Tax credit for the year	**362**	469

6. Property, plant and equipment

	Freehold land	Plant and equipment	Capital works in progress	Total
Year ended 31 December 2017	**£000s**	**£000s**	**£000s**	**£000s**
Net book value				
At 1 January 2017	**6,093**	**43**	**-**	**6,136**
Additions	**8,013**	**3,080**	**108,213**	**119,306**
Depreciation for the year	**-**	**(269)**	**-**	**(269)**
Transfers from intangible assets	**-**	**-**	**117,145**	**117,145**
At 31 December 2017	**14,106**	**2,854**	**225,358**	**242,318**
- cost	**14,106**	**3,534**	**225,358**	**242,998**
- accumulated depreciation	**-**	**(680)**	**-**	**(680)**

At 31 December 2016	£000s	£000s	£000s	£000s
- cost	6,093	662	-	6,755
- accumulated depreciation	-	(619)	-	(619)

During January 2017 the Company commenced significant development work at its Project. All exploration costs and rights in relation to the Project previously capitalised by the Company have been transferred from intangible assets to property, plant and equipment from that date since the technical feasibility and commercial viability of the Project had clearly been demonstrated. All subsequent development expenditure on the Project has been capitalised within property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

7. Intangible assets

	Exploration costs and rights	Other intangibles	Total
Year ended 31 December 2017	**£000s**	**£000s**	**£000s**
Net book value			
At 1 January 2017	**114,891**	**3,118**	**118,009**
Additions	**2,254**	**4,975**	**7,229**
Amortisation for the year	**-**	**(26)**	**(26)**
Transfers to property, plant and equipment	**(117,145)**	**-**	**(117,145)**
At 31 December 2017	**-**	**8,067**	**8,067**
- cost	**-**	**8,097**	**8,097**
- accumulated amortisation and impairment	**-**	**(30)**	**(30)**

At 31 December 2016	£000s	£000s	£000s
- cost	114,891	3,187	118,078
- accumulated amortisation and impairment	-	(69)	(69)

8. Other receivables

	2017 £000s	2016 £000s
Prepayments	**3,207**	290
Other receivables	**2,373**	203
	5,580	493

9. Loans to group companies

Loans to group companies are interest-free, unsecured and repayable on demand.

10. Called up share capital

Authorised, allotted, called up and fully paid ordinary shares	2017 £000s	2016 £000s
50,001 (2016: 50,001) ordinary shares of £1 each	**50**	50

All shares rank parri passu in all respects.

11. Provisions

	£000s
At 1 January 2017	**-**
New amounts capitalised as property, plant and equipment	**2,753**
At 31 December 2017	**2,753**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

11. Provisions (continued)

The initiation of the Group's development work at the Project during the year has given rise to the future need to undertake restoration activities in order to maintain compliance with relevant planning consents. The Group's obligation is to undertake the necessary restoration activities at the end of the Project's life in order to restore sites to their previous character.

In order to estimate the value of the provision, the Group has relied upon valuations which were undertaken for the purposes of determining the value of local security requirements that are held in restricted cash at the end of the year. These amounts were valued by third parties based on the estimated present-day cost that would be required to remediate the disruption caused by the Group's activities by the end of the year. These costs, which the Group does not plan to be incurred for in excess of 50 years, have been discounted at a real risk free rate of 2% per annum, based on an estimate of the long-term, risk free, cost of borrowing.

12. Trade and other payables

	2017 £000s	2016 £000s
Trade payables	**2,713**	119
Accruals and other payables	**23,824**	2,163
	26,537	2,282

13. Loans from group companies

Loans from group companies are interest-free, unsecured and repayable on demand.

14. 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 2017 the range of expiry prices for outstanding options was 10.2p to 34.0p (2016: 10.2p to 34.0p) and the weighted average remaining contractual life of share options was 4.8 years (2016: 5.7 years).

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

15. Operating lease commitments

The Company leases various properties under operating lease agreements. The lease terms are between two and fifteen 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:

	2017 £000s	2016 £000s
No later than 1 year	**242**	109
Later than 1 year and no later than 5 years	**1,699**	118
Later than 5 years	**1,925**	-
	3,866	227

16. Royalty financing agreement

On 25 October 2016 the Company entered into a royalty financing agreement with Hancock British Holdings Limited ("Hancock"). Under the agreement Hancock will pay consideration of USD 250 million in return for future royalty payments amounting to 5% of gross revenues on the first 13 million tonnes of product sold in each calendar year and a further 1% of gross revenues on sales in excess of 13 million tonnes, for the life of the Project.

Drawdown of the USD 250 million consideration is subject to certain conditions precedent being met, principally the Company giving notice to Hancock that the Sirius Minerals Group has expended USD 630 million of the proceeds of the Sirius Minerals Group's November 2016 stage 1 financing and that all material permits, commercial arrangements and authorisations for the Project remain in place. The Company has until October 2020 to achieve these conditions.

17. Ultimate parent undertaking and controlling party

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

The ultimate parent undertaking and controlling party is Sirius Minerals Plc, a company incorporated in England. Sirius Minerals Plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2017. The consolidated financial statements of Sirius Minerals Plc can be obtained from www.siriusminerals.com.

COMPANY INFORMATION

Directors
CN Fraser
SA Carter
G Clarke
TJ Staley

Secretary
NA King

Registered Office
Third Floor, Greener House, 68 Haymarket, London, SW1Y 4RF
Tel: +44 20 3327 3660

Independent Auditors
PricewaterhouseCoopers LLP
Central Square, 29 Wellington Street, Leeds, LS1 4DL

Bankers
Barclays Bank Plc
1 Churchill Place, London, E14 5HP

Website
www.siriusminerals.com

General Information
info@siriusminerals.com

Main office
Resolution House, Lake View, Scarborough, YO11 3ZB
Tel: +44 1723 470 010

Company Registration Number
07251600