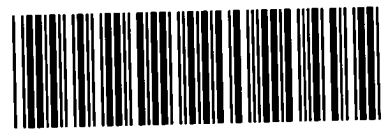


SACH 2 Ltd

**Annual report and financial statements
for the period ended 31 December 2017**

Company number: 10698654

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DIRECTORS' REPORT for the period ended 31 December 2017

The Directors submit the annual report together with the audited financial statements of the Company for the period ended 31 December 2017.

Principal activities

The principal activity of the Company is as an intercompany financing entity within the Sirius Minerals Group. The Group's principal activities are to explore, evaluate and develop its polyhalite project ("the Project") in North Yorkshire.

Directors

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

CN Fraser (appointed 30 March 2017)

TJ Staley (appointed 30 March 2017)

The Company Secretary who served the Company during the period and up to the date of signing the financial statements is NA King (appointed 30 March 2017).

Results and dividends

The Company recorded a profit of £8,030,000 for the financial period to 31 December 2017. The net assets of the Company at 31 December 2017 were £108,030,000.

The Directors have not recommended payment of a dividend.

Future developments

The directors anticipate that the Company's funding of its subsidiaries will continue to grow as construction of the Project begins. Readers of the financial statements should refer to the annual report of Sirius Minerals Plc for further information in this respect.

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 outcome of construction which itself is reliant on the success of future fundraising. For further details refer to the Going Concern section below.

Qualifying third party indemnity insurance

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

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

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.

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 accounts available from www.siriusminerals.com

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

Statement of directors' responsibilities in respect of the financial statements (continued)

Going Concern

The financial statements for the period 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 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.

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 auditors' remuneration for the ensuing year.

On behalf of the Board



**TJ Staley
Director
5 March 2018**

Independent auditors' report to the members of SACH 2 Ltd

Report on the audit of the financial statements

Opinion

In our opinion, SACH 2 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 profit for the 9 month period (the "period") 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 period ended 31 December 2017 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income and the statement of changes in equity for the 9 month period 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 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 SACH 2 Ltd (continued)

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the period 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 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 page 3, 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.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



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

STATEMENT OF COMPREHENSIVE INCOME for the period ended 31 December 2017

	Note	2017 £000s
Revenue		-
Operating result	2	-
Finance income		8,030
Profit before taxation		8,030
Tax on profit	3	-
Profit for the financial period		8,030

All activities relate to continuing operations.

The company had no other comprehensive income or expense in the period.

STATEMENT OF CHANGES IN EQUITY for the period ended 31 December 2017

	Share capital £000s	Retained earnings £000s	Total equity £000s
On incorporation	-	-	-
New shares issued	100,000	-	100,000
Profit for the financial period	-	8,030	8,030
At 31 December 2017	100,000	8,030	108,030

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

STATEMENT OF FINANCIAL POSITION as at 31 December 2017

	Note	2017 £000s
ASSETS		
Non-current assets		
Loans to group companies	4	454,923
TOTAL ASSETS		454,923
EQUITY AND LIABILITIES		
Equity		
Called up share capital	5	100,000
Retained earnings		8,030
Total equity		108,030
Current liabilities		
Redeemable preference shares	6	346,893
Total liabilities		346,893
TOTAL EQUITY AND LIABILITIES		454,923

The financial statements on pages 7 to 12 were issued and approved by the Board of Directors on 5 March 2018 and were signed on its behalf by:



TJ Staley
Director

Company Registration Number 10698654

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

1. Accounting policies

Basis of preparation

SACH 2 Ltd (the “Company”) was incorporated on 30 March 2017. These financial statements are the Company’s first financial statements and cover the period from the date of incorporation to 31 December 2017.

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 13.

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”). The recognition and measurement criteria under FRS 101 are identical to those of financial statements prepared under EU-adopted IFRS.

These financial statements have been prepared in accordance with the requirements of the Companies Act 2006. These financial statements have also been prepared under the historical cost convention in sterling (rounded to the nearest thousand), which is the functional currency of the Company. The principal accounting policies set out below have been consistently applied to all periods presented.

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 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 period 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 IFRS 7 Financial Instruments: Disclosures;
- 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 period 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.

Intercompany receivables

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

Redeemable preference shares

Redeemable preference shares are recognised initially at fair value and subsequently measured at amortised cost. Redeemable preference shares are classified as liabilities as the Company may be required to settle them in cash at the option of the holder for their par value.

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.

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2017 (continued)**1. Accounting policies (continued)*****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 market rate prevailing at that date. All exchange differences are dealt with in the income statement as part of finance costs.

2. Operating result

The company had no employees other than the directors who received no remuneration in respect of services to the Company. Costs in respect of auditors' fees were borne by another group undertaking.

3. Tax on profit

The company has recognised no expense nor credit within the statement of comprehensive income for the period ended 31 December 2017.

The tax charge for the period is lower than the standard rate of corporation tax in the UK for the period ended 31 December 2017 of 19%. The difference is wholly due to the FX gain that arose in the period not being taxable. As a result, the Company's total taxable profit for the period was £nil.

4. Loans to group companies

	2017 £000s
GBP-denominated loans	256,259
USD-denominated loans	198,664
Total loans to group companies	454,923

Loans to other group companies within the Sirius Minerals group do not bear interest, are unsecured and are repayable upon demand.

5. Called up share capital

The company has authorised, allotted, called and fully paid up 100,000,000 ordinary share with a par value of £1 and aggregate value of £100,000,000. These shares were issued on 30 March 2017 to Sirius Minerals Plc.

6. Redeemable preference shares

The company issued redeemable preference shares to a fellow Group company during the period. The face value of these redeemable preference shares is \$468m, which also equates to their fair value. These shares do not bear interest, nor provide for any fixed dividend, and are repayable upon demand.

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

7. Ultimate parent undertaking and controlling party

The Company's immediate parent and 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

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

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Website

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General Information

info@siriusminerals.com

Company Registration Number

10698654