



Full Year Result 2016 – Conference Call

28 March 2017, 9.00am

Thomas Staley – CFO, Sirius Minerals

Good morning, everyone and thank you for taking the time to dial in this morning. I'm going to provide you with a short overview of the three announcements we put out this morning and then we'll move into some Q&A after that. I'll start with an overview of our intention to move from the AIM market to the main board and then I'll cover off our annual results and then after that I'll touch on the quarterly update that we also put out.

So with the move to the main board, as you have seen this morning, it is our intention to apply for admission to the premium segment of the official list of the UK listing authority which will mean that we would ultimately commence trading on the main market of the London Stock Exchange. As a consequence, our AIM listing will be concurrently cancelled.

AIM has proved an ideal growth market for us as we progressed safely through our early stages of development, but we feel the main board move will provide a more appropriate platform for the next phase of the company's growth as we move through the construction phase and ultimately into operations.

We believe the move will raise the company's global profile, increase liquidity and provide a greater range of potential investors with the opportunity to invest in our company. The prospectus for the move will be published on or around 25 April, with admission and trading to commence shortly thereafter. Subject to receipt of necessary UKLA and LSE approvals, we will obtain a premium listing. So with a market cap in excess of 700 million, admission should position us to be considered for FTSE index inclusion in the June review process.

Moving on to the financial results, there has been quite a bit of change in our balance sheet and our financial statement at the end of this period, largely due to the stage 1 financing, so I thought that I might just take a bit of time to walk through some of those items. And you can see these items listed in the RNS relating to the annual results.

So starting with the income statement, you will see that we had a loss for the year of just under 23 million pounds, which is an increase over 2015, where we had a loss of about 7 million pounds. Our income statement continues to reflect the historical trend of certain project costs being expensed and the step up you will see from the previous period largely relates to finance expenses.

So you will see in the breakdown, there's approximately 13 million pounds of finance expenses included in that result. These are all non-cash items and they're a combination of accrued interest from the convertible note, FX movements in the instrument and movements in the value of the derivative component of the convertible note. And I will come on to those components in a little bit more detail later.

We do expect to have volatility in this line item over the coming years as the price of the underlying instruments in the US dollar GDP FX rate moves around. But it's important to keep in mind that these are all non-cash items and the tax liability that we have under the convertible note is a fixed US dollar coupon payment.

Just for reference, outside of the period, the first coupon payment was paid on the 28th February. Most transaction costs associated with our stage 1 financing were capitalised and as such did not flow through income statement. And there was some that were expensed and I'll come on to those in a little bit more detail when I get to the cash flow statement.

In terms about balance sheet, you'll see the cash reflected on our balance sheet across a number of items, the cash holdings of 665 million sterling in total are split across cash, 260 million pounds which is our holding in current accounts and money market funds, bank deposits totalling 322 million pounds, which relates to our term deposits with greater than three-month maturity and restricted cash of 83 million pounds which relates to the convertible note coupon escrow.

Our cash holdings are diversified by counterparty credit and instrument in terms of current account term deposit and money markets and the sole objective of our treasury strategy is obviously the preservation of capital to ensure that it's available for development of the project. Our cash is predominantly held in US dollars and sterling on a roughly 50:50 basis. And this is designed to provide a natural hedge against our expected project costs over the construction period.

In terms of other assets on the balance sheet, you will see that in terms of project assets, our increase in PP&E reflects land purchases for the Woodsmith Mine site made following the stage 1 financing, but prior to the year end. And you can also see that we capitalised circa 12 million sterling of project costs across 2016. And that's a combination of spend pre-stage 1 financing and also some of the work that was undertaken late last year.

In terms of the financing instruments and how they're reflected on our balance sheet, the convertible note is accounted for as a long-term liability which consists of a host loan derivative component and this is relatively typical of accounting treatments for convertible notes. The royalty commitment is not currently reflected in our balance sheet and will only do so once the funds have been drawn, so you can expect that to show up in our 2018 accounts.

In terms of the share commitment associated with that royalty transaction, there is a small derivative asset on our balance sheet and that really relates to the US dollar nature of that share commitment. Following the stage 1 financing, there are approximately 4.2 billion shares outstanding.

Turning to the cash flow statement, our operating cash outflow during the period increased to 15.9 million pounds. That was an increase over the prior period and the changes largely reflect increased activity generally, but also relating to some financing items that were not capitalised. Cash flow from investing, you can see these line items there largely reflect what we just covered off in terms of the balance sheet. And in financing cash flow, the items of note are the 28 million pounds of transaction costs associated with the stage 1 financing and the 82 million pounds item you can see there is effectively their restricted cash going into escrow that I mentioned earlier.

It's also worth pointing out that small item in the financing cash flow is a 750,000 mortgage repayment, which was the mortgage that we held over the Woodsmith Mine that has now been repaid just to clean up our assets.

Turning attention now to the quarterly update, we're very pleased to say that our safety record is in a good place, that we moved into more intensive construction and every day we work hard with our contractors and our partners to ensure that we conduct all of our activities safely and responsibly.

The project in itself is on time and on budget with all activities procured to date within budget and as construction activity levels increase and major contracts are executed, we'll begin to provide a more granular framework for reporting progress.

Contracts and committed work at this stage is relatively small in terms of commitments in the order tens of millions and as we move into that main shaft sinking contract, then that will be a trigger for us to provide more of a breakdown of the project cost and schedule. Every member of the team has done a great job gearing up for the increased level of activity as we moved out of the stage 1 financing and into construction – we're making good progress across the board.

Specifically on the construction side, site enabling works are ongoing at key road works locations, with some of those activities now drawing to a close, as we [are] almost on the cusp of starting site preparation earthworks which are scheduled to commence early in Q2.

On the actual mine site, there is a couple of geo-technical investigation programmes ongoing. One at the near-surface level and one to do with the production shaft borehole which is currently being drilled. The main shaft sinking contract negotiations are progressing well and these negotiations will be concluded prior to the commencement of D-Walling activity which we expect to commence in Q3.

On the sales and marketing side, we've made a number of key hires in the markets of Europe, Southeast Asia and Brazil. And we have commercial discussions ongoing in those markets and other market as we look to progress further, our portfolio of offtake agreements and get ultimately some more of those offtake agreements in place. On the agronomy side, the programme is expanding both in terms of new markets and new crops, but also in terms of conducting repeat trials and larger-scale trials in our key markets and all this work continues to validate the product.

So on that note, [a] relatively sort update, but I'd be happy to take any questions anyone has about the three items that we put out today.

Q&A session

Richard Knights - Liberum

Just couple of questions, firstly on marketing, you've obviously made some investments there. I'm not sure if there is any sort of flavour you can give us around timing of offtakes? Is this something that you think you can make some progress with this year or is it more likely to be a 2018 phenomenon, when you lock down some more of those bankable contracts? That was the first question.

Second question was just relating to the phasing of CapEx spend and you mentioned that when the shaft contract commences you'll have a better idea on the phasing. Any idea when the shaft contract is likely to be finalised and also when the shaft will start sinking?

Thomas Staley

Sure – so just on the commercial side, I mean we've been pretty clear in terms of articulating to the market that we need to get some more of those offtake agreements in place prior to our stage 2 financing. We intend to let our commercial discussions run their course, we don't want to set any artificial or unnecessary milestones or deadlines because we feel that ultimately that will prejudice our negotiating position. But very clearly, we are working hard to get the best possible deal for the company and ultimately get those deals in place when we feel that they're in good shape and a good outcome for the company.

Richard Knights

Just quickly on that sorry, have you noticed any noticeable increase in interest, in terms of customers you're having negotiations with, post the financing? Has it come onto more customers' radar screens?

Thomas Staley

Yes, absolutely. I think the recognition from some of the bigger players in the market, for want of a better word, of the credibility of our plans, now that we've got that stage 1 financing in place, has been pretty significant. And it's been a good commercial catalyst for us to commence a new competitive process and ultimately approach these discussions with a view to us having a little bit more leverage than we may or may not have had in the past.

Richard Knights

Fair enough. And just on the shaft?

Thomas Staley

Yes, so on the shaft, the process of shaft sinking commences with the diaphragm walling activity. So the first 120 meters of the shaft is constructed using that D-Walling technique and we expect that activity to commence in the second half of this year, ultimately we'll be looking to have that main shaft sinking contract executed in place, prior to those activities commencing.

Richard Knights

Okay. Thanks very much.

Paul Smith – WH Ireland

Morning Thomas, thanks for the update this morning. Just wondered if you could talk a little bit more about your plans for the stage 2 financing?

Thomas Staley

I'm happy to give you an overview. I think Paul, there is really nothing new, we've obviously got our mandated bank group. We have spent the first months of this year really getting ourselves organised and prepared for the process that we will undertake. Clearly a big catalyst for that stage 2 financing is making progress on the project both in terms of the procurement, getting those contracts in place, and some more design work done and also on the sales and marketing side.

So what you can expect to see in that space is we'll be doing a lot of work behind the scenes over the course of this year and then we'll be much more active in our marketing efforts with banks and potential bond investors through early 2018 with a view to having some commitments in place in the second half of 2018.

At some stage we'll articulate the plan, but I think you will see that more towards the backend of this year as and when we commence approaching the market. I think it's important for the company to make sure that we have all of our diligence materials in good shape, so when we commence that process with external counter parties, we have everything they need to do their due diligence properly and ultimately set us up to be in a good place by the middle of next year.

Paul Smith

Okay thanks Thomas.

Thomas Staley

Well nothing further from me at this time. Thank you all for dialling in and we look forward to providing you a further update in the future.

- Ends -