SIRIUS
MINERALS PLC

# INVESTING FOR TOMORROW

Annual Report & Accounts 2018

# VISION: TO BE A WORLD-CLASS FERTILIZER BUSINESS



This Annual Report contains forward-looking statements. These forward-looking statements are made in good faith, based on a number of assumptions concerning future events and information available to the Directors at the time of their approval of this report.

These forward-looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of this document should not rely unduly on these forward-looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other events, many of which are outside of the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.


FOR MORE INFORMATION PLEASE VISIT WWW.SIRIUSMINERALS.COM AND WWW.POLY4.COM

Performance against milestones

# HOW WE PERFORMED IN 2018

Key: ✓ Completed ○ Incomplete

## Construction

✓ **Complete the installation of the main production shaft foreshaft and commence foreshaft excavation**
- Diaphragm walling activities complete
- Foreshaft excavation commenced

○ **Complete main service shaft foreshaft construction and excavation**
- Service shaft foreshaft excavated to a depth of 37m at December 2018 and excavation completed post year end

✓ **Commence mineral transport system (MTS) access shaft construction at the Woodsmith Mine site**
- MTS shaft sinking commenced and progressed to a depth of 47m at December 2018

✓ **Largely complete construction of MTS portal at Wilton**
- MTS portal completed and the first two sections of the tunnel boring machine launch ramp constructed
- Tunnelling activities commenced

○ **Commence shaft sinking at Lockwood Beck intermediate shaft site**
- Shaft sinking preparatory works well advanced at December 2018
- Excavation works commenced post year end

✓ **Commence early works for the materials handling facility (MHF)**
- Site preparation works commenced

✓ **Finalise harbour facility strategy and complete procurement**
- Materials handling agreement signed with Redcar Bulk Terminal Limited to provide port and ship loading services for up to 10 million tonnes per annum (Mtpa) of POLY4
- EPC contract signed with McLaughlin & Harvey in November 2018 for the development of the Group's port handling facility at Teesside


## Sales and marketing

✓ **Expand global agronomy programme and establish 80 new trials**
- 110 new trials established in 2018 across 21 countries and 32 crops

✓ **Execute 2 Mtpa incremental supply agreements**
- Total of 4.8 Mtpa peak aggregate volume take-or-pay supply agreements entered into in 2018 for the supply of POLY4 into Nigeria, China, Brazil and certain other countries in South America

## Corporate and commercial

✓ **Substantially complete Project procurement**
- Procurement complete for the major construction packages

○ **Draw down the stage 1 financing royalty instrument**
- US$250 million royalty investment proceeds received in September 2018
- US$50 million equity component to be provided once stage 2 financing commitments are obtained to fully fund the initial 10 Mtpa development of the Project

○ **Execute stage 2 financing**
- The Group is working towards completion of stage 2 financing

Our business at a glance

# CREATING A WORLD-CLASS FERTILIZER BUSINESS

Sirius Minerals is a fertilizer company developing the world's largest known resource of polyhalite. The Company's flagship Project is based in North Yorkshire and is expected to achieve first polyhalite in 2021.

POLY4
A SIRIUS MINERALS PRODUCT

## What is POLY4?

**POLY4** is the trademark name of Sirius Minerals' flagship fertilizer product. It contains four of the six macro-nutrients that all plants require for growth, and also contains a range of valuable micro-nutrients.

## What makes it different?

- **POLY4 is a low-chloride single source of potassium, sulphur, magnesium and calcium which is efficient and effective for farmers, enabling more flexible and more sustainable fertilizer practices**
- **It allows farmers to maximise the economic potential of their land by providing increased crop yield and quality, and improved soil structure, with one product**
- **POLY4 is naturally occurring, has no requirement for chemical processing and is certified for organic use**
- **POLY4 has low $CO_2$ emissions in production compared to other fertilizer products**
- **Our product can be used straight or in a blend**

**FOR MORE INFORMATION, PLEASE VISIT** POLY4.COM

$K_2O$ 14%

S 19%

$MgO$ 6%

$CaO$ 17%

## THE WORLD'S LARGEST AND HIGHEST-GRADE KNOWN POLYHALITE RESOURCE

The scale and quality of the mineral resource combined with the relative proximity to a deep-water port present significant economic and operational advantages.

750km$^2$
AREA OF INTEREST

37km
FROM DEEP WATER PORT

>40yr
MINE LIFE

**Teesside port facilities**

## Timeline

**2011-2012**
RESOURCE DEFINITION AND MINERAL RIGHTS

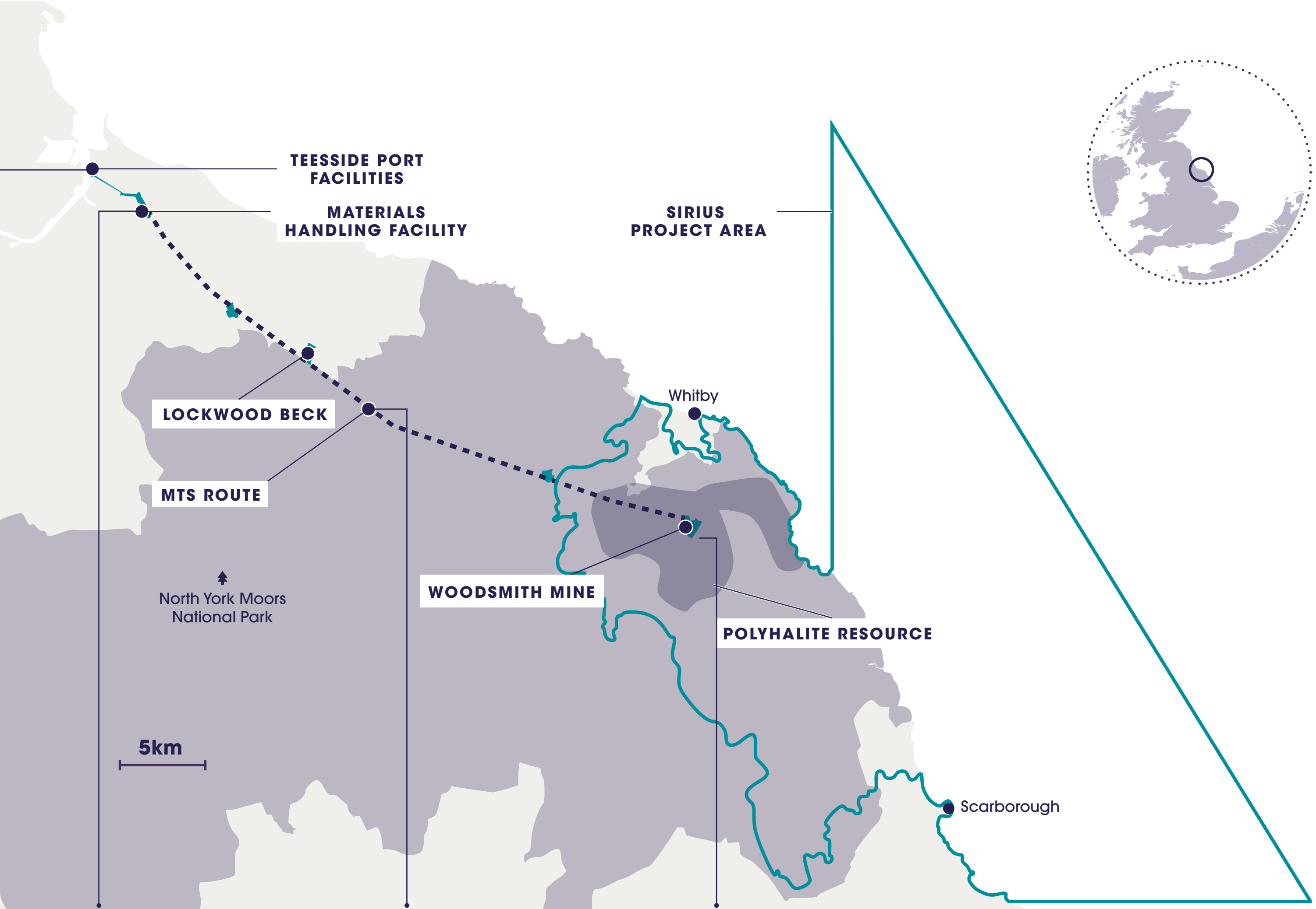
## Why invest?

**LARGEST HIGH-GRADE DEPOSIT**

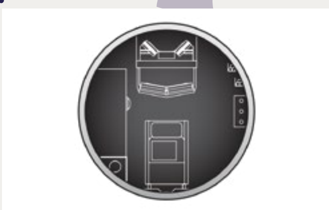
2.69bn
TONNE RESOURCE

290m
TONNE RESERVE

88.8%
RESERVE GRADE




**Materials handling facility**



**Mineral transport system**

**Woodsmith mine**

**2012-2015**
DEVELOPMENT AND APPROVALS

**NOV 2016**
STAGE 1 FINANCING COMPLETE

**2017-2021**
CONSTRUCTION AND DEVELOPMENT

**2021**
FIRST POLYHALITE

**STRONG GLOBAL DEMAND**

10.7 Mtpa
PEAK SUPPLY AGREEMENT AGGREGATE VOLUME[1]

US$140-150/t
AVERAGE SUPPLY AGREEMENT PRICE[2]

**LOW-COST, HIGH-MARGIN**

65-85%
GROSS MARGINS[3]

US$0.8-3.2bn
EBITDA[3]

37KM FROM PORT

TONNE ORE = TONNE PRODUCT

**ATTRACTIVE ECONOMICS**

US$18.0bn NPV
20 MTPA[4]

US$11.6bn NPV
13 MTPA[4]

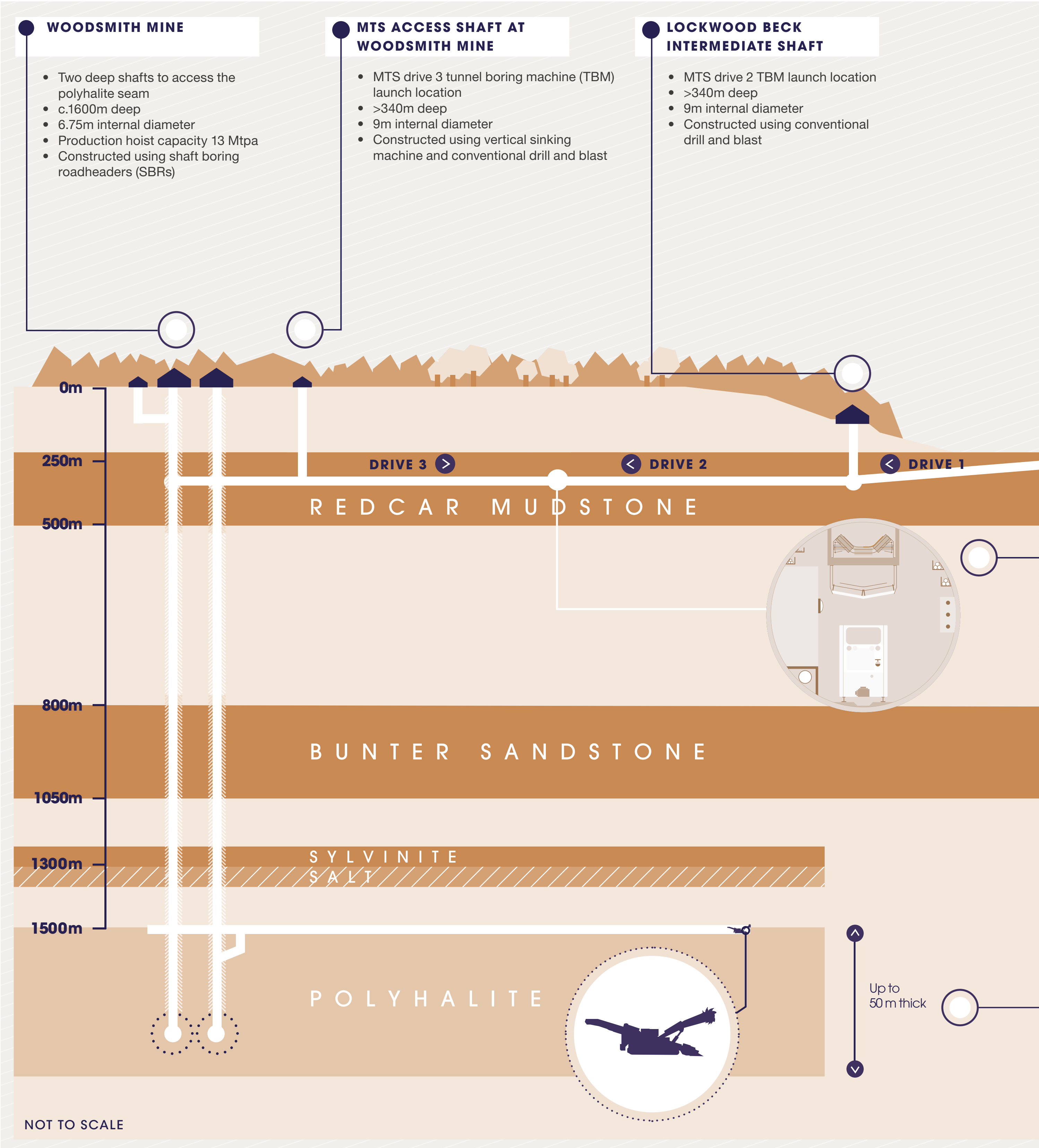
**DE-RISKING EXECUTION**

✓ **FULLY PERMITTED**
✓ **MATERIALLY PROCURED**
✓ **UNDER CONSTRUCTION**

**Note:**
1. 10.7 Mtpa as measured by taking the aggregate of the respective peak volumes under each supply agreement
2. US$140-150/t represents the weighted average price point of existing supply agreements over the first five years using independent third party fertilizer price forecasts (e.g. Argus FMB, CRU) for underlying nutrient values expressed on a real 2018 basis
3. Illustrative EBITDA and gross margins in an average steady state year on a price assumption of US$100/t to US$200/t flat real 2018 basis and volume assumptions of 13 Mtpa and 20 Mtpa assuming operating cash costs of US$31.6 and US$29.4 per tonne on a real 2018 basis respectively
4. Production forecasts, pricing, operating costs and capital costs are presented on an unlevered basis and are based on management assumptions. Prices and costs are nominal, inflated at 2% and cashflows are discounted at a nominal rate of 10%

Our development plan

# HIGH-VOLUME, LOW-IMPACT MINE DEVELOPMENT

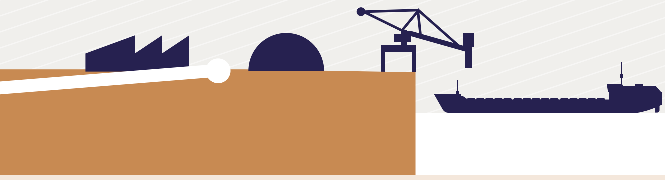


## MATERIALS HANDLING FACILITY

- Facility to process polyhalite into our POLY4 granules
- Simple process comprising Crushing > Grinding > Granulation > Screening > Drying
- Installed capacity 10 Mtpa
- Expansion capacity 20 Mtpa

## PORT FACILITY

- Port from which our POLY4 product is exported
- 17m deep berth
- 10 Mtpa initial capacity
- Additional 20 Mtpa expansion capacity



## MINERAL TRANSPORT SYSTEM

- Transport system to move our polyhalite ore from the mine head to our materials handling facility
- Capacity 20 Mtpa
- 37km long
- 4.9m internal diameter
- Average underground depth 250m
- Operating speed 7.5m/sec

## MINING

- 1:1 ore to product mining ratio
- Initial production capacity 10 Mtpa
- Expansion capacity 20 Mtpa
- Combination of continuous miners and drill and blast

1:1

ORE TO PRODUCT MINING RATIO

### Main shafts

FOR MORE INFORMATION, SEE P12

### Mineral transport system

FOR MORE INFORMATION, SEE P14

### Materials handling facility

FOR MORE INFORMATION, SEE P15

### Port facility

FOR MORE INFORMATION, SEE P15

Chairman's letter

# RESPONSIBLE DEVELOPMENT

**RUSSELL SCRIMSHAW**
CHAIRMAN

"Through the large-scale supply of POLY4, Sirius will make a significant and sustainable contribution to global food security and we are already working with a range of stakeholders to promote better agricultural practices across the world"

Dear Shareholders,

It is with great pleasure that I introduce Sirius Minerals' 2018 Annual Report. 2018 has been a year of significant progress for Sirius. The transformation of our development sites and the rate at which construction has advanced is impressive and is testament to the hard work and commitment of our employees and partners. More than 900 people are now employed on the Project, demonstrating the transformational potential for jobs and growth that the Project provides to the local area.

Strong construction performance has been mirrored by further success in the sales and marketing of POLY4. Our aggregate peak contracted supply agreements for POLY4 now stands at 10.7 Mtpa. To have established long-term, trusted relationships with some of the world's leading fertilizer blending and distribution companies truly validates the market potential of our unique POLY4 product.

## A responsible approach to creating value

Responsibility to the environment and the social and economic sustainability of the communities in which we operate is one of our core values. Our approach is built on the belief that the Company's success goes hand in hand with the economic, social and environmental sustainability of the communities in which we work.

### Environment

Facilitating the transition to a more sustainable agricultural sector is a key focus for Sirius. Over the next 35 years more food needs to be produced than has been produced to date in human history. In order to feed the planet's growing population there is a global need to adopt sustainable farming practices that boost crop yields whilst using less land and mitigating environmental impact. Through the large-scale supply of POLY4, Sirius will make a significant and sustainable contribution to global food security and we are already working with a range of stakeholders to promote better agricultural practices across the world.

Sirius has made a long-term commitment to farmer education with the foundation of this effort being our ongoing research and development programme. The guidance and recommendations we provide to farmers, supported by our crop trials, can improve productivity and efficiency for farmers, which in turn can help to increase food production and profitability and enhance sustainability.

During 2018, we initiated a total of 110 new trials across 21 countries and 32 crops. Our trials continue to demonstrate, in line with previous trials, that POLY4 increases crop yields and quality compared to existing fertilizer practice in a range of conditions. Our trials also demonstrate that POLY4 can provide a number of environmental benefits, such as improved soil conditions, greenhouse gas emission reductions and sustainable intensification (higher yield from a lower land use).

Our sustainable credentials are further demonstrated by POLY4's $CO_2$ emissions in production, which are expected to be low compared to other fertilizer products. Moreover, our minimal, non-chemical processing methods are expected to have a lower environmental impact than many other multi-nutrient fertilizer production methods.

Our research continues to show that POLY4 has the potential to make a significant impact in the future of global food security and can achieve this with a significantly lower environmental impact than many other fertilizers used today.

### Communities

By maintaining a high level of engagement with our local communities, we aim to maintain confidence in the positive and active contribution we make to the local area. We believe our success should be shared with the local communities in which we operate and we have committed to provide significant funding for environmental schemes within the local area via our S106 agreement with the North York Moors National Park (NYMNP) authority and the surrounding borough councils. Over the next 40 years we expect to contribute approximately £100 million to the local area.

On a national scale, a recent independent study estimated that the Project will make a direct contribution to GDP of over £2.3 billion every year at full production. This is the equivalent of permanently adding up to 17% to the economic output of North Yorkshire.

## People

We require a skilled and engaged workforce to deliver our ambitious growth plans. In 2018, the Group focused on activities to inform, engage and empower the wider Project team, including the construction workforce, to help create a sense of personal responsibility for the part they play in the team's collective success. Through our focused efforts, we have successfully sourced approximately two-thirds of our total workforce from the local area. We are very proud of this achievement. At full production, we expect 1,000 high skilled jobs to be created, with an additional 1,500 in the supply chain. We expect 1,700 jobs to be created at peak construction. Our long-term target is to source 80% of our direct workforce from the local area.

Over everything else we prioritise the safety of our workforce. As the workforce has grown throughout 2018, the Group has continued to invest in activities designed to strengthen the Company's culture and focus on keeping our people safe.

## Positioning for the future

Our strategy now is to focus on financing the construction of our world-class asset in order to deliver value to shareholders.

As we move through this critical phase in our Company's development I would like to take this opportunity to thank all of our employees and partners for their ongoing contribution towards delivering on our strategy to build our world-class, long-life, low-cost production facility and to build a successful market for POLY4.

Thank you for your continued support.

**Russell Scrimshaw**
Chairman

**Over everything else we prioritise the safety of our workforce**

>900
PEOPLE CURRENTLY EMPLOYED

1700
JOBS AT PEAK CONSTRUCTION

£100m
PAYMENTS TO THE LOCAL AREA OVER 40 YEARS

£2.3bn
ANNUAL DIRECT CONTRIBUTION TO GDP AT FULL PRODUCTION

## Chief Executive Officer's review

# CONSTRUCTION PROGRESS

**CHRIS FRASER**
MANAGING DIRECTOR AND CEO

"It is with great pride that we see the design work that formed the basis of our planning approvals being constructed at pace"

Dear Shareholders,

The past year has been one of significant construction progress. Your Company's Project sites have been transformed by the construction activities taking place at the Woodsmith Mine site, Lockwood Beck and Wilton, and it is with great pride that we see the design work that formed the basis of our planning approvals being constructed at pace.

A number of significant milestones were achieved in the year, including the completion of procurement of the Project's major construction packages. We have chosen some of the world's leading construction experts as our contractors and we look forward to continuing our partnerships to deliver our world-class Project. In addition to our procurement success we have also materially exceeded our targeted level of POLY4 supply agreements. The total peak aggregate volume of POLY4 under supply agreements now stands at an impressive 10.7 Mtpa and work continues to expand this further.

### Health and Safety

Safety of our workforce is our number one priority on site, and we are committed to promoting the highest standards of safety in our Group. The Project's lost time injury frequency rate (LTIFR) for 2018 stood at 3.54 and during 2018 five incidents were reported. Rigorous investigations have been carried out and changes to working practices have been implemented across all sites as a result. We work collaboratively with our contractors to create a one-team approach to health and safety and significant effort is being made to promote a strong health and safety culture across our business.

### Construction

#### Shaft-sinking activities

A key construction milestone in 2018 has been the successful commencement of shaft-sinking activities. At the Woodsmith Mine site, efforts are focused on the safe and efficient excavation of the two deep vertical mine shafts (the service shaft and production shaft) and the MTS access shaft. The service shaft foreshaft is now complete and the excavation of the production shaft foreshaft is underway. The vertical sinking machine (VSM) being used to construct the MTS access shaft was launched in October 2018 and construction has progressed well. At the time of writing the MTS access shaft has reached a depth of over 100m.

#### Mineral transport system

Progress on our MTS tunnel has been impressive. During the year the MTS launch portal at Wilton was completed and official excavation commenced. At the time of writing, our tunnel has been excavated to 100m and we look forward to the commencement of mechanical tunnelling following delivery of our first tunnel boring machine (TBM) in early 2019.

#### Materials handling facility

In parallel to the establishment of the MTS portal, early works to establish the MHF construction site have been ongoing at our Wilton site. The MHF site is now prepared and ready for civil works, associated with the construction, to commence.

### Procurement

Through our procurement process, we have established strong partnerships with world-leading construction companies to help deliver our Project. The calibre of our contractors, their technical expertise and wealth of industry experience will ensure the Project we are building will be a world-class production facility capable of sustaining the long-term operations at

"The calibre of our contractors, their technical expertise and wealth of industry experience will ensure the Project we are building will be a world-class production facility capable of sustaining the long-term operations at our mine"

# 10.7 Mtpa

**PEAK AGGREGATE SUPPLY AGREEMENTS**

our mine. DMC Mining Services (DMC), our chosen contractor for the construction of the four Project shafts, have extensive and proven shaft-sinking experience across the world. DMC is one of North America's premier underground contractors and is a world leader in shaft-sinking activities. With one of the lowest incident and accident frequency rates in the industry, DMC has been called upon by many leading mining companies to fill critical roles. Our MTS contractor, STRABAG, is a global leader in tunnelling technologies. Tunnelling requires tremendous skills and extensive experience from all the people involved. STRABAG is a specialist in providing technically optimised end-to-end tunnelling solutions worldwide and we are delighted to be partnering with this world-leading tunnelling contractor.

Our philosophy is one of continuous optimisation, as we look for opportunities to reduce construction risk and maximise shareholder value. Our port strategy is one such example of this. During the year we signed an agreement with Redcar Bulk Terminal (RBT) which will enable us to export up to 10 Mtpa of our POLY4 product using existing under-utilised local port infrastructure at Teesside. The agreement reduces construction risk for Sirius and provides benefits to an existing established business in Teesside. Our adjacent Bran Sands site is some of the last undeveloped river frontage in the UK capable of handlingcape size vessels and, like the RBT berth, is only 37km from the Woodsmith Mine site. Ownership of the Bran Sands land has ensured we have room to grow our export capability beyond 10 Mtpa in the future.

We took the decision to move the product storage facility from the MHF site to the port following an agreement to lease land from RBT, adjacent to the RBT port. This will result in a greater loading efficiency capability, maximising the potential of the out-loading and ship-loading facility we are constructing at the RBT.

## Outlook

The construction and sales and marketing progress made in 2018 is truly impressive and we have made good progress towards our stage 2 financing, including the US$400m equity issuance launched today. Financing the construction of our Project remains critical to our business and critical to delivering value to our shareholders, the coming weeks are a crucial time for the Company as we work towards the successful execution of our financing plan.

Thank you to all of our shareholders and stakeholders for your support and belief in the strength of our Project.

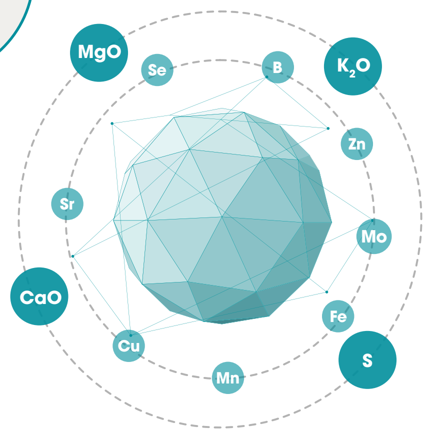
**Chris Fraser**
Managing Director and CEO

## About POLY4

# POLY4 A GAME-CHANGING FERTILIZER

## What is POLY4?

**POLY4** is a naturally occurring, low-chloride, multi-nutrient fertilizer certified for organic use. **POLY4** includes four of the six key macro-nutrients that all plants need to grow: potassium, sulphur, magnesium and calcium. It has no requirement for chemical processing and has the lowest $CO_2$ emissions compared to other fertilizer products.




Our product is an efficient and effective fertilizer that allows farmers to maximise crop yield, increase quality, improve soil structure and enables more sustainable fertilizer practices. POLY4 has a number of positive characteristics which make it suitable for widespread commercial use, including suitability for chloride-sensitive crops, a desired nutrient-release profile and compatibility for use with other fertilizer products.

## How does POLY4 work?

Fertilizers are a fundamental requirement of modern agriculture and the global food supply chain.

Every growing season, plants take up nutrients from the soil, depleting those that are naturally available. Unless the nutrients are replaced, soil will become nutrient deficient and a plant's ability to grow efficiently will be reduced.

**There are six macro-nutrients that all plants require:** nitrogen (N), phosphorus (P), potassium (K), magnesium (Mg), sulphur (S) and calcium (Ca). Each nutrient serves a different vital role in plant function, structure and development, and must be available in a balance appropriate for a particular crop and soil condition in order to achieve maximum yield.

## Macro-nutrients essential for effective plant growth:

**POLY4**

| | |
|---|---|
| 19 **K** Potassium | Aids plant metabolism, water regulation and drought resistance improves disease resistance and plant health |
| 16 **S** Sulphur | Is required by plants for healthy growth. An essential component to produce proteins, amino acids, enzymes and vitamins |
| 12 **Mg** Magnesium | Enhances a broad-spectrum nutrient uptake. Is a key component of chlorophyll, which makes leaves appear green |
| 20 **Ca** Calcium | Important for soil stability and plant tissue integrity, particularly for cell wall structure and root nutrient uptake |

**Other fertilizer products**

| | |
|---|---|
| 7 **N** Nitrogen | Increases plant yield by promoting protein formation, which is essential for growth and development in plants. Nitrogen determines size, vigour, colour and yield of the plant |
| 15 **P** Phosphorus | Vital for root development and plays a key role in the photosynthesis process |

## Trial results show that POLY4:

- Delivers greater nutrient uptake
- Improves yield and quality
- Can be used as a straight fertilizer or as part of a blend
- Improves soil strength, structure and nutrient legacy
- Low-chloride and pH neutral

# WELL POSITIONED TO MEET DEMAND

## Demand dynamics

Over the next 35 years more food needs to be produced than has been to date in human history. Global food security is the macro-driver which underpins the market demand for fertilizers. Sirius Minerals has the potential to make a major, positive contribution to global food security as it becomes one of the largest producers of multi-nutrient fertilizer.

**The key demand drivers for fertilizer use include:**

**Population growth**

- According to the UN Population Division, the world's population is predicted to increase to 9 billion by 2050, placing increased demand on food production
- As economies become wealthier, the demand for protein rich and high-quality diets increases. Sustaining increased livestock herds requires greater efficiency from grain production and arable land
- An increase in agricultural production of 60% between 2010 and 2050 is required to meet rising global food demand

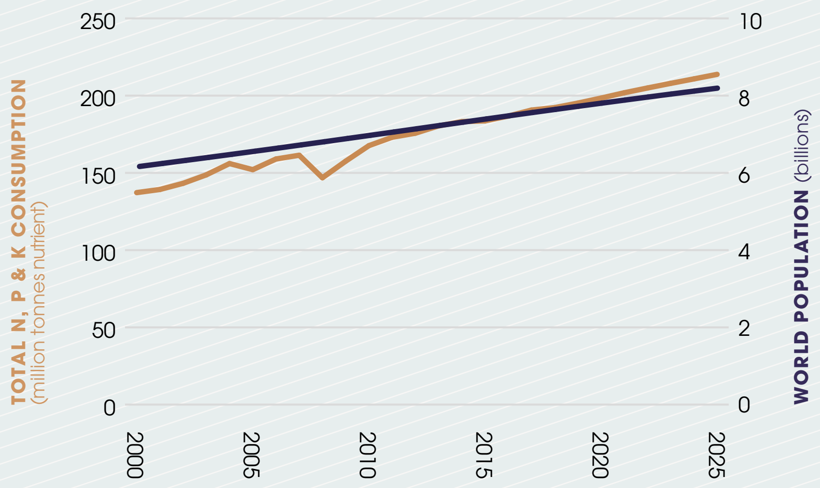
**Reduction in arable land**

- A reduction in arable land from 2,100m$^2$ in 2010 to just 1,800m$^2$ per person by 2050 will require more efficient fertilizer practises
- In many places, soil is becoming increasingly deficient in the nutrients required for plant growth

**Increasing nutrient demand**

- Additional nutrient application will be necessary to improve crop yields to meet future anticipated demand for food
- There is an increasing recognition of benefits of balanced fertilization which supports the use of multi-nutrient fertilizers such as POLY4

**Population vs Fertilizer Consumption**




9bn

**FORECAST WORLD POPULATION BY 2050**

>60%

**INCREASE IN AGRICULTURAL PRODUCTION TO MEET RISING FOOD DEMAND IN 2050**

15%

**REDUCTION IN ARABLE LAND PER PERSON BY 2050**

What we are constructing

# MAIN SHAFTS

Industry-leading design and construction techniques are being deployed to develop the largest mine of its type anywhere in the world. The low-impact design coupled with an innovative ore delivery system is setting a new standard for sustainable mine development.

At the Woodsmith Mine site, two deep mine shafts, the production shaft and service shaft, are being constructed to access the polyhalite in the centre of the mineral reserve. These main mine shafts are being constructed with an initial hoist capacity of 13 Mtpa. A third shaft, the MTS access shaft will also be constructed. The MTS access shaft is being constructed to facilitate construction of the MTS.

Shaft construction will utilise world-leading shaft-sinking methodologies. Our shaft-sinking partner, DMC, has elected to use the Herrenknecht SBR to construct the main mine shafts. The SBR patented technology allows for safe and efficient shaft excavation without the need for explosives and enables the simultaneous installation of shaft lining as construction advances.

The MTS access shaft is being constructed using a combination of conventional shaft sinking methodologies and, for the initial 120m, the Herrenknecht VSM. The VSM employs a mechanical cutting and excavation system. The permanent shaft lining is installed concurrently as excavation advances.

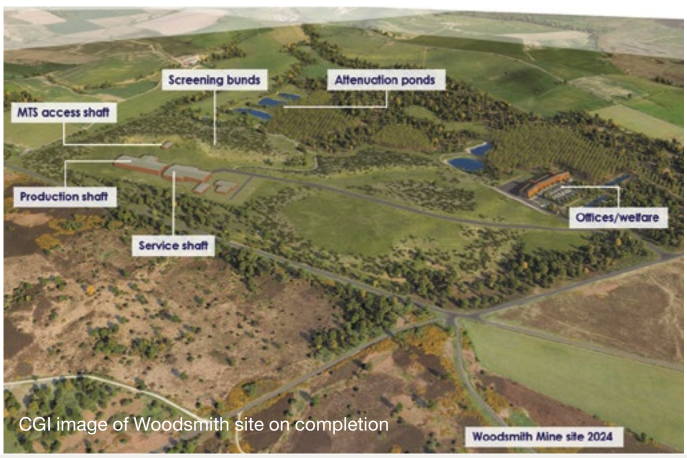
To achieve full 20 Mtpa capacity, the MTS access shaft at the Woodsmith Mine will require further deepening from the 360m level to the polyhalite mining horizon.

**WORK DECKS**
- Control cabin and work places
- Infrastructure components
- Pneumatic mucking system
- Kibbles for hosting

**ROCK SUPPORT AREA**
- Shotcrete and rock bolting
- Shaft lining

**EXCAVATION AREA**
- Boom with cutting drum


Shaft-boring roadheader (SBR)




CGI image of Woodsmith site on completion

**Our development comprises long-life infrastructure which secures the Project's long-term, high-volume and low-cost production capability. Two deep shafts will access the polyhalite seam.**

Woodsmith Mine service shaft foreshaft

**13 Mtpa**
**INSTALLED CAPACITY**

**20 Mtpa**
**EXPANDED CAPACITY**

## What we are constructing continued

# MINERAL TRANSPORT SYSTEM

The MTS will carry mined polyhalite ore 37km underground from the Woodsmith Mine to the MHF at Wilton International. A high-capacity conveyor will transport mined polyhalite ore within a 4.9m diameter, segmentally-lined tunnel. The MTS incorporates industry-standard equipment, providing a transport system that is reliable, low-maintenance and low-cost. The MTS is being constructed to operate at 20 Mtpa capacity.

STRABAG will construct the MTS using three TBMs with each one excavating around 12km. TBMs are a widely used tunnel construction methodology designed for safe and efficient operation. TBMs will be launched from a surface portal at Wilton and from excavated caverns at the base of the MTS access shafts at Lockwood Beck and the Woodsmith Mine site.

The MTS is being constructed within the Redcar mudstone geological formation: a continuous rock type which extends between the minehead and the port. The Redcar mudstone can be excavated efficiently and has the structural integrity to accommodate a tunnel.

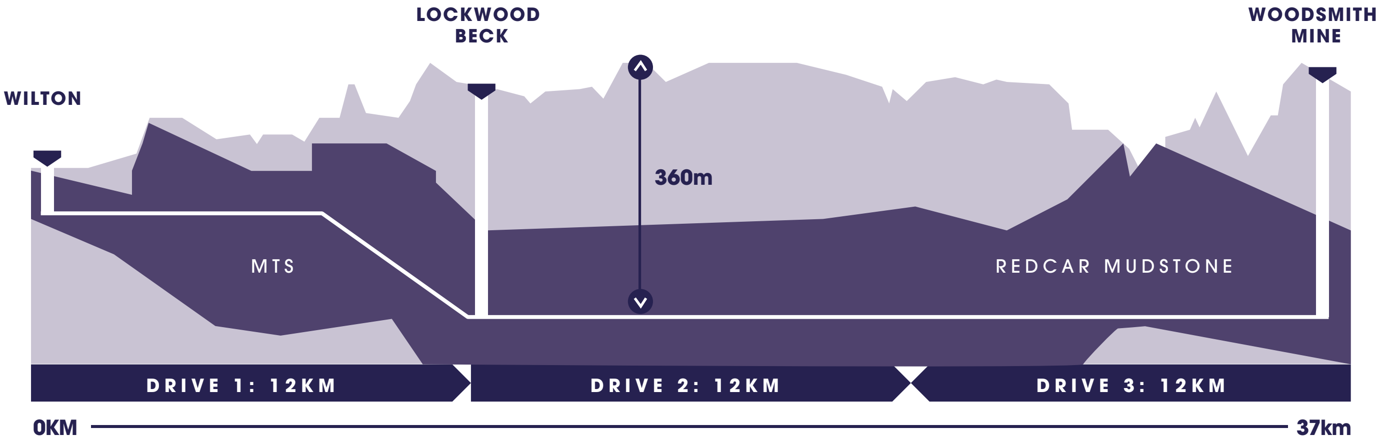
37km
LENGTH

250m
AVG. DEPTH

20 Mtpa
INSTALLED CAPACITY

**The MTS incorporates industry-standard equipment, providing a transport system that is reliable, low-maintenance and low-cost.**


MTS drive 1 tunnel boring machine



# MATERIALS HANDLING FACILITY

Located on Teesside at the Wilton International site, the MHF is where the MTS discharges polyhalite ore at surface and will consist of the plant and equipment necessary for a simple and cost-effective granulation process to produce bulk volumes of our primary product, POLY4. POLY4 will be produced in granular and coarse form.

Upon arrival at the MHF, the polyhalite ore will undergo a simple process of crushing, grinding, granulation, screening and drying to produce the finished POLY4 granular product.

JACOBS will construct the MHF to have an initial production capacity of 10 Mtpa and a footprint that will enable an increase in capacity to 20 Mtpa. When the granulation process is complete, POLY4 will be transferred from the MHF via an overland conveyor to the port facility at the RBT on the River Tees for efficient ship loading.

**POLY4 PROCESS FLOW CHART**

**CRUSHING**
Run of mine ore is nominally crushed to below 50mm

**GRINDING**
Crushed ore ground to pass 0.2mm

**GRANULATION**
Binder and water added to polyhalite powder and granulated to form POLY4 granules

**SCREENING**
POLY4 granules screened. Oversize and undersize removed for reprocessing

**DRYING**
POLY4 granules dried to final moisture content, ready for storage and delivery

# PORT FACILITY

The Project benefits from being close to a port, relative to other fertilizer producers. The Group has entered into a materials handling agreement with the RBT to provide port and ship loading services for up to 10 Mtpa of finished product. The RBT on the River Tees is ideally located for the bulk export of POLY4.

POLY4 will be transported around 4km via a raised covered conveyor from the MHF to a new storage facility constructed adjacent to the RBT. Initial storage capacity will be for 255,000 tonnes of finished product, with the capacity to expand. At the RBT, McLaughlin & Harvey will construct a new ship loader and tripper conveyor gallery capable of loading Panamax vessels at 5,000 tonnes per hour.

Expansion to facilitate an increase in production to full 20 Mtpa capacity will require the installation of additional berths and ship loaders. The fully permitted Bran Sands site immediately upriver from the RBT has the capacity to accommodate this future expansion to 20 Mtpa.

37km
**FROM WOODSMITH**

**The Project benefits from being close to a port, relative to other fertilizer producers.**

Redcar Bulk Terminal (RBT)

Our strategy

# DELIVERING RESULTS A CLEAR STRATEGY

| | Strategy | 2018 Achievements | 2019 Milestones |
|---|---|---|---|
| 1 | **Build a world-class, long-life, low-cost production facility**<br><br>Utilise proven, well-understood construction techniques to build a low-impact, large-scale operation with a long operating life and low cost of production. Ensure ongoing management of health and safety, and environmental and social impacts. | • Production shaft diaphragm walling activites completed and excavation of foreshaft commenced<br>• Service shaft foreshaft significantly progressed<br>• Woodsmith Mine MTS access shaft construction commenced using VSM technology<br>• Advanced preparatory works for shaft sinking at Lockwood Beck intermediate shaft site<br>• Completed construction of the MTS portal at Wilton International<br>• Finalised port facility strategy and completed procurement | • Complete construction of main shafts foreshafts to enable commencement of excavation of main shafts using shaft-boring roadheaders<br>• Commence mechanical tunnelling of drive 1 of the MTS and advance tunnel excavation to 3km<br>• Complete early works and commence civil works for the MHF<br>• Finalize commercial approach to Port facilities |
| 2 | **Develop an industry-leading product**<br><br>Articulate POLY4's four key attributes: efficiency, effectiveness, flexibility and sustainability, that benefit farmers by increasing their profits in a sustainable way through improved crop yields, reduced costs or both. | • Expanded global agronomic programme and established 110 new trials<br>• Total number of trials established stood at 382 on 42 crops in 28 different countries as at December 2018<br>• Trial results continued to demonstrate that POLY4 increases crop yields compared to existing fertilizer practices in a range of conditions | • Continue to expand global agronomy programme in conjunction with our distribution partners |
| 3 | **Penetrate existing markets and drive long-term value**<br><br>Penetrate and disrupt the existing market via a three-phase approach of substitution, market growth and performance. | • Executed 4.8 Mtpa incremental take-or-pay supply agreements<br>• Distribution of POLY4 through take-or-pay supply agreements expanded to include distribution to Africa, China, Brazil and certain other South American countries | • Expand our global distribution footprint into incremental key markets |
| 4 | **Execute a financing plan that delivers returns for shareholders**<br><br>We are committed to delivering a financing plan that will maximise shareholder value. | • Completed procurement for the major construction packages to support stage 2 financing<br>• Drew down the US$250million royalty investment portion of the stage 1 financing royalty instrument | • Achieve financial close on all components of the stage 2 financing plan |

## 2021 Target

- First polyhalite
- Ten years of agronomic research validating POLY4
- First customer deliveries
- First revenue

## Our Vision

# TO BE A WORLD-CLASS FERTILIZER BUSINESS

## Our Values

**RESPONSIBILITY** Leadership by everyone - acting with accountability and integrity

**OWNERSHIP** Pride in our Company and everything we do - "Look after it like it's yours"

**BELIEF** Uncompromising determination that we will succeed, no matter what the challenge

**URGENCY** A bias towards action - a restless need to find solutions, overcome hurdles and move forward

**SAFETY** Looking after each other all the time - making every day a good day

**TEAM** Success comes from working together not alone

Our project

# 1 BUILD A WORLD-CLASS, LONG-LIFE, LOW-COST PRODUCTION FACILITY

## Our production facility

Industry-leading design and construction techniques are being deployed to develop the largest and most efficient mine of its type anywhere in the world. The low-impact design coupled with an innovative ore delivery system is setting a new standard for sustainable mine development.

Our mine is designed to maximise the exceptional nature of our polyhalite resource. The thickness and high-grade nature of our resource means nearly every tonne of ore mined becomes a tonne of POLY4. The quality of the polyhalite seam enables the use of multiple mining techniques to extract high volumes of mineral at low cost. A combination of these factors and our proximity to our port infrastructure means we have the potential to be a low-cost producer with some of the highest margins in the industry.

## 2018 strategy in action

**Partnering with world leading contractors to build a world-class production facility**
In 2018, we completed the procurement of our major construction packages: a major milestone. The Company has partnered with some of the world's leading contractors to enable us to construct a world-class operation capable of becoming a long-life, low-cost production facility.

Evolution through optimisation remains central to our decision making process as we strive to maximise shareholder value. During the year we took the decision to change our preferred contractor for shaft-sinking activities which is a clear demonstration of our desire to partner with best-in-class organisations capable of delivering on our vision: to be a world-class fertilizer business.

i

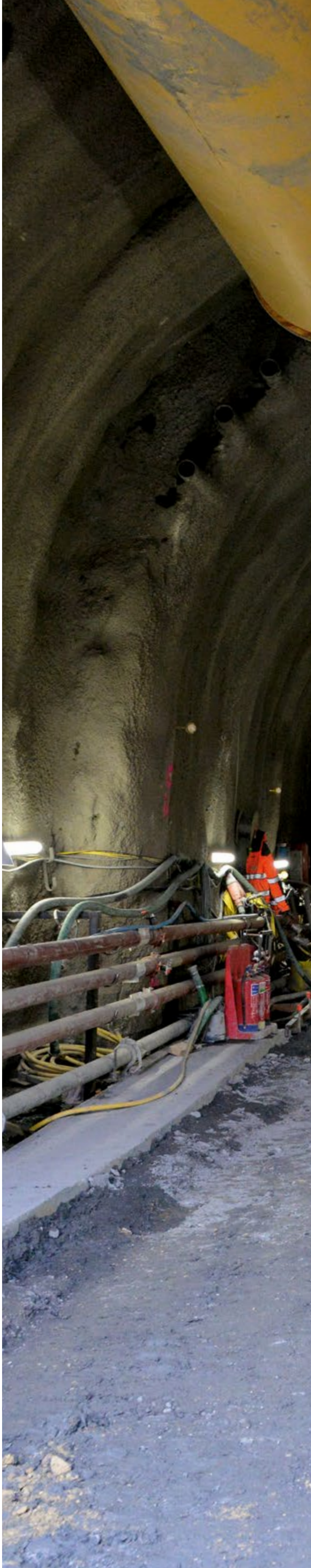
Our chosen industry leading partners that will work with us to develop our production facility are:

- Shafts – DMC
- Mineral transport system – STRABAG
- Materials handling facility – Jacobs
- Port handling facility – McLaughlin & Harvey

**Infrastructure to transport minerals at a low-cost and over the long-life of the Project**
Like the main mine shafts, the MTS is critical infrastructure necessary for the efficient and low-cost operation of our mine. As well as providing a sustainable and low-impact solution to transporting materials in the NYMNP, the MTS will enable us to move material from the mine head to our port quickly, efficiently and at a low operating cost.

During the year we updated our operating cost estimates which reconfirmed the low-cost nature of our mine. We anticipate our total life-of-mine operating costs at 10 Mtpa to be under U$35 per tonne of product. In particular, our efficient MTS design will enable us to move a tonne of product from the bottom of our shafts, along our MTS, to our port facility at Teesside at an estimated US$5 per tonne.

Our MTS will have initial capacity of 20 Mtpa. This, combined with the >50 year design life of our tunnel, will ensure that we have infrastructure capable of maintaining the low-operating cost nature of our mine over the long term.




MTS drive 1 construction

## 2018 Construction progress

### Shafts

Significant construction progress has been made during the year. The installation of the 32m diameter, 60m deep foreshaft diaphragm walls (D-wall) are now complete for the service and production shafts. The D-walls provide protection from the surrounding near surface water bearing strata, facilitating the excavation of the foreshaft to 45m. At the production shaft, the 6.75m diameter, 120m deep pre-sink diaphragm wall has also been installed.

Our service shaft foreshaft construction was progressed to a depth of 37m at December 2018 and was completed January 2019 which represented a few weeks delay to target but we are confident we can make back the lost time with minimal impact to our overall Project schedule.

The VSM being used to construct the MTS access shaft was launched in October 2018, consistent with the Company's milestone for 2018. The MTS sinking activities are progressing smoothly following some initial commissioning issues. Since late November cutting rates have increased and improvements are ongoing. The VSM operational performance has provided the Company with further confidence in the assumed advance rates for the shaft boring roadheaders that will be used to sink the main service and production shafts.

### Mineral transport system

At our Wilton site the MTS portal, which will facilitate the launch of the drive 1 TBM, was completed in the year and official tunnelling activities commenced in December. The MTS tunnel has since been excavated to a distance of 100m. The TBM arrived at site in February 2019 and is expected to commence mechanical tunnelling in the coming months.

### Materials handling facility

Earthworks were commenced at our MHF site at Wilton, consistent with the 2018 milestone, and our construction partner JACOBS completed comprehensive ground investigation work at the site of the MHF.

## Measuring Performance:

### 2018 Key milestones

**PRODUCTION SHAFT**

TARGET:
Complete the installation of the main production shaft foreshaft and commence foreshaft excavation

2018: COMPLETE

**SERVICE SHAFT**

TARGET:
Complete main service shaft foreshaft construction and excavation

2018: INCOMPLETE
– Service shaft foreshaft completed post period end

**MTS ACCESS SHAFT**

TARGET:
Commence Mineral Transport System (MTS) access shaft construction at the Woodsmith Mine site

2018: COMPLETE

**LOCKWOOD BECK INTERMEDIATE ACCESS SHAFT**

TARGET:
Commence main shaft sink at Lockwood Beck

2018: INCOMPLETE
– Shaft sinking preparatory works are well advanced in preparation for excavation to commence

**MINERAL TRANSPORT SYSTEM PORTAL**

TARGET:
Largely complete construction of MTS portal at Wilton

2018: COMPLETE

**MATERIALS HANDLING FACILITY**

TARGET:
Commence early works for the MHF

2018: COMPLETE

**PORT FACILITY**

TARGET:
Finalise harbour facility strategy and complete procurement

2018: COMPLETE

Our product

# 2 DEVELOP AN INDUSTRY-LEADING PRODUCT

## POLY4 Cornerstones

**POLY4** has four key attributes that benefit farmers by increasing their profits in a sustainable way through improved yields, reduced costs or both.

POLY4
A SIRIUS MINERALS PRODUCT

**Efficiency**
- Improves fertilizer use efficiency by delivering greater nutrient uptake
- High nutrient density – supplies four macro-nutrients in one easy-to-use, cost-effective granular delivery system

**Effectiveness**
- Improves both yield and quality
- Improves macro and micro-nutrient uptake
- Minimises crop losses through disease resilience
- Desirable nutrient release profile which matches crop demand
- Granular product that handles, stores, blends and spreads effectively

**Flexibility**
- Low chloride and pH neutral product that can be used on all plants and soils in all growing climates
- Successful as a straight fertilizer or as a component of blend or complex compound formulations
- Excellent compatibility profile
- Allows farmers to choose the timing of application

**Sustainability**
- Improves soil strength, structure and nutrient legacy
- Reduces the impact of agriculture on the environment by improving fertilizer use efficiency, reducing erosion and nutrient loss
- Certified for organic use
- Excellent environmental profile

**Research and development**

Sirius Minerals' global R&D programme provides technical, agronomic and commercial validation for POLY4's use as an effective multi-nutrient fertilizer suitable for widespread use in farming. Our programme is aimed at articulating the four cornerstones of POLY4 and enhancing the market adoption of POLY4. In 2018 we established 110 new trials across 21 countries and 32 crops, exceeding our 2018 target. Our trials have continued to demonstrate that, in line with previous trials, POLY4 increases crop yields compared to existing fertilizer practices in a range of conditions.

We tailor our R&D programme to regions and crops of interest to our existing and potential partners and customers.

**Potato trial: India**

In 2018 we concluded a potato trial in India. India is a key target market for Sirius and is one of the largest growers of potatoes globally

- POLY4 improved early growth parameters: plant height, crop canopy and leaf greenness
- POLY4 increased total potato yield by 11% and marketable yield by 15% over MOP + S
- POLY4 application reduced the proportion of non-marketable potato tubers by 27% compared to MOP + S
- Financial margins were increased by US$ 192 per hectare when POLY4 replaced MOP + S

MOP – Muriate of potash (KCl), S – Sulphur (elemental sulphur blended with bentonite and granulated)

**Trial results showed that POLY4 has delivered better nutrient uptake of both macro and micro-nutrients. This is a key profit driver, as more nutrients are delivered to the crop thereby generating improvements in yield and quality.**

**>370**

**TRIALS ON 42 CROPS IN 28 COUNTRIES**

**110**

**NEW TRIALS ESTABLISHED IN 2018 ACROSS 21 COUNTRIES AND 32 CROPS**

## 2018 progress

**Patented technology**
To create our product, POLY4, we have designed a materials handling facility capable of producing a superior product with the necessary characteristics to make it attractive to farmers globally.

During 2018, work continued on the design of our demonstration plant which we expect to commission in the coming year. Once operational, the plant will enable us to showcase our patented technology and produce meaningful levels of product in-house.

Our patented technology will enable us to produce a product with highly favourable product characteristics including:

**Particle size** – influences agronomic performance, storage, handling, spreading and blending. Our granulated formula makes POLY4 compatible with existing products, machinery, storage, loading and spreading technology.

**Crush strength** – is the minimum force required to crush individual particles. It helps estimate expected handling and storage properties. The crush strength of our granulated product means that POLY4 can be stored, handled and shipped to the global markets effectively.

**Abrasion resistance** – is the resistance to the formation of dust when handling. It helps to assess material loss during handling as well as, in some cases, helping to control pollution and dust hazard. Our studies have shown that POLY4 increased abrasion resistance in urea-based NPKs.

**Impact resistance** – is the resistance to breakage on impact. Our studies have shown that the smallest inclusion of POLY4 promoted a reduction in losses in AN-based NPKs.

**Critical relative humidity** – the humidity above which a product absorbs moisture. POLY4 has performed well in testing to date.

**Hygroscopicity** – the tendency of a material to absorb water from the atmosphere. The moisture absorption and penetration characteristics of urea-based NPK products have been shown to improve with the addition of POLY4.

**Nutrient release profile –** importantly our product has a longer residence time in the soil which ensures that nutrients are available for longer and more closely aligned to the plant's nutrient uptake requirement.

## Measuring Performance:

**Our product
2018 key milestones**

TARGET:
Expand global agronomic programme and establish 80 new trials

2018: COMPLETE
– 110 new trials established across 21 countries and 32 crops

## Our market

# 3 PENETRATE EXISTING MARKETS AND DRIVE LONG-TERM VALUE

### Market penetration strategy

The Company's strategy is based on the following opportunities:

- **Product substitution** – the multi-nutrient content of POLY4 allows customers the opportunity to incorporate POLY4 into their existing cropping systems as a source of potassium, magnesium, calcium and sulphur by substituting their existing fertilizers with POLY4.
- **Unmet market demand** – the farming community increasingly acknowledges the need for balanced fertilization. There is also a significant unmet demand for chloride-free potassium. 32% of total potassium consumption is used on chloride-sensitive crops of which only 9% is chloride free. According to analysis by industry specialists, the increasing demand for key attributes of POLY4, such as its suitability for use on chloride-sensitive crops and its ability to address sulphur and magnesium soil deficiencies accounts for a total of 101 Mtpa of POLY4 demand potential.
- **Product performance** – Yield performance on broad-acre and high-value crops commands a premium. POLY4 has been shown to improve crop quality and health, as well as soil structure. Demand for multi-nutrient fertilizers continues to grow and as the performance of POLY4 becomes more widely validated, it is expected that so will its ability to attract a premium price.

**Expected global distribution**


10.7 Mtpa

**PEAK AGGREGATE VOLUME SUPPLY AGREEMENTS**

US$140-150/t

**WEIGHTED AVERAGE SUPPLY AGREEMENT PRICE IN FIRST 5 YEARS OF PRODUCTION**

## 2018 progress

**Supply agreements**

We continue to successfully grow the customer base for POLY4 through our take-or-pay supply agreements which will support our ability to penetrate existing fertilizer markets when we reach production.

In 2018 Sirius signed binding take-or-pay supply agreements totalling 4.8 Mtpa in peak aggregate volume to distribute our POLY4 product into the important markets of Africa, South America and China once production begins. We are pleased that our distribution network will be diversified around the globe when we begin production.

Our customers have agreed to buy a minimum amount of POLY4 at a contracted price linked to underlying nutrient values. The weighted average price per tonne of our POLY4 product is expected to be US$140-US$150[1] in the first five years of production. This price point is expected to deliver significant profit margins to Sirius.

During the year, the Company also completed the acquisition of a 30 per cent. equity interest in each of the Cibra Group Companies (Cibra) for 95,000,000 ordinary shares in Sirius. The agreement is linked to the supply agreement with Cibra for the distribution of 2.5 Mtpa in peak aggregate volumes into Brazil and certain other South American countries. The agreement provides the Company with access to a globally important and fast-growing fertilizer market.

Through its supply agreements and strategic investment, Sirius has developed strategic partnerships with leading industry players with not only the necessary infrastructure to deliver POLY4 into the hands of farmers but also with the capability to collaboratively develop and enhance the value proposition that POLY4 presents.

The Company continues to progress key commercial discussions in a number of regions across the world with the aim of delivering further take-or-pay supply agreements.

Post period end, the Company announced it had entered into a supply and distribution agreement with BayWa AG for the distribution of POLY4 into Europe. The aggregate peak contracted sales volume now stands at 10.7 Mtpa.

**Note:**

1. Represents the weighted average price point of existing supply agreements using independent third-party fertilizer price forecasts expressed in nominal terms

## Measuring Performance:

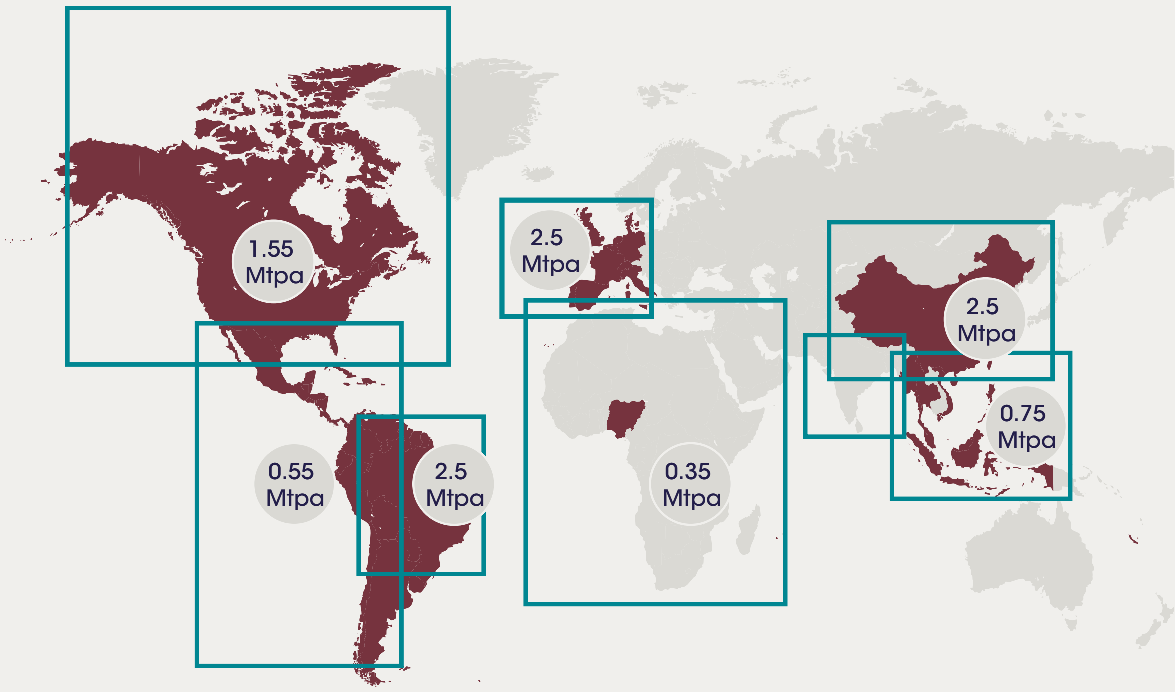
**Sales & Marketing 2018 Key milestones**

TARGET:
Expand global agronomic programme and establish 80 new trials

2018: COMPLETE
– Total of 4.8 Mtpa peak aggregate volume take-or-pay supply agreements entered into in 2018 for the supply of POLY4 into Nigeria, China, Brazil and certain other countries in South America

**Supply agreement distribution**

Measured by taking the aggregate peak contracted sales volume under the respective agreements




**Our partners**

Financing plan

# 4 EXECUTE A FINANCING PLAN THAT DELIVERS RETURNS FOR SHAREHOLDERS

## Our financing plan

Financing the construction of our world-class Project is how we will deliver value to shareholders. Through the life of our Project, we have strategically raised capital to enable progression through key Project milestones. We are committed to delivering a financing plan that will maximise shareholder value.

2010

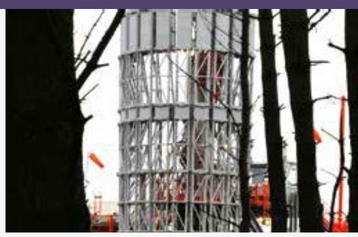
**SIRIUS MINERALS ACQUIRES NORTH YORKSHIRE POLYHALITE PROJECT**

2016

**EQUITY CAPITAL**[1]

**STAGE 1 FINANCING**

### 1 Development



- **MINERALS AND LAND ACQUISITION**
- **RESOURCE DEFINITION**
- **PLANNING AND APPROVALS**
- **DEFINITIVE FEASIBILITY STUDY**

### 2 Construction

- **SITE PREPARATION**
- **PROCUREMENT**
- **SHAFTS**

Fund raises

**Note:**
1. Five equity capital raises between 2011 and 2015

2018

STAGE 2 FINANCING

2021+

OPERATIONAL CAPITAL STRUCTURE

## 3 Operations

- MTS
- MHF
- HARBOUR FACILITY
- PIT-BOTTOM DEVELOPMENT

- HIGH-MARGIN BUSINESS
- POTENTIAL FOR EXPANSION

## Measuring Performance:

### Corporate & Commercial 2018 Key milestones

TARGET:
Substantially complete project procurement

2018: COMPLETE
– Procurement for the major construction packages completed in November 2018

TARGET:
Financing – Draw down on the stage 1 royalty financing agreement

2018: PARTIALLY COMPLETE
– US$250 million royalty investment proceeds received in September 2018
– US$50 million equity component to be provided once stage 2 financing commitments are obtained to fully fund the initial 10 Mtpa development of the Project

TARGET:
Financing – Execute stage 2 financing

2018: INCOMPLETE
– The Company is working towards completion of stage 2 financing

## Delivering value to our stakeholders

# LOW-COST, HIGH VALUE-IN-USE BUSINESS MODEL

## Value proposition

Our business model and strategy is designed to deliver significant value for our shareholders and stakeholders. We believe the Company can deliver industry-leading gross margins of 65-85%[1] which will generate significant value across a range of volume and price scenarios. The matrix below illustrates this point and also indicates how the Company expects the business to evolve. The volume axis shows the production ramp up from 10 Mtpa to 20 Mtpa and the margin axis shows the forecasted cash margins resulting from a range of POLY4 prices.

| | 10 MTPA | 20 MTPA |
|---|---|---|
| **HIGH MARGIN** | Low volume/ High margin<br>US$1.5bn EBITDA | High volume/ High margin<br>US$3.2bn EBITDA |
| **LOW MARGIN** | Low volume/ Low margin<br>US$0.6bn EBITDA | High volume/ Low margin<br>US$1.3bn EBITDA |

**Note:**

1. Illustrative margins in an average steady state year on a price assumption of $100/t - $200/t on a real 2018 basis and at volume assumptions of 10Mtpa and 20Mtpa

## Key inputs

### Responsible leadership

Responsible leadership will deliver sustainable operations and will enable us to build a market for our POLY4 product.

### Sustainable operations

We have designed low-impact infrastructure sympathetic to the local area which is designed to be capable of maintaining the long-term operation of our Project.

### People and skills

We employ a highly skilled and productive workforce to deliver our Project. Over 900 people are employed across the Project.

### Natural resources

We have access to 2.69bn tonnes of polyhalite resource, the largest known polyhalite resource in the world.

### Our partners

Our construction partners will help us to build a world-class, long-life production facility and we will work with our POLY4 customers and partners to build a market for our product.

## Underpinned by our values:

## Development

We have the world's largest know resource of polyhalite, a low-chloride, multi-nutrient mineral to be used as a fertilizer. To support the long-term operation of our Project, we are building a world-class, low-cost, long-life production facility.

## Research & Development

Our global R&D programme is designed to provide commercial validation for POLY4's use as an effective fertilizer suitable for widespread use in farming.

## Sales & Marketing

In-house sales & marketing capability to build a market for our POLY4 product. We have sold a proportion of our future production under supply agreements and we aim to grow this further.


## Sustainable development

| | | |
|---|---|---|
| Environment | Local | Management |
| Safety | Community Risk | Governance |

## Delivering value for our stakeholders

### Shareholders

We aim to deliver long-term value to shareholders.

### Customers

Our goal is to provide our customers with access to fertilizer products in the future.

### Partners

We provide benefits to our industry leading construction partners, to local businesses and to our supply agreement partners.

### Local communities

We create jobs for local communities and invest in local social projects.

### Government

We expect to be a future contributor of GDP and payer of taxes.

### Our people

We are committed to health and safety and promote a culture of ownership and team.

**R**esponsibility **O**wnership **B**elief **U**rgency **S**afety **T**eam

## Financial review

# PRESERVING VALUE

**THOMAS STALEY**
FINANCE DIRECTOR AND CFO

"Our Company's Project sites have been transformed by the construction activities taking place"

During 2018 the Group made a total loss of £12.5m compared to a loss of £78.9m in 2017. The following table sets out the main drivers of the Group's loss for the year.

| £m | 2018 | 2017 |
|---|---|---|
| **Operating loss** | **(24.2)** | **(24.0)** |
| Net interest income/(expense) | 1.0 | (0.8) |
| Fair value gain/(loss) on derivative instruments | 9.6 | (53.6) |
| *Attributable to convertible loans* | *2.1* | *(42.5)* |
| *Attributable to royalty financing* | *7.5* | *(11.1)* |
| Foreign exchange gains/(losses) on net debt | 0.1 | (0.9) |
| Taxation | 1.0 | 0.4 |
| **Loss for the financial year** | **(12.5)** | **(78.9)** |

As can be seen from the table, significant volatility arises from the fair value re-measurement of the derivatives associated with the convertible loans and, to a lesser extent, the royalty financing. These derivative liabilities increase in size as the share price of the Company increases. With the share price decreasing by 11% over 2018 (compared to an increase of more than 20% in 2017), the derivative liabilities decreased in value, causing the reported fair value gains in the income statement. As the convertible loans are converted and the royalty financing is drawn, these derivative liabilities will be reclassified from liabilities to equity and require no cash settlement by the Group.

The Company has deployed £391m during 2018 for the purposes of developing the Project. The table below breaks out the key items:

| £m | 2018 | 2017 |
|---|---|---|
| Operating costs | 23.6 | 24.0 |
| Capital expenditure | 332.3 | 118.2 |
| Incurred but unpaid capital expenditure | 26.6 | 19.9 |
| Less: Capital expenditure incurred in prior year | (19.9) | |
| Local authorities' security requirements | 9.1 | 35.2 |
| Financing costs | 19.5 | 36.4 |
| **Total project use of funds** | **391.2** | **233.7** |

Total net capital expenditure incurred for the year was £339.0m with a significant portion of that unpaid as at the balance sheet date. In addition to this, numerous financial commitments for items such as a TBM, SBR and winding equipment have been made and these items are not reflected in the financial statements. The local authorities' security requirements reflect a combination of providing reinstatement security for construction works and the security requirements of the S106 agreement.

"2019 will be another transformational year for Sirius as construction advances and the development of key infrastructure gathers momentum"

Total funds at the end of 2018 were £290.4m, comprising cash and cash equivalents of £230.1m and restricted cash of £60.3m. The following table provides a breakdown of movements during 2018 in total funds, split between available cash (comprising cash and cash equivalents and bank deposits) and restricted cash:

| £m | Available cash | Restricted cash | Total funds |
|---|---|---|---|
| On 1 January 2018 | 394.0 | 74.5 | 468.5 |
| Operating costs | (23.6) | – | (23.6) |
| Capital expenditure (paid only) | (332.3) | – | (332.3) |
| Local authorities' commitments | (9.1) | 9.1 | – |
| Net financing costs | 3.4 | (19.4) | (16.0) |
| Redemption of restricted cash | 4.6 | (4.6) | – |
| Royalty financing received | 190.1 | – | 190.1 |
| Working capital and other | (2.6) | – | (2.6) |
| FX revaluation | 5.6 | 0.7 | 6.3 |
| **On 31 December 2018** | **230.1** | **60.3** | **290.4** |

A number of convertible loan conversion notices were received during the year resulting in 17% of the initial loans being converted. Because of these conversions, 226m shares were issued during the year. 1,221 bonds (61% of the originally issued amount) remain outstanding with an aggregate face value of US$244m.

The consolidated financial statements have been prepared under the going concern assumption. However, the Directors recognise that there are a number of material uncertainties inherent in the Project which may cast significant doubt on the Project's ability to continue as a going concern. The impact of these uncertainties on the Directors' consideration of the going concern assumption is set out in note 1 to the financial statements and is also specifically referred to in our independent auditors' opinion which accompanies the financial statements.

2019 will be another transformational year for Sirius as construction advances and the development of key infrastructure gathers momentum. With so many key components underway simultaneously, our disciplined approach to capital expenditure will be maintained.

The successful execution of stage 2 financing, including the US$400m equity issuance launched today, will be a significant milestone as it will secure the balance of the capital funding required to complete construction and will contribute to the ongoing de-risking of our North Yorkshire polyhalite project.

Thank you for your ongoing support.

**Thomas Staley**
Finance Director and CFO

# WORKING RESPONSIBLY

Responsibility is one of the Company's core values, as we recognise that our success goes hand in hand with positive community engagement, protecting the environment, supporting and keeping our people safe. Underpinned by good governance, our three pillars of responsibility, listed below, inform everything we do.

**COMMUNITY**

**ENVIRONMENT**

**PEOPLE**

This section provides an overview of the Company's activities across the three pillars over the last year.

**THE COMPANY'S 2018 RESPONSIBLE BUSINESS REPORT, WHICH IS AVAILABLE ON THE SIRIUS MINERALS WEBSITE, PROVIDES MORE DETAIL OF HOW WE WORK RESPONSIBLY.**


## COMMUNITY

The Company takes its responsibility to the local area very seriously and is committed to taking an active and positive role in the local community. Throughout 2018, Sirius has made a meaningful contribution to the economic and social well-being of the area, as well as continuing to effectively engage with local stakeholders.

### Jobs and skills

The Company has a long-term target that 80% of the workforce will be sourced from the local area when the Project is operational. During construction it was anticipated that 35% of the workforce would be local, but this figure was exceeded in 2018, boosted by the efforts of Sirius and its contractors to make opportunities available to local people.

In December 2018 there were 900 people working on the Project across four sites – Woodsmith Mine, Wilton, Lockwood Beck and Resolution House in Scarborough – and two-thirds were from the local area.

The Company has attended jobs fairs throughout 2018 and continues to support services run by local councils to help people find employment and gain the skills and qualifications they need. In 2018, funding towards these services totalled £162,000, including East Cleveland Employment and Skills Hub which has helped 200 people from the area to secure jobs.

As part of the Company's approach to grow a local workforce, Sirius launched its engineering apprenticeship programme in November 2018. This will create 50 new advanced engineering technician apprenticeships, with the first ten being recruited to start in September 2019.

### Education outreach programme

The Company's education programme aims to increase the skills and aspirations of young people in the area. To date the Company has worked with 70 schools and engaged over 20,000 young people from the Project area. In 2018, the Company took part in 56 education events including presentations and activities to improve employability skills, site visits and working with groups of disadvantaged young people.

This included a four-week project with a group of young carers – secondary school students who juggle their studies whilst caring for a relative – to help them to develop their confidence, communication skills and experience of the world of work. Another successful six-week project worked with a small group of year nine girls who were at risk of disengaging from the education system.

Sirius is a member of the North Yorkshire Coast Opportunity Area Board, a government initiative to improve social mobility for young people living in areas of deprivation. In recognition of its education programme, Sirius was invited to give a presentation at Parliament to MPs and senior civil servants about the positive role that businesses can play in helping to support social mobility.

In addition, the Company is funding a £1 million programme in Tees Valley and North Yorkshire to support the science, technology, engineering and maths (STEM) curriculum over the next ten years. In 2018 this programme engaged 8,000 young people.

### Sirius Minerals Foundation

The Sirius Minerals Foundation has been established as an independent charity to support community projects that benefit the local area. For the construction period, Sirius has made an initial payment of £2 million to the Foundation and during operations will contribute an annual royalty of 0.5% of its revenue.

The first round of funding was awarded in December 2017, providing a total of £300,000 towards 80 projects across

**The Company's education programme aims to increase the skills and aspirations of young people in the area.**

## Measuring Performance:

## Community

**Jobs created**
**2018:** 900 (total working on project December 2018)

**Local employment**
**TARGET:** 35% of Project workforce from local area
**2018:** 66%

**Education outreach**
**TARGET:** Participate in 20 activities
**2018:** 56

**Community engagement**
**TARGET:** Attend 20 public meetings
**2018:** 30

**Responding to complaints**
**2018:** 36 complaints received and resolved

the local area. These projects have been delivered in 2018 and have supported a wide range of people and community groups including the elderly, people with disabilities, families and vulnerable young people, the homeless, sports clubs and other community facilities.

The second round of funding opened in autumn 2018, inviting applications for projects that focus on education, training and skills, and supporting people out of work.

### Community engagement

The Company recognises that it has a responsibility to keep the community updated about the Project. In 2018 the Company attended 30 public meetings, including parish councils, the Project's quarterly Liaison Group Forum and the 'Woodsmith to the World' exhibition which was held at Whitby and Redcar Museums. In addition, the Company gave 19 presentations to local interest groups.

Keeping residents that live nearby the Project informed remains a priority. In addition to its 24-hour community helpline, the Company has continued to regularly contact households near the Woodsmith and Lockwood sites.

The Company recognises its responsibility to respond quickly to questions and concerns. In total the Company received 36 complaints in 2018 – 19 related to the Woodsmith site, four to Lockwood Beck, five to off-site geotechnical works and a further eight about the works by the statutory provider to bring mains power to site. All were investigated quickly and resolved.


SIRIUS MINERALS foundation

## Funding community projects

The Foundation is supporting community groups, sports clubs, schools, charities and village halls across the Project area, including Redcar, East Cleveland, the Esk Valley and Whitby. The activities funded include improving community facilities and restoration works, new equipment, supporting families and vulnerable people, environmental enhancements, and education and training.

## Working responsibly

# ENVIRONMENT

Through the large-scale supply of POLY4, the Company will make a significant and sustainable contribution to global food security and we are already working with a range of stakeholders to promote better agricultural practices across the world.

In delivering the Project, the Company is committed to minimising the environmental impact of construction as well as delivering environmental enhancements.

### Minimising construction impact

The Company continues to work closely with the relevant planning authorities to ensure that all construction activities are carried out in accordance with planning conditions, through a series of phased conditions discharge submissions and amendments to planning approvals.

The approach to conditions discharge ensures that construction can progress and that impacts are limited across a range of environmental matters including lighting, noise, landscape, wildlife and ecology, and air quality. In 2018, a total of 21 phases of conditions discharges were carried out across all Project sites, plus five section 96a non-material amendments and three section 73 minor material amendments to the Project's planning permissions.

Compliance with planning conditions is a minimum standard and the Company is committed to looking for opportunities to further reduce the environmental impact of the Project by going beyond what is required by the planning permission.

For example, 2018 has seen the need for diesel-generated power significantly reduced by installing mains power to the site, which helps to improve local air quality, noise and emissions at source.

Traffic management has continued to be effective in 2018, which saw the introduction of the Project's park-and-ride facility near Whitby. This has resulted in a significant reduction in the number of cars travelling to the Woodsmith site.

During 2018 there has been an increase in wildlife around the attenuation ponds at Woodsmith, including five different species of dragonfly. Summer bat surveys noted three different species of bats and areas of the site were seeded with a locally sourced rare wildflower mix to further encourage wildlife to thrive.

The Company's Greenhouse Gas (GHG) performance in 2018, as set out on page 33, is calculated in line with the 2018 edition of DEFRA's 'Greenhouse gas reporting: conversion factors'. This includes direct GHG emissions from the combustion of fuels (Scope 1) and indirect GHG emissions from the consumption of purchased electricity, steam or other sources of energy (Scope 2).

### Safeguarding and enhancing the environment

As part of its planning permissions, the Company is providing significant funding for environmental projects in the NYMNP which the Company expects will amount to £130 million over the next 100 years.

In 2018 the Company provided funding of £518,000 towards landscape and ecology projects, woodland creation and initiatives to increase the understanding of the area's geological and archaeological assets.

The landscape and ecology programme included improvements to footpaths and bridleways, restoration of historic buildings and monuments and a variety of projects to improve wildlife habitats.

Over the next 100 years the woodland creation scheme will create a total of 7,000 hectares of new mixed deciduous woodland, equating to 10 million trees in the National Park. This will help to offset carbon emissions generated by the Project and enhance the character and landscape of the area, creating more diverse wildlife habitats. In 2018 alone, 40,000 trees have been planted.

The Company is also working with North Yorkshire Skill Mill, which is an initiative aimed at increasing the skills and confidence of young people from the youth justice and care systems. The Skill Mill team has undertaken a wide range of environmental works and improvements to community facilities in the Project area.

### Supporting sustainable agricultural practices

Global food security is one of the most significant challenges facing the world today. Conventional large-scale agricultural systems are unable to meet the increased demand for food production without harming the environment and have been responsible for adverse impacts such as climate change, pollution, soil degradation, deforestation and habitat loss.

POLY4, a naturally occurring multi-nutrient mineral with a very low carbon footprint, has a wide range of positive environmental characteristics that will help farmers to boost crop yields in a way that is environmentally sustainable.

Good nutrient stewardship – ensuring that nutrients are applied on the right crop at the correct rate, time and place – is at the heart of the Company's approach in working with a wide range of stakeholders to promote sustainable agricultural methods.

The Company's global R&D programme has gone from strength to strength, with 382 trials initiated to date in partnership with over 130 agricultural universities and research institutions on 42 crops in 28 different countries. In 2018, 110 new trials were started on 32 crops in 21 countries.

The Company has an unrivalled technical knowledge of polyhalite and has continued to share its understanding of POLY4 with its customers. In 2018 this has included working closely with Cibra in Brazil and ADM in North America. Both recognise that POLY4 helps crops to uptake the nutrients they need more efficiently, rather than losing them to the environment, and that POLY4 has a positive impact on the soil environment.

## Measuring Performance:

### Environment

**GHG emissions Scope 1**
**2018:** 4,852 $TCO_2e$

**GHG emissions Scope 2**
**2018:** 639 $TCO_2e$

**Gross carbon emissions**
**2018:** 5,491 $TCO_2e$

**Intensity metric: per £10million spend**
**2018:**152

**NOx emissions**
**TARGET:** 25% reduction in NOx emissions against consented scenario at Woodsmith
**2018:** 66%

**Environmental compliance**
**TARGET:** Zero enforcement orders
**2018:** 0

**Environmental incidents**
**TARGET:** 0
**2018:** 0

### Enhancements and offsetting

Significant funding for environmental schemes through our S106 agreement with North York Moors National Park Authority have been made as part of Woodsmith Mine's planning permission, which will amount to £130 million over 100 years.

# Working responsibly

# PEOPLE

As the workforce has grown throughout 2018, the Company has continued to focus on keeping people safe, together with investing in activities designed to strengthen the Company's culture and enable the workforce to deliver the Project on time and on budget.

## Health and safety

Sirius is developing a 'one team' approach to delivering the Company's goals safely, where everyone on the Project, whoever they work for, is valued for their contribution. Our commitment to safety is at the heart of this approach, with collaboration, transparency, support and lessons learned across work groups stimulating safe and efficient working practices.

Our safety culture is one where everyone is encouraged and expected to focus on using their experience and knowledge every day in thinking about the tasks they are undertaking, and on looking after each other whoever their employer is.

During 2018 the main technical focus areas have been the management of major hazards, and effective mobilisation of construction teams who have the tools and attitudes to allow them to deliver the Project safely.

Construction is a dynamic environment, with a wide variety of potentially hazardous activities across many engineering disciplines. Our formal, intensive hazard identification (HAZID) process assesses each workscope before construction starts in order to assess potential accident hazards, with any major hazard – those that have the potential to seriously harm people – being further analysed and managed to ensure work can be done safely. During 2018 more than 50 of these HAZIDs were carried out together with contractors to help prevent incidents across the Project.

Formal onboarding of contractors and workgroups was another area of extensive activity during the year, with contractors and key sub-contractors visited and assessed before they were allowed to mobilise to site. 14 onboarding audits were undertaken in 2018.

Person hours on the Project increased throughout 2018, with a total of 1,411,234 hours worked during the year. Hours worked on the Project up to the end of 2018 stand at 2,549,597. The Project's LTIFR, which is a rolling 12 month average of incidents per million person hours, was 3.54 at the end of 2018.

Within the LTIFR statistics there were five incidents that the Company reported to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR). This included one incident at the Wilton site where a worker sustained a serious injury during piling works. A rigorous investigation was carried out and changes to working practices were implemented across all sites as a result.

## Growing our people

The Sirius team has continued to grow throughout 2018, with 65 new employees joining the Company which numbered 156 by the end of the year. The vast majority of the Company's workforce is based in North Yorkshire, with staff also located at the London office, as well as around 20 people who are based outside of the UK. The Group now has a mix of 18 different nationalities.

The total Project team working across the four sites in Yorkshire and Teesside has increased to 900, including the wider workforce of the construction contractors and sub-contractors.

The Company has continued to attract local talent, with 82% of direct employees sourced from the communities where the Company operates. Retention rates are good, with the Company's voluntary staff turnover remaining very low with less than 5% moving on from the business.

The Company has supported the team in 2018 with a programme of learning and development activities. In addition to staff that have completed the required compliance-based training, 45% have enrolled in training to support their personal development.

## Empowering our people

Building and maintaining a diverse, dynamic workforce is critical to the success of the business. In 2018 the Company focused on activities to inform, engage and empower the wider Project team, including the construction workforce, to help create a sense of personal responsibility for the part they play in the team's collective success.

**The total Project team working across the four sites in Yorkshire and Teesside has increased to 900.**

Everyone who works on the Project, even if it's just for a few days, receives a face-to-face induction about the Company's vision, the Project's history and successes, and the goals ahead. During 2018, 1,350 people received the induction, helping them to feel part of the team and integrate quickly with new colleagues.

Empowering our people is about giving each member of the team the tools they need to succeed and the confidence to use them. In June 2018, over 130 of the team came together to reinforce the core skills that have enabled the Company to overcome the many challenges it has faced so far, and that will be needed moving forward.

The Company has invested in a wide variety of communication channels and tools to keep the workforce connected including social media, intranet, internal engagement events and a host of in-person briefings as well as magazines, on-site screens and printed materials.

Fostering sound employment relations continues to be a priority with the introduction of a newly established Employment Relations group that works across the Project to reinforce our 'one team' approach. We are determined to stay close to our wider workforce and are committed to finding ways to solve problems and prevent issues arising in a proactive and transparent way.

The Speak Up hotline introduced at the end of 2017 has now been fully integrated across each of the Project sites. This 24-hour hotline provides a safe and simple way for individuals to disclose any concerns if all other channels have been exhausted or people wish to remain anonymous.

Towards the end of 2018 the Company launched its first workforce survey, designed to assess what more can be done to ensure the team feels valued, supported, connected and able to make a difference. In 2019, the feedback will be used to further strengthen the Company's culture and drive behaviours that help the Project to succeed.

1,350

**PEOPLE RECEIVED PROJECT INDUCTION**

## Measuring Performance: People 2018

**Lost Time Injury Frequency Rate**
**2018:** 3.54

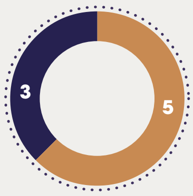
**Major health and safety incident**
**TARGET:** 0
**2018:** 1

**Workforce participating in training**
**2018:** 45%

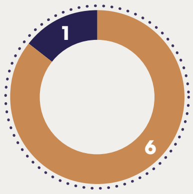
**Voluntary workforce turnover**
**2018:** 4.3%

## Gender representation[1]

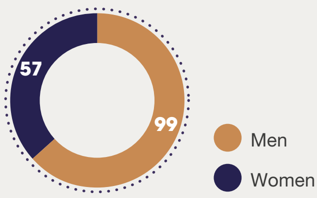
**BOARD**




**SENIOR MANAGEMENT[2]**




**ALL EMPLOYEES**




[1] As at year end
[2] Includes CEO and direct reports

## Risk management

# IDENTIFYING AND MANAGING RISKS

The Group's strategy exposes it to various risks. The Board is responsible for determining the nature and extent of the risks that the Group is willing to take in achieving its strategic objectives. The Board has an ongoing process for identifying, evaluating and managing the principal risks faced by the Group.

The Board has performed a robust assessment of the principal risks facing the Group, taking into account those that would threaten its business model (see page 26), future performance, solvency or liquidity, as well as the Group's strategic objectives (see page 16). In addition, the Board considered how risks evolve and potential emerging risks. The most significant risks arising from this assessment, including details of their management and mitigation, are set out on the subsequent pages.

The Group has a system of internal controls which is designed to manage and mitigate these risks and which the Board is responsible for. This system is in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting as issued by the Financial Reporting Council, and its key features include:

- a defined organisational structure with appropriate delegation of authority and clearly defined lines of reporting and responsibility, whereby the incurring of expenditure and assumption of contractual commitments can only be approved by specified individuals and within pre-defined limits;
- formal authorisation procedures for all banking transactions, expenditure and investment decisions;
- a comprehensive system for budgeting and planning whereby periodic budgets are prepared and approved by the Board and subsequently monitored with variances reported to the Board at regular Board meetings; and
- regular and comprehensive information provided to the Board from the Group's senior management team, covering financial performance and key performance indicators, including non-financial measures.

The Group's system of internal controls (including each of those set out on the left) have been in place for the year under review and up to the date of the approval of this Annual Report. This system is regularly reviewed by the Board and a review of the effectiveness of all material controls was carried out during the year. This effectiveness review considered the design of controls associated with key risks and the evidence as to their proper operation throughout the year. No significant failings or weaknesses were uncovered in the course of this annual review.

### Brexit

Within the summary of principal risks disclosed on the subsequent pages, the Group has not identified Brexit as a discrete principal risk. In the event of a no-deal Brexit, which would lead to the UK trading with other countries on World Trade Organization (WTO) terms, it is the Group's expectation (based on existing WTO terms) that for a significant majority of its export markets, no tariffs would apply. For those export markets that would attract tariffs under WTO terms (including the EU), the level of tariffs that POLY4 is subject to would not be significant, nor is it expected that any significant non-tariff barriers would apply to the product's export.

The principal impact of a no-deal Brexit upon the Group would be the indirect impact upon financial markets, where the uncertainty that a no-deal Brexit could bring may impact the ease and terms which the Group is able to access in relation to its securement of the stage 2 financing. This risk event is covered within the scope of existing liquidity principal risk, meaning that Brexit has not merited identification as a discrete additional principal risk.

# STRATEGIC RISKS

## PROJECT DEVELOPMENT

**Owner:** Chief Development Officer

**Strategy link:** 1 3 4

**2018 movement: No change** – This risk remained static during 2018 as there was no meaningful change in the Group's Project design plan over the course of the year.

**Risk appetite: Moderate** – In its development of the Project, the Group plans to deliver the required Project infrastructure in a time-efficient, cost-effective manner with a preference for proven and robust development methodologies.

### Nature

The Group's ability to generate returns for shareholders is dependent on it being able to deliver operational and economically viable mine infrastructure facilities to exploit the Project's identified resource.

A failure to complete successful construction of the necessary facilities would threaten the Group's ability to operate.

### Mitigation

- The mining, processing and infrastructure challenges of the Project are inherent in a mining and infrastructure project of this size and are not of an extraordinary level or nature.
- Site investigation work through a programme of seismic survey and investigative boreholes continues as part of the Project. As engineering progresses, this risk naturally reduces.
- Development risks are assessed, evaluated and reduced as far as reasonably possible as part of the Project management function performed by our experienced team.

# FINANCIAL RISKS

## LIQUIDITY

**Owner:** Finance Director and CFO

**Strategy link:** 1 3 4

**2018 movement: Increased** – The Group will be required to secure further financing in the coming months to continue development of the Project whereas at the end of 2017 no imminent additional financings were required due to the liquidity position at that time.

**Risk appetite: Moderate** – The Group remains vigilant around its ongoing liquidity requirements as the ability to complete the Project's development is wholly dependent upon securing significant additional external funding. However, a key element of the Group's strategy remains executing a financing plan that delivers returns for shareholders, therefore the Group continues to balance its need to secure additional funding against being discerning in its selection of the sources and timing of additional liquidity to maximise returns to shareholders.

### Nature

The Group does not currently generate revenues and has historically been reliant on external funding to provide it with the required liquidity to operate and to commence construction activities on the Project.

If the Group is not able to obtain sufficient further amounts of funding to allow the Project to reach a point of production where the Group generates positive operating cash flows, then there is a risk that the Group would not be able to continue to operate.

### Mitigation

- We have a strong Board and management team with extensive experience in financing large, multi-billion Dollar projects.
- We have been successful in raising funds in the recent past, including raising funds in 2016 to commence construction of the Project.
- During 2018 the Group has commenced significant preparatory work around its stage 2 senior debt financing, which would fund the majority of the remainder of the operating costs and capital expenditure required to finalise the development and construction of the Project and reach a point of production where the Project generates positive operating cash flows. Feedback received from potential lenders during the year around this has been positive so far.

# Risk management continued

## CURRENCY

**Owner:** **Finance Director and CFO**

**Strategy link:** 2 4

**2018 movement:** **Increased** – The Group has signed additional material construction contracts during 2018 with non-US Dollar payment currencies, increasing its level of future currency mismatches.

**Risk appetite:** **Moderate** – The Group prefers to mitigate the risk of currency mismatches as far as reasonably practicable through the signing of US Dollar-denominated construction contracts and its ongoing hedging activities. However it does not let this preference overrule commercial considerations around the negotiation of the cost basis of its significant contracts.

### Nature

The Group expects its future revenues to be denominated in US Dollars while the majority of its construction and operational costs are expected to be denominated in other currencies (mainly Sterling).

A strengthening of non-US Dollar currencies, without offsetting improvement in US Dollar-denominated polyhalite prices, could adversely affect the Project's profitability and Group's financial position.

### Mitigation

- The Group has mitigated the currency risk in the medium to long term by planning a capital structure where it has raised funds in Sterling and US Dollars to broadly match the anticipated currency split of its expected capital expenditure and operating cost needs. The currency denominations of certain major capital expenditure contracts will not be finalised until subsequent to the completion of the Group's stage 2 financing.
- The Group monitors its exposure to currency risk based on the Project expenditure forecast and the stage of development. The Board-approved treasury policy sets out appropriate risk tolerances for currency exposure and the Group implements appropriate hedges to ensure that it is compliant with this policy.

# EXTERNAL RISKS

## PERMITS AND LICENCES

**Owner:** **Chief Development Officer**

**Strategy link:** 1 3 4

**2018 movement:** **Reduced** – The Group has secured a number of minor non-material licence changes throughout 2018, thus reducing uncertainty compared to the position prevailing at the end of 2017.

**Risk appetite:** **Low** – The acquisition and maintenance of all necessary permits and licences is vital to the ability of the Project to progress and so the Group remains extremely active in ensuring that all compliance conditions are, and remain, in place.

### Nature

The Project requires a range of permits and licences to allow construction activities as well as future operations to go ahead. The Group currently has in place all material permissions to allow construction of the Project against its original plan.

As the Project progresses and the construction plan continues to be refined, this is likely to necessitate changes to existing planning permissions. There is a risk that these approvals will not be forthcoming which could lead to additional costs or delays in construction activities.

### Mitigation

- The Group is in possession of the planning permissions required to commence the construction of the minehead, mineral transport system, materials handling facility and has also received a development consent order for the construction of the harbour facility. Any changes applied for do not affect these permissions, but instead modify or replace the existing permissions once approved.
- The Group is pro-active in maintaining effective working relationships with each licensing authority and is responsive to feedback from those bodies around its permit applications.
- The Group engages experienced consultant advisers that specialise in obtaining permits, licences and secondary approvals needed for the Project to operate.

### COMPETITORS

**Owner:** Chief Marketing Officer

Strategy link: 2 4

**2018 movement:** **No change** – There have been no structural changes in the global fertilizer market since 2017 which would change the impact of this risk.

**Risk appetite:** **High** – Despite the inherent barriers to entry in the market and the relative novelty of polyhalite as an accepted, high-volume fertilizer, the Group remains extremely confident in its ability to rapidly disrupt the existing market and, accordingly, is targeting (and securing) large multi-year supply agreements with established customers across the world.

#### Nature

The global fertilizer market that the Group is seeking to compete in contains numerous well-established competitors and high barriers for potential new entrants into the market.

A failure to overcome pressure from competitors as well as the inherent market barriers could threaten the Group's abilities to strike deals with potential customers for its products.

#### Mitigation

- The Group continues to develop its sales and marketing strategy to emphasise the unique characteristics of POLY4 and to make front-of-mind in customers our product's unique nature and how we differentiate ourselves from our closest competitors.
- The Group's global agronomy programme provides an independently validated dataset which demonstrates the efficacy of POLY4 on a wide range of different crops in varying geographic and climatic conditions in order to support the Group's marketing efforts.

## OPERATIONAL RISKS

### SAFETY AND ENVIRONMENTAL PERFORMANCE

**Owner:** Chief Development Officer

Strategy link: 1 3 4

**2018 movement:** **Increased** – The breadth and pace of construction activities being undertaken by the Group is now greater than it was at the end of 2017, meaning an inherently increased risk of a safety incident. However the Group has significantly increased the resources of its safety team over the year to mitigate this and keep the risk to an acceptably low level.

**Risk appetite:** **Low** – Safety is one of the Group's core values. The Group prioritises safe-working across its activities and this takes precedence over other operational goals. The Group continuously strives to reduce risks that could lead to a safety or environmental incident to as low as reasonably practicable.

#### Nature

The scale and nature of the construction operations that the Group is undertaking in its development of the Project means there is an inherent risk to the safety of individuals who are carrying out these operations.

A significant safety incident during construction operations resulting in injury to workers would impact the Group's licence to operate, affecting the delivery of the Project and the Group's reputation.

#### Mitigation

- The Group continuously assesses the risk to ensure that it has the right people in the right places. Nonetheless, the Group is not complacent about the risks in this area.
- The Group's management team is set up to manage safety and the environment effectively. A key part of its work in this area is in ensuring that the Group engages contractors who have the right attitude and systems, and it welcomes expertise and improvement from employees, contractors and external parties.
- Ongoing focus areas include leadership activities, work with contractors (including onboarding processes and auditing), developing the culture of the Project team, and the identification and control of major hazards.

# Risk management continued

## CONSTRUCTION DELAYS

**Owner:** **Chief Development Officer**

**Strategy link:** 1 2 3 4

**2018 movement:** **Increased** – The breadth and pace of construction activities being undertaken by the Group is now greater than it was at the end of 2017, meaning an inherently increased risk of delays occurring.

**Risk appetite:** **Moderate** – Although the Group takes all reasonable steps possible to minimise the likelihood of delays and to meet its existing Project-development timetable, it nevertheless balances schedule requirements against expected cost impacts to achieve the best overall outcome for the Group, rather than only prioritise the Project's schedule.

### Nature

The Group is undertaking extensive construction activities across a range of locations and depths to deliver its Project against a defined timetable.

Unforeseen issues could arise which may cause construction delays, risking the Group's ability to meet the Project's existing timetable, as well as potentially meaning that higher construction costs may be incurred as a result of the delays.

### Mitigation

- Detailed assessment and planning is carried out continuously by the management team and external parties as part of the development to mitigate and de-risk the Project during construction.
- The Group continues to pursue all acceleration options available to reduce the time required to reach first production.
- Contractors are incentivised to bring their scopes forward.

## CONTRACTORS AND SUPPLIERS

**Owner:** **Chief Development Officer**

**Strategy link:** 1 3 4

**2018 movement:** **Increased** – The breadth and pace of construction activities being undertaken by the Group is now greater than it was at the end of 2017, meaning an inherently increased risk of performance issues as the number of contractors and suppliers has increased.

**Risk appetite:** **Moderate** – The performance of contractors is crucial to the successful delivery of the Project, therefore the Group's construction contracts contain provisions that enable performance to be monitored and driven. However, some risk cannot economically be transferred to contractors on a project of this sort, therefore the Group is forced to accept a level of risk in this regard which it cannot mitigate away.

### Nature

Due to the outsourced nature of most of the construction activities of the Project, the performance of our contractors and suppliers is critical to its success.

Performance issues by contractors or a lack of goal-alignment could manifest itself in delays to the construction programme and/or additional construction costs being incurred, or in the future performance of the mine once it becomes operational.

### Mitigation

- An active and experienced management team is in place with a focus on being clear about expectations, verifying performance, and doing everything possible within the contracts to ensure the success of our contractors and suppliers. Performance is actively monitored and managed, with mitigating change instigated should performance not meet expectations.
- In working with our contractors, the Group is focused on ensuring that they are operating within their area of specialisation, that their senior management are engaged in our Project, that regular communication and progress updates are maintained and that major construction contractors are incentivised around the success of the Project.

## CONSTRUCTION COST OVERRUNS

**Owner:** Chief Development Officer

**Strategy link:** 2 4

**2018 movement:** **Reduced** – Although the capital estimate published by the Group in September 2018 indicated a capital cost estimate significantly higher than that previously made by the Group in 2016, this new estimate was made on the basis of much more reliable cost information, meaning that the prospective risk of subsequent cost overruns is less than it was at the end of 2017.

**Risk appetite:** **Low** – The occurrence of construction cost overruns materially impacts the Project's finances and returns to shareholders. Therefore the Group undertakes all reasonably possible mitigation to minimise the chances of overruns occurring, including changing aspects of the Project's design and construction timetable to offset potential cost overrun pressures.

### Nature

The Group plans its financing needs based on a detailed budget of the anticipated construction cost of the Project, which includes a contingency.

Unforeseen technical issues or scope changes compared to the budget may occur which could result in additional costs, should the value of total overruns exceed the budgeted contingency.

### Mitigation

- The Group's management has a strong focus on cost. Much of the Project has now been costed by contractors and suppliers, with many contracts awarded, and this has resulted in a re-estimate of the full Project and more cost certainty.
- The September 2018 capital estimate includes a provision for escalation, and also includes a significant contingency provision in case of cost pressures. The contingency is based on a detailed assessment of a range of Project risks using Monte Carlo simulations performed by a third-party estimator.

## Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Board has assessed the prospects of the Company over a five-year period, taking account of the Company's current position and principal risks.

### Time frame

The Board believes that five years is the most appropriate time frame over which the Board should assess the long-term viability of the Company. The Company's current activities do not generate any revenues or positive operating cash flow, and construction of the Project and the development necessary to commence production and generate revenues will require significant capital expenditures. The Project is not expected to generate positive net cash flow until approximately 2023, some five years from now.

### Assessing viability

The main assumption in the Board making its viability assessment is that the stage 2 debt financing of up to US$3.6 billion is successfully completed and the Company is able to secure sufficient additional financing prior to the initial drawdown of the stage 2 debt financing.

If these transactions are not successfully concluded the Company may not be able to ensure that the Project will become operational, nor that commercial production will commence on schedule (or at all).

### Principal risks

In addition, in making its assessment, the Board has taken into account the principal risks as described on the preceding pages and also the scenario modelling and sensitivity analysis undertaken by the Company and various consultants which has been conducted as part of the development of the Project. The modelling demonstrates profitability over a range of negative assumptions, both individually and in aggregate. The scenarios considered took into account the impacts of:

- a Project capital cost overrun;
- a delay in Project completion;
- lower realised polyhalite sales prices;
- lower long-run polyhalite sales volumes;
- higher long-run operating costs; and
- a reasonable downside scenario taking into account a combination of the above.

Based on the financial impact of the analysis outlined above and the associated risks, management actions and controls that are either in place or could be implemented, the Board has been able to conclude that the Group will be able to deliver the construction of the Project, provided the stage 2 financing is completed, as described.

### Confirmation of viability

Taking account of these matters, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2023, assuming that the stage 2 financing referred to above is completed as described.

The Group's going concern statement is detailed in note 1 of the consolidated financial statements on page 98.

The Strategic Report from pages 1 to pages 41 was approved by the Board on 30 April 2019 and signed on its behalf by:

**Chris Fraser**
Managing Director and CEO

## Governance

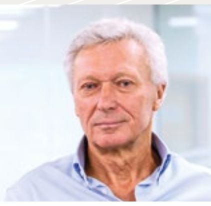


North York Moors National Park
Image Credit: Ebor images

# GOVERNANCE

## Board of Directors

# LEADING THE BUSINESS



R N IA

**RUSSELL SCRIMSHAW**

NON-EXECUTIVE CHAIRMAN

**Age:** 69

**Date of appointment:** November 2011

**Skills and experience:** Russell was formerly an Executive Director and Deputy CEO of Fortescue Metals Group Ltd and was a founding member of the Board. He was also formerly Chairman of Cleveland Mining Co Ltd, and a Non-Executive Board member of Commonwealth Properties Ltd, EDS Australia, Mobilesoft Ltd, Telecom New Zealand Australia Pty Ltd, The Garvan Institute Foundation, Genome.One Pty Ltd and Athletics Australia.

Russell has also held senior executive positions within the Commonwealth Bank of Australia, Optus Communications Pty Ltd, Alcatel, IBM and Amdahl USA and an Adjunct Professorship of Mining Economics at China Central South University in Changsha, China. He is an associate member of the Australian Society of Certified Practising Accountants.

**Current external appointments:** Non-Executive Chairman of Tech Project Pty Ltd; Chairman of the Garvan Research Foundation; Non-Executive Director of the Garvan Institute of Medical Research; Non-Executive Director of Waterford Retirement Village Pty Ltd; Executive Chairman of Torrus Capital Pty Limited; Chairman of Scrimshaw Nominees Pty Ltd; and Chairman of The Scrimshaw Foundation.

H

**CHRIS FRASER**

MANAGING DIRECTOR AND CEO

**Age:** 44

**Date of appointment:** January 2011

**Skills and experience:** Chris Fraser has almost 20 years' experience in the mining industry with a particular focus on financing and strategic developments. He is the founder of the Project, has led its development since 2010 and has been Managing Director and CEO of the Company since January 2011.

During his finance career he worked for KPMG, Rothschild and Citigroup, the latter culminated in him being appointed Head of Metals and Mining Investment Banking for Australia in 2006 and Managing Director in 2008. Upon leaving Citigroup in 2009, he founded Sigiriya Capital, a boutique advisory and investment firm. Chris founded York Potash in 2010 and subsequently joined Sirius Minerals Plc in 2011.

He is a member of the Institute of Chartered Accountants in Australia, senior associate of the Financial Services Institute of Australia (FINSIA) and a member of the Institute of Directors in Great Britain.

**Current external appointments:** Director of Sigiriya Capital Pty Ltd, Desmo Pty Ltd and C&J Fraser Investments Pty Ltd; member of the UK-China CEO Council; Director of the Northern Powerhouse Partnership and member of the Coventry University Scarborough Advisory Board.

**THOMAS STALEY**

FINANCE DIRECTOR AND CFO

**Age:** 38

**Date of appointment:** February 2017

**Skills and experience:** Thomas has over ten years' experience in the energy, infrastructure and resources industries, with a focus on financing and financial governance for development projects. Thomas has spent a significant part of his career (January 2009 – June 2012) working for the Mubadala Development Company (Mubadala) in Abu Dhabi, where he was involved in several financings including a US$600 million project finance facility for a power station development project, a A$300 million government agency financing of a European development project, and a US$2,200 million leveraged buy-out financing of a US company. Prior to working at Mubadala, Thomas was working in Australia with Babcock & Brown from 2006 to 2008 where he was involved in numerous energy and infrastructure transactions.

Most recently, Thomas was the Head of Commercial and Risk in the international development team of Origin Energy from September 2012 to September 2014. He was the interim Chief Executive Officer of a geothermal exploration project, where he was appointed by the main shareholders, Origin Energy and Tata Power, to implement a turnaround plan and put the development project back on track.

Thomas has a Bachelor of Engineering (Electrical) and Arts and is a charter holder of the CFA Institute. Thomas joined the Company in October 2014.

**Current external appointment:** Alternate Director of the Northern Powerhouse Partnership.

A N I

**NOEL HARWERTH**

SENIOR INDEPENDENT DIRECTOR

**Age:** 71

**Date of appointment:** July 2015

**Skills and experience:** Noel, whose executive background was in international banking, was formerly Chief Operating Officer of Citibank International and Chief Tax Officer of Citicorp Inc. Noel is a highly experienced non-executive director who has sat on a number of boards in a variety of different sectors, including mining and finance industry companies. She brings with her a wealth of background and understanding in mining, finance and governance issues.

Noel has previously held Non-Executive roles at Standard Life Assurance Ltd, Standard Life Aberdeen plc, London Metal Exchange, GE Capital Bank Limited, Sumitomo Mitsui Banking Corporation Europe and Avocet Mining.

**Current external appointments:** Chair of the UK Export Finance Agency; Non-Executive Director of Charter Court Financial Services; and Non-Executive Director of the British Horseracing Authority Limited.

**Committee membership**

- Chair of Committee
- R Remuneration Committee
- A Audit Committee
- N Nominations Committee
- H Health and Safety Committee
- IA Independent on appointment
- I Independent

A R I

**JANE LODGE**

NON-EXECUTIVE DIRECTOR

**Age:** 64

**Date of appointment:** July 2015

**Skills and experience:** Following an academic background in geology, Jane's executive career as a qualified chartered accountant was in audit, where she became a partner at Deloitte. Her roles included Deloitte's Midlands Practice Senior Partner and Lead Partner for the National Manufacturing Industry. As Manufacturing Industry Leader, she represented the UK on the Deloitte Global Manufacturing Industry Executive and was a member of the CBI Manufacturing Council. During her 35-year career with the firm, she advised multinational businesses in the construction, financial services, manufacturing and property sectors.

**Current external appointments:** Non-Executive Director and Chair of the Audit Committee of Devro PLC; Non-Executive Director and Chair of the Audit Committee of DCC PLC; Non-Executive Director and Chair of the Audit Committee of Costain Group Plc; Non-Executive Director of the Bromsgrove School Foundation; Non-Executive Director of Ives Ventures Limited; Non-Executive Director of Ives Estates Limited and Non-Executive Director of Bakkavor Plc.

R I

**JOHN HUTTON, BARON HUTTON OF FURNESS**

NON-EXECUTIVE DIRECTOR

**Age:** 63

**Date of appointment:** January 2012

**Skills and experience:** John was a member of the Government for 13 years, including 11 years as a minister and four years serving in the Cabinet. He also served as a Parliamentary Private Secretary in the Department of Trade and Industry before moving to the Department of Health where he became Minister of State for Health in 1999. He was a Chairman of the Independent Public Service Pensions Commission. Lord Hutton was a legal adviser to the Confederation of Business Industry and a senior law lecturer at Newcastle Polytechnic. He was Member of Parliament for Barrow and Furness for 18 years from April 1992 to May 2010.

In 2005 Lord Hutton was made Secretary of State for Work and Pensions. In 2007 he was appointed Secretary of State for Business, Enterprise and Regulatory Reform. In 2008 he became Secretary of State for Defence until he stepped down from the Cabinet in 2009. In 2010 he was created a life peer as Baron Hutton of Furness and now sits in the House of Lords. He was Chairman of Simple Space Ltd until February 2017 and a Partner of Cartesius Advisory Network until January 2018. He was Non-Executive Director at ARIX Bioscience and Arthurian Life Sciences Limited until June 2018, Byhiras Group Limited until October 2018 and Chairman of the Nuclear Industries Association until December 2018.

**Current external appointments:** Non-Executive Director of Circle Holdings (UK) plc; Chairman and Director of Apartments for London Ltd and Chairman of Energy UK.

H N A I

**KEITH CLARKE CBE**

NON-EXECUTIVE DIRECTOR

**Age:** 66

**Date of appointment:** December 2013

**Skills and experience:** With more than 40 years' experience, Keith has worked in all sectors of the UK and international construction industry. Keith was Chief Executive of WS Atkins plc, the UK's largest design and engineering consultancy, for eight years to July 2011 and previously held Chief Executive roles with Skanska UK and Kvaerner Construction Group. He also acted as Director of Sustainability and Chairman of Atkins' Middle East business until April 2012. Keith was Vice President of the Institution of Civil Engineers for four years until 2017 and was previously Non-Executive Chairman of Tidal Lagoon (Swansea Bay) Plc and Tidal Lagoon Power Plc. He is a fellow of the Institution of Civil Engineers, Hon Fellow RA Eng & MRIBA.

**Current external appointments:** Chair of the Trustees for Forum for the Future; Chair of Future Cities Catapult; Non-Executive Director of Constructionarium and Women in Property; member of the advisory panel for Peak Urban; and Director of Keith Clarke Consulting Limited.

H R I

**LOUISE HARDY**

NON-EXECUTIVE DIRECTOR

**Age:** 52

**Date of appointment:** May 2016

**Skills and experience:** Louise has over 25 years' experience in the engineering and construction sector. Previously, she was European Project Excellence Director at Aecom. Louise was a Director at Laing O'Rourke from 2006-2013, working as Infrastructure Director within CLM, which was the consortium delivery partner for the Olympic Delivery Authority for the London 2012 Olympics. She was a Non-Executive Director at the Defence Infrastructure Organisation, Ministry of Defence from May 2015 to June 2017. Louise is a fellow of the Institution of Civil Engineers and a fellow of the Chartered Management Institute.

**Current external appointments:** Non-Executive Director, Chair of the Remuneration Committee and member of the Nomination Committee and Audit Committee of Polypipe Group plc; Non-Executive Director and member of Remuneration Committee, Risk & Audit Committee and Investment Panel of Ebbsfleet Development Corporation; Non-Executive Director and Chair of Risk & Audit Committee of North West Cambridge Developments; Non-Executive Director and member of the Nomination and Remuneration Committees of Crest Nicholson plc.

# Chairman's Introduction

**RUSSELL SCRIMSHAW**
Chairman

## Compliance with the UK Corporate Governance Code

The Company has complied in full during 2018 and to the date of this report with the provisions of the UK Corporate Governance Code published in 2016. The Code is publicly available at the website of the Financial Reporting Council at www.frc.org.uk.

**Dear Shareholder**

I am pleased to present the Corporate Governance Report for the year ended 31 December 2018.

The report sets out our approach to corporate governance using the five main principles of the UK Corporate Governance Code (Code), namely Leadership, Effectiveness, Accountability, Remuneration and Relations with shareholders, and explains how the Board and its Committees are structured and their areas of focus during 2018. The Board is committed to the highest standards of corporate governance and I am pleased to confirm that throughout the year the Company has complied in full with the Code.

During the year, the Board and its Committees considered the impact of the 2018 Code and took actions to address the changes. The steps taken by the Committees to address the new governance landscape are described in each of the Committee reports in this section on pages 53 to 81. A core principle of the 2018 Code is greater emphasis on employee engagement and making sure that the 'employee voice' is heard in the Boardroom. The Company already has a number of channels of communication set up to support employee engagement, as described in the People section on pages 34 to 35. I also make it my personal priority to walk around all sites and offices several times a year to meet and greet staff and discuss whatever they see fit. However, to strengthen the Board's mechanism for two-way dialogue with the workforce, the Board agreed that during 2019 there will be a series of 'exchange forums' whereby a cross section of individuals, representative of the Company's diverse workforce, will be invited to participate in an informal listening/exchange session hosted by the Chairs of the Remuneration or Nominations Committees or the Senior Independent Director. These forums will be organised at different Company locations and will include a virtual meeting with the non-UK based workers to create meaningful engagement with the whole workforce. It is intended that three forums will take place during 2019. The aim of these sessions will be to gather workforce views on a number of topics including but not limited to safety, culture, pay and conditions, communication and leadership, enabling the voice of the workforce to be taken back to the Boardroom.

The Board recognises the importance of sound corporate governance. Its role is to provide leadership of the Company and its executives with myself, as Chairman, being responsible for leading the Board and ensuring its effectiveness, whilst promoting a culture of openness and debate. It is therefore important that the Board has the correct composition, balance of skills and experience and that its members work together effectively and lead by example in pursuit of our corporate goals and displaying our corporate values.

Given the importance of health and safety to the Board and the Project as a whole, the Board constituted a formal Health and Safety Committee during the year to assist the Board in ensuring compliance in this area. Keith Clarke, a very experienced Non-Executive Director, is the Chair of the Health and Safety Committee with Louise Hardy, Chris Fraser and Simon Carter (Chief Development Officer) as fellow members. The Committee will meet formally at least twice a year and will report to the Board after each meeting. More information on the Health and Safety Committee can be found on page 49.

In 2018 a review of the performance of the Board and its Committees was carried out internally via a questionnaire circulated to all Directors. The review confirmed that the Board and all of its Committees are operating effectively. More details can be found on page 50 and in each of the Board Committee reports in this section on pages 53 to 81.

This year our Annual General Meeting (AGM) will be held at 1pm on Thursday 13 June 2019 at The Events Centre, The Principal York, Station Road, York YO24 1AA, and I look forward to welcoming you.

**Russell Scrimshaw**
Chairman

30 April 2019

## BOARD ACTIVITY IN 2018

### Performance

- Received comprehensive management reports at each meeting covering progress with the Project, health and safety matters, sales and marketing developments and finance and corporate development activities.
- Approved the full-year and half-year results following recommendations from the Audit Committee.
- Approved the 2017 Annual Report.

### Strategy

- Approved the incentivisation invitation for convertible bondholders.
- Approved the establishment of a limited company in India.
- Approved the shaft sinking contract with DMC Mining Services.
- Approved the material handling agreement and lease with Redcar Bulk Terminal.
- Approved the design and build contracts with Strabag for drives 1,2 and 3 of the mineral transport system (MTS).
- Approved the materials handling facility (MHF) contract with Jacobs.
- Approved the entry into a take-or-pay supply agreement with Intercontinental Trade DMCC Dubai for supply of POLY4 in Nigeria.
- Reviewed and approved a take-or-pay supply agreement for the supply and resale of POLY4 into certain southern and northern provinces of China.
- Approved an agreement with Archer Daniels Midland Company for the supply of binder to be used in the production of POLY4.
- Approved the entry into a engineering, procurement and construction contract with McLaughlin and Harvey Ltd for the Company's port handling facility at Teesside.
- Approved a take-or-pay supply agreement with Cibra Group Companies for supply and resale of POLY4 into Brazil and certain other South American countries and the acquisition of 30% shareholding in each of CIBRA and OFD.
- Considered and approved an amendment to the Minerals Royalty Deed entered into with Hancock British Holdings Ltd.

### Governance and stakeholders

- Received regular meeting reports from each of the Committee Chairs.
- Considered and approved the process for the annual performance evaluation of the Board.
- Undertook an annual evaluation of the Board's performance, reviewed the results and approved 2019 action points.
- Reviewed the 2018 Annual Report planning process.
- Approved updated terms of reference for the Audit Committee and Remuneration Committee.
- Approved changes to the schedule of matters reserved to the Board.
- Reviewed developments in corporate governance, legal and regulatory updates, including the impact of the new 2018 Code.
- Approved a new workforce engagement proposal to support the new 2018 Code.
- Received investor relations reports.
- Received presentations from external legal advisers on bribery and corruption; the new 2018 UK Corporate Governance Code and General Data Protection Regulations.

### Internal controls and risk management

- Received regular updates on risk and reviewed the principal risks and mitigation plans.
- Approved the establishment of a Health and Safety Board Committee.
- Approved the renewal of the Group's corporate insurances.

# Corporate Governance Report

## LEADERSHIP

### Board meetings

The Board meets as often as is necessary to discharge its duties. In 2018, the Board met ten times during the year. Individual Director attendance at each Board meeting is set out in the table opposite.

Directors are expected, where possible, to attend all Board meetings, relevant Committee meetings, the AGM and any general meetings. If a Director is unable to attend a specific Board or Committee meeting, he or she still receives all the papers for discussion at the meeting and can advise the Board Chairman or Committee Chair of their comments in advance of the meeting.

Board meetings are normally attended by the Chief Development Officer and the Chief Marketing Officer. Other senior members of the management team and external advisers will attend, at the invitation of the Board, and as appropriate to the matters under discussion.

On 13 September 2018, the Company entered into a side letter amending the terms of the Minerals Royalty Deed dated 25 October 2018 with Hancock British Holdings Ltd (Hancock). Pursuant to the side letter, Hancock has the right to observe the Company's Board meetings through the appointment of up to two observers (Board observers). The Board observers are entitled to attend all Board meetings and receive copies of all papers that are provided to Board members unless there is a conflict of interest as determined by the Chairman of the Board; they are not entitled to attend any Board Committee meetings; have no right to vote on any matters and are only entitled to speak if invited to do so by the Chairman of the Board. Hancock has nominated two Board observers pursuant to the side letter who signed formal appointment letters with the Company, detailing their rights and obligations as Board observers and detailed confidentiality provisions, in October 2018.

During the year the Chairman and the Non-Executive Directors also met on several occasions without the Executive Directors present to allow informal discussions on a variety of issues. The Non-Executives met once during the year without the Chairman to evaluate the Chairman's performance.

The core activities of the Board are documented and planned on an annual basis and a list of matters arising from each meeting is maintained and followed up at subsequent meetings. Full minutes of each Board and Committee meeting are kept by the Company Secretary, detailing the matters considered and decisions taken.

### The Chairman and Chief Executive

Russell Scrimshaw is the Chairman. He leads the Board and is responsible for the effective running of the Board and promoting a culture of openness and debate. Chris Fraser is the Chief Executive Officer and is responsible for the running of the Group's business and implementation of the strategy and policies adopted by the Board.

The roles of the Chairman and Chief Executive Officer are held separately and their responsibilities are clearly documented and established and are available on the Company's website, siriusminerals.com.

### Non-Executive Directors

Non-Executive Directors constructively challenge and scrutinise the performance of management and help develop proposals on strategy. The letters of appointment of the Non-Executive Directors are available for inspection at each AGM and at the Company's registered office during normal business hours.

### Senior Independent Director

Noel Harwerth is the Senior Independent Director (SID) of the Company, having been appointed on 25 April 2017. She provides a sounding board for the Chairman and serves as an intermediary for the other Directors, where necessary. She is available to discuss with shareholders any concerns that cannot be resolved through normal channels or when such channels would be inappropriate. She also has responsibility for leading the annual appraisal of the Chairman's performance. The responsibilities of the SID are clearly documented and established and available on the Company's website, siriusminerals.com.

### The Role of the Board

The Board is collectively responsible for the long-term success of the Group. It provides leadership of the Company and direction for management. The Board biographies are on pages 44 and 45.

The Board is responsible for establishing the Company's strategy, values and purpose and monitoring these are aligned with the Group's culture, whilst ensuring the necessary controls and resources are in place for the Group to deliver its objectives and having regard to the views of shareholders and other stakeholders.

The Board has regular scheduled meetings and has adopted a schedule of matters specifically reserved for its approval. This schedule details key aspects of the affairs of the Company which the Board does not delegate and can be found on the Company's website, siriusminerals.com. The schedule of matters reserved to the Board was reviewed and updated during the year as a result of the new 2018 Code, which is applicable to the Company from 1 January 2019. One such change was that oversight of the Group's Speak Up arrangements will now be a Board matter and as such, from 1 January 2019, the Board will receive reports summarising any material matters raised (if applicable) at each Board meeting.

**Board attendance in 2018**

| Board members | | Number of meetings attended / maximum possible meetings | % of meetings attended |
|---|---|---|---|
| Russell Scrimshaw | Chairman | 10/10 | 100% |
| Chris Fraser | Managing Director & CEO | 10/10 | 100% |
| Thomas Staley | Finance Director & CFO | 10/10 | 100% |
| Noel Harwerth | Senior Independent Director | 10/10 | 100% |
| Keith Clarke | Independent Non-Executive Director | 10/10 | 100% |
| Louise Hardy | Independent Non-Executive Director | 10/10 | 100% |
| Lord Hutton | Independent Non-Executive Director | 10/10 | 100% |
| Jane Lodge | Independent Non-Executive Director | 10/10 | 100% |

## Executive Directors

The Executive Directors are responsible for the day-to-day management of the Group's businesses, implementation of its strategy, policies and budgets and its financial performance. Strategy Group meetings comprise the Executive Directors and senior management and are held bi-monthly to discuss current issues.

## Principal Committees of the Board

The Board has delegated certain aspects of its responsibilities to five Committees (as shown on page 52): the Audit Committee, the Nominations Committee, the Remuneration Committee, the Disclosure Committee and the newly established Health and Safety Committee.

Each Committee operates within defined terms of reference, which are reviewed and updated as appropriate on an annual basis and are available on the Company's website at siriusminerals.com. Each Committee reports its proceedings to the Board verbally and through the submission of reports and minutes as appropriate.

Reports of the Audit, Nominations and Remuneration Committees are provided on pages 53 to 81, and include information on each Committee's membership, duties, attendance at meetings and work throughout the year.

A Health and Safety Committee was constituted by the Board on 13 December 2018. The Health and Safety Committee is made up of four members: Chris Fraser, two independent Non-Executive Directors (Keith Clarke and Louise Hardy) and Simon Carter. The Chair of the Committee is Keith Clarke. The main role of the Committee is as follows:

- to assist the Board in overseeing:
  - health and safety strategy, plans and related risk assessment in the context of the overall business strategy;
  - scope and focus of policies and action plans prepared to support delivery of the health and safety strategy, including mitigation of related risks;
  - implementation processes, plans, internal performance and controls in relation to health and safety strategy, plans and risks;
  - evaluation of major and recurring failures within the Group in terms of health and safety governance and performance including, but not limited to, those leading to significant legal action or formal complaints;
  - external disclosures relating to health and safety; and
  - the quality of health and safety management and the appropriateness of methods to create appropriate health and safety behaviours and decisions, including for example performance appraisal indicators.
- to consider the position of the Group with respect to best practice for health and safety and emerging legal requirements on health and safety including relevant corporate governance developments.
- to advise the Board, Committees of the Board and Executive management on such matters.

The Committee will meet formally at least twice a year. However, given the Health and Safety Committee was only constituted on 13 December 2018, there were no formal meetings held during the period under review.

The Disclosure Committee comprises Chris Fraser, Thomas Staley, Nicholas King (General Counsel and Company Secretary) and Gareth Edmunds (External Affairs Director). Chris Fraser is the Chair of the Committee. The Committee ensures that the Company is able to make timely and accurate disclosure of all information that is required to be disclosed to the market in accordance with its legal and regulatory obligations as a company with Officially Listed securities which have been admitted to trading on the Main Market. The creation of the Disclosure Committee is not mandatory but, in ensuring that the Company has in place systems and procedures to enable it to discharge its obligations, was considered an appropriate response and one which has been widely adopted by other companies. The Disclosure Committee met a number of times during the year as was necessary and appropriate to fulfil its responsibilities.

# Corporate Governance Report continued

## EFFECTIVENESS

### Composition of the Board

The Board is comprised of eight Directors, which includes the Non-Executive Chairman, two Executive Directors and five other independent Non-Executive Directors.

A list of individual Directors, their biographies and Committee memberships as at the date of this report are on pages 44 and 45.

The Board believes that there is an appropriate balance of skills, experience, independence and knowledge on the Board. The Board also believes that there is an appropriate balance of Executive and Non-Executive Directors.

The Board considers all of its Non-Executive Directors to be independent. The Non-Executive Directors disclose to the Board their other significant commitments and the procedure adopted by the Company in relation to Directors' conflicts of interest is detailed on page 83.

Louise Hardy, Jane Lodge and Noel Harwerth are independent in character and independent in judgement and are therefore independent Non-Executive Directors in accordance with the Code. Lord Hutton and Keith Clarke hold share options in the Company as detailed on page 71. These outstanding share options were granted in 2012 and 2013 respectively, when the Company was listed on AIM. No further grants have been made to the Company's current Non-Executive Directors since 2013 and the Company does not intend to include share options or other performance-related elements in the remuneration of the Non-Executive Directors in the future. Notwithstanding these share options, the Board considers Lord Hutton and Keith Clarke to be independent in character and independent in judgement and therefore considers them to be independent Non-Executive Directors.

Prior to taking on the role as Chairman, Russell Scrimshaw was viewed as independent in character and independent in judgement. The Chairman's other significant commitments are detailed on page 44.

### 2018 performance evaluation

In November 2018 the Board undertook an internal evaluation of its performance in accordance with the Code. The Company Secretary, on behalf of the Chairman, circulated a comprehensive questionnaire to Directors using the electronic Board portal covering all issues related to the functioning and responsibilities of the Board. The responses were consolidated and anonymised and common themes identified in order for the Board to determine key actions and next steps for improving the Board's effectiveness and performance.

The results of the 2018 internal evaluation were presented to the Board at its meeting in December 2018 and confirmed that overall the Board was operating effectively. Following the review, it was agreed that more opportunities for site visits would be factored into the 2019 schedule of board meetings and opportunities for the Board to meet second line management would be explored.

It is the intention that, in accordance with the Code, an annual review of the effectiveness of the Board will be facilitated by an independent external adviser in 2020 and every three years thereafter.

### Progress of actions from 2017 performance evaluation

In addition to considering the results of this year's evaluation, the Directors reviewed the progress against the actions identified from last year's evaluation with the outcomes set out in the following table:

| 2017 action point | Outcome |
|---|---|
| Design and implementation of a formal training and development programme for Board members | A formal Board training schedule was developed and agreed in 2018 |
| More opportunities for the Board to meet informally ahead of scheduled Board meetings | Opportunities for the Board to meet informally before meetings have been put in place |

### Training, development and induction of new Directors

Ongoing professional development is provided to all Directors. The Board is regularly notified of changes to relevant laws and regulations through the Board papers and presentations during the year. In addition, external seminars, workshops and presentations have been made available to the Directors through externally run programmes.

In 2018 the Board received presentations from the Company's legal advisers on bribery and corruption legislation and developments, the 2018 Code and the General Data Protection Regulations.

As there have been no new external appointments to the Board during the year, a formal induction programme was not delivered during the year.

### Site visits

Non-Executive Directors are encouraged to visit the various Company sites whenever possible throughout the year to see the development and progress of the Project and have an opportunity to engage with the wider workforce. During the year, a number of the Board and Committee meetings were held in Scarborough to enable the Directors to attend site visits and a number of our Non-Executive Directors took this opportunity.

### Information and support

All Directors have access to the Company Secretary. It is the responsibility of the Company Secretary to ensure that there are good information flows to the Board and its Committees and between the Executive team and the Non-Executive Directors. The Company Secretary advises the Board on all legal and corporate governance matters and assists the Chairman in ensuring that the Directors have suitably tailored and detailed induction and ongoing professional development programmes. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

A fully encrypted electronic Board portal is used to distribute Board and Committee papers and materials in advance of each meeting and in sufficient time to allow for proper consideration of their contents.

There is a process by which Directors may obtain independent legal advice at the Company's expense if they believe it may be required in the furtherance of their duties.


## ACCOUNTABILITY

### Directors' and external auditors' responsibilities

The explanation by the Directors of their responsibility for preparing the Annual Report may be found in the Directors' Responsibilities section on page 85 and a statement from the external auditors about their reporting responsibilities may be found in the Independent Auditor's Report to the Members of the Company on pages 88 to 93.

### Business model

The basis on which the Company generates or preserves value over the longer term (the business model) and the strategy for delivering the Company's objectives may be found in the Strategic Report on pages 1 to 41.

### Risk management and internal control

The confirmation that the Directors carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity together with a description of those risks and how they are being managed or mitigated, may be found in the Strategic Report on pages 36 to 41.

### Fair, balanced and understandable

The confirmation of the Directors that, to the best of their knowledge, the Annual Report and financial statements taken as a whole are a fair, balanced and understandable assessment of the Company's position and prospects and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy appears on page 85.

## REMUNERATION

The Directors' Remuneration Report, including details of the Remuneration Policy and service contracts, is set out on pages 61 to 81.

## RELATIONS WITH SHAREHOLDERS

The Board recognises the importance of maintaining good communications with the Group's stakeholders and ensures that the interests of shareholders, customers, employees and the wider community are considered in their decision making. More information can be found in the Working Responsibly section on pages 30 to 35 and in the 2018 Responsible Business Report, which is available on the Company's website, siriusminerals.com.

The Board is committed to maintaining open dialogue and good relationships with both institutional and private shareholders. Throughout the year management engaged regularly with research analysts and significant shareholders through meetings, roadshows and site visits. During the year, a consultation with major shareholders and proxy advisors regarding the Company's proposed remuneration policy took place to ensure that the policy was appropriate for the UK premium listed company environment prior to its approval by shareholders at the 2018 AGM.

The Board receives regular feedback on investor relations activity, along with regular reports of changes in holdings of substantial shareholders and reports on share price movements. Shareholders are kept informed of the progress of the Group through regular corporate communications and materials provided on the Company's website, siriusminerals.com.

# Corporate Governance Report continued

## GOVERNANCE STRUCTURE

Non-Executive Chairman
**RUSSELL SCRIMSHAW**

**Key objective:**
- Leadership of the Board

### The Board

**RESPONSIBLE FOR THE LONG-TERM SUCCESS OF THE COMPANY**

Chief Executive Officer
**CHRIS FRASER**

**Key objective:**
- Overall performance of the Company

### AUDIT COMMITTEE

- Jane Lodge (Chair)
- Keith Clarke
- Noel Harwerth

**Key responsibilities**
- Oversight of effectiveness of internal controls
- Risk management review
- Monitor integrity of financial statements
- Overseeing the relationship with the external auditors

### REMUNERATION COMMITTEE

- Lord Hutton (Chair)
- Jane Lodge
- Louise Hardy
- Russell Scrimshaw

**Key responsibilities**
- Review and approve the remuneration policy and remuneration of the Executive Directors respectively
- Recommend and monitor the level and structure of remuneration of senior management

### NOMINATIONS COMMITTEE

- Keith Clarke (Chair)
- Russell Scrimshaw
- Noel Harwerth

**Key responsibilities**
- Lead the process for Board appointments
- Ensure plans are in place for orderly succession to Board and senior management
- Oversee development of a diverse pipeline for succession

### HEALTH AND SAFETY COMMITTEE

- Keith Clarke (Chair)
- Louise Hardy
- Chris Fraser
- Simon Carter

**Key responsibilities**
- Overseeing health and safety strategy, plans and related risk assessment in the context of the overall business strategy
- Ensure compliance with health and safety responsibilities and commitments

### DISCLOSURE COMMITTEE

- Chris Fraser (Chair)
- Thomas Staley
- Nicholas King
- Gareth Edmunds

**Key responsibilities**
- Ensuring the Company is able to make timely and accurate disclosure of required information

# Audit Committee Report



**JANE LODGE**
Chair

## Dear Shareholder

I am pleased to present our Audit Committee Report for 2018. This report describes how the Committee has carried out its responsibilities during the year.

## Composition

The Audit Committee is made up of three members: Jane Lodge (Chair), Keith Clarke and Noel Harwerth, who are all independent Non-Executive Directors.

The Board is satisfied that Jane Lodge possesses the necessary recent and relevant financial experience as required by the Code to effectively chair the Committee and, further, that the Committee as a whole has the skills, expertise, experience and competence relevant to the sector in which the Company operates. More information can be found in the Directors' biographies on pages 44 to 45.

## Responsibilities

The main role of the Audit Committee includes:

- monitoring the integrity of the Company's financial statements, including reviewing its annual and half-year financial statements and accounting policies;
- reviewing the effectiveness of the external audit, internal controls, risk management, whistleblowing and fraud systems in place across the Group; and
- overseeing the relationship with the Company's external auditors, PricewaterhouseCoopers LLP.

The terms of reference for the Committee are set out in detail on the Company's website, siriusminerals.com. These terms are reviewed on an annual basis to ensure best practice.

## Meetings

The Committee has regular scheduled meetings and holds additional meetings as and when required. Members are expected, where possible, to attend all Committee meetings. The Committee had four meetings in 2018 and individual attendance is set out in the table over the page.

The Committee meets with the external auditors at least once a year without management present.

Meetings are normally attended by the Board Chairman, Executive Directors, Deputy Chief Financial Officer, Financial Controller and the external auditors. Other senior members of the management team will attend at the invitation of the Committee, and as appropriate to the matters under discussion.

Agendas, briefing notes and reports for each Committee meeting are distributed via a secure electronic Board portal in advance of each meeting and in sufficient time to allow proper consideration of their contents.

The core activities of the Committee are documented and planned on an annual basis and a list of matters arising from each meeting is maintained and followed up at subsequent meetings. Full minutes of each meeting are kept by the Company Secretary, detailing the matters considered and decisions taken by the Committee.

The Audit Committee has access to the Company Secretary and external auditors for assistance as required and can obtain outside legal or other professional advice at the Company's expense, if required.

## 2018 Committee evaluation

During the year, the Committee undertook an internal evaluation of its performance in accordance with the provisions of the Code and its terms of reference. The Company Secretary, on behalf of the Chair, circulated a comprehensive questionnaire to members and attendees of the Committee using the electronic Board portal covering all issues related to the functioning of the Committee. The responses were consolidated and anonymised and common themes identified in order for the Committee to determine key actions and next steps for improving Committee effectiveness and performance.

The results of the 2018 internal evaluation show that overall the Committee is operating effectively. Following the review, it was agreed that during 2019, the mining and agricultural industry teams of PricewaterhouseCoopers LLP would be asked to present on the industry trends and issues; management would be asked to give a risk management and internal control framework update presentation; and PricewaterhouseCoopers LLP would give the Committee a corporate governance and reporting update.

# Audit Committee Report continued

## Committee attendance in 2018

| Committee members | Number of meetings attended / maximum possible meetings | % of meetings attended |
|---|---|---|
| Jane Lodge | 4/4 | 100% |
| Noel Harwerth | 4/4 | 100% |
| Keith Clarke | 4/4 | 100% |

## COMMITTEE ACTIVITY IN 2018

### During the year the Committee:

- reviewed the proposed accounting treatment of the Group's investments in CIBRA and OFD;
- received an update on accounting treatment for the Royalty Financing Agreement;
- reviewed the Group's risk register;
- reviewed and recommended to the Board the approval of the 2017 preliminary results announcement; the 2017 Annual Report; the 2018 half-year results announcement and the significant financial reporting judgements;
- considered and recommended to the Board the approval of letters of representation issued to the external auditors;
- reviewed and approved the process for the review of the effectiveness of internal controls;
- considered the schedule of non-audit services provided by the external auditors;
- reviewed and approved changes to the audit/non-audit fees policy;
- considered and approved the audit approach and scope of the audit work to be undertaken by the external auditors and associated fees;
- approved the process for the Committee's 2018 annual performance evaluation;
- reviewed the Group's Speak Up arrangements and matters raised under the Speak Up service;
- assessed the effectiveness of the Group's internal control environment;
- received reports from the internal audit function on the procure-to-pay process; the employee expenses policy; the process for managing site instructions and variation orders and the chain of events following an incident at the Wilton site where a worker sustained a serious injury during piling works;
- assessed the effectiveness of the Group's internal control environment;
- reviewed the planning of the 2018 Annual Report, including consideration of the skeleton financial statements and draft going concern and viability statements;
- conducted and reviewed the results of the 2018 performance evaluation of the Committee and agreed actions for 2019;
- reviewed the Committee's terms of reference and recommended changes to the Board;
- reviewed and approved the Committee's report for inclusion in the 2017 Annual Report;
- received reports from the Company's external auditors, PricewaterhouseCoopers LLP;
- reviewed the results from the benchmarking exercise of the Company's 2017 Annual Report undertaken by PricewaterhouseCoopers LLP; and
- received updates on corporate governance and accounting developments from PricewaterhouseCoopers LLP.

### Progress of actions from 2017 Committee evaluation

In addition to considering the results of this year's evaluation, the Committee reviewed the progress against the actions identified from last year's evaluation with the outcomes set out in the following table:

| 2017 action point | Outcome |
|---|---|
| Incorporation of a programme of training and presentations into the Committee meeting schedule at appropriate times, including updates on corporate governance and accounting developments by PricewaterhouseCoopers LLP and subject matter 'deep dives'. | The Committee received an accounting update at its October 2018 Committee meeting. A further programme has been developed for 2019. |
| PricewaterhouseCoopers LLP to carry out a benchmarking exercise of the Company's 2017 Annual Report. | The results of the benchmarking exercise were presented to the Committee meeting in October 2018. |
| The length of Committee meetings to be increased to allow sufficient time for the agenda and papers to be considered. | Committee meetings have been extended by one hour to allow for greater in-depth discussion on certain topics. This arrangement will continue going forward. |
| More Committee meetings held in person rather than conference call. | One Committee meeting was held in person in 2018. The Committee will have face-to-face meetings whenever possible in 2019. |

### Significant issues in 2018

The Committee considered a number of matters during the year as described above, the most significant of which are described below.

As a result of the stage 1 financing undertaken in 2016, a number of complex financial instruments (US$250 million royalty agreement with Hancock, a US$50 million equity arrangement with Hancock and US$400 million convertible loans) were entered into by the Group with a number of third parties. In September 2018, the US$250 million royalty agreement with Hancock was drawn down. Due to the complexity of the accounting in relation to these financial instruments, the Committee received and considered comprehensive update reports from management for the host loan element of the US$250 million royalty price; the embedded derivative within the US$250 million royalty price; and the accounting for the US$50 million equity investment. The Committee also took into account the views of the external auditors. The Committee concluded that the proposed accounting treatment of the financial instruments in the Company's 2018 financial statements was appropriate.

### Risk management and internal control

Details of the Group's internal controls and risk management framework are more fully set out on page 36 of the Strategic Report.

The Committee, on behalf of the Board, carried out a review of the effectiveness of the systems of risk management and internal controls during the year. This included financial, operational and compliance controls and emerging risks. This effectiveness review considered the design of controls associated with key risks and the evidence as to their proper operation throughout the year. The review did not identify any significant failing or weaknesses in the system of internal control and risk management.

The Committee has also considered the confidential reporting and Speak Up procedures that the Group has in place and is satisfied with these procedures.

### Internal audit

As noted in the Committee's report in the 2017 Annual Report, given the level of construction activity increasing on the Project in 2018, the Committee approved management's proposal at the December 2017 Committee meeting to implement an outsourced internal audit function for the Group in 2018. Given the stage of the Company's development, it was agreed that a small practitioner should be engaged rather than a larger team from an accountancy organisation. Management engaged with a number of Yorkshire-based providers with experience of providing the relevant services to FTSE-listed organisations and these advisers were short-listed to two companies, both of which came highly recommended. For each of these providers, management discussed in some detail the stage at which the company is at and the value and approach that would be expected from the internal audit provider. Both companies were requested to present their proposals on the process they would follow regarding preparation, investigation, communication with process owners and management and reporting to the Audit Committee. Having reviewed the final proposals, management recommended the appointment of the Natural Risk Company as the preferred provider of internal audit for the Group and this was approved by the Committee at its February 2018 meeting.

# Audit Committee Report continued

During the year, the Natural Risk Company was asked by the Committee to carry out a number of reviews, including a review of the procure-to-pay process; the employee expenses policy; the fixed asset register; the process for managing site instructions and variation orders; the chain of events in relation to an incident at the Wilton site where a worker sustained a serious injury during piling works; and the Company's response and the proposed process that should be followed in the event of allegations of fraud, embezzlement, theft or irregular behaviour involving our employees, contractors or people acting on behalf of Sirius. The Committee reviewed the results of the completed reviews at appropriate Committee meetings and was provided with regular updates on internal audit findings and agreed actions at each meeting.

## Independent auditors

The Committee is responsible for managing the relationship with the Company's external auditors, PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP have been the Company's external auditors since October 2012. The Committee confirms its compliance for the financial year ending 31 December 2018 with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. The Company last put its external audit contract out to tender in 2012, following which PricewaterhouseCoopers LLP were appointed as the Company's external auditors. Under current regulations, the Company will be required to re-tender the audit no later than in respect of the year ending 31 December 2022. The Committee recognises that audit tenders and transitions to new auditors require significant resource. The Committee considers that subject to their reappointment by shareholders, it is in the best interests of the Company to retain PricewaterhouseCoopers LLP until 2022 to provide stability and continuity but will keep the issue under review in the intervening period. It is therefore the Company's intention to tender the audit no later than for the year ending 31 December 2022.

In accordance with best practice and professional standards, the Company requires its external auditors to adhere to a rotation policy whereby the audit engagement partner is rotated after five years. Randal Casson is the current Senior Statutory Auditor having been appointed for the audit in respect of 31 December 2017. The external auditors are also required to periodically assess whether, in their professional opinion, they are independent and to share those views with the Committee.

In order to ensure the independence and objectivity of the external auditors, the Committee has a policy regarding the provision of non-audit services by its external auditors to ensure that such services do not impair the independence or objectivity of the external auditors. During the year, the policy was reviewed and updated to reflect the recommendations set out in the Financial Reporting Council's (FRC) Guidance on Audit Committees (2016) and the requirements of the FRC's Revised Ethical Standard (2016). A schedule of prohibited non-audit services which cannot be provided by the external auditors has now been included in the policy so that it is clear the non-audit services that are and are not permissible. There were no other substantive changes to the policy. The approval of the Audit Committee must be obtained before the external auditors are engaged to provide any permitted non-audit services, unless the activity is clearly trivial, falls within the permitted non-audit services and will have a total value of less than £5,000. Control over total non-audit fees is monitored on a regular basis by the Committee with the intention to remain below an audit fee to non-audit fee ratio of 1:1. However, the Committee recognises that there may be times where it is appropriate to engage the external auditors for additional services which may result in the 1:1 ratio being exceeded. An analysis of fees paid in respect of audit and non-audit services provided by PricewaterhouseCoopers LLP for 2018 is set out in note 25 on page 120. Other than the half year review, no non-audit services were provided to the Company by PricewaterhouseCoopers LLP during the year.

The Committee assesses the quality of the external audit annually and considered the performance of PricewaterhouseCoopers LLP taking into account the Committee's own assessment, feedback from senior finance personnel and views from PricewaterhouseCoopers LLP on their performance as detailed in a report of their audit findings at the year end, which they took the Committee through at the meeting in March 2019. Based on this review, the Committee was satisfied with the effectiveness of the audit for the year ended 31 December 2018.

## Speak Up arrangements

During the year, the Committee reviewed the arrangements that the Group has in place for the workforce to raise concerns in confidence. An externally managed independent phone and web reporting Speak Up service was in place together with a Speak Up policy. The Committee received reports summarising any matters that had been raised (if applicable) at each meeting.

As a result of the new 2018 UK Corporate Governance Code, applicable to the Company from 1 January 2019, the Committee will no longer have responsibility for the Company's Speak Up arrangements as the oversight of these arrangements will now be a Board matter. As such, from 1 January 2019, the Board will receive reports summarising any material matters that have been raised (if applicable) at each Board meeting.

**Jane Lodge**
Chair
30 April 2019

# Nominations Committee Report

**KEITH CLARKE**
Chair

### Dear Shareholder

I am pleased to present our Nominations Committee Report for 2018. This report describes how the Committee has carried out its responsibilities during the year.

### Composition

The Nominations Committee comprises Keith Clarke (Chair) and Noel Harwerth, who are both independent Non-Executive Directors, and Russell Scrimshaw, the Board Chairman.

### Responsibilities

The main role of the Committee is to:

- review the structure, size and composition of the Board and to identify and propose to the Board suitable candidates to fill Board vacancies;
- keep under review the leadership needs of the Group, both executive and non-executive; and
- assist with the annual performance evaluation process for the Board and its Committees.

The terms of reference for the Committee are set out in detail on the Company's website, siriusminerals.com. These terms are reviewed on an annual basis to ensure best practice.

### Meetings

The Committee has regular scheduled meetings and holds additional meetings as and when required. Members are expected, where possible, to attend all Committee meetings. The Committee met three times in 2018 and individual attendance is set out in the table over the page.

At the invitation of the Committee, and as appropriate to the matters under discussion, meetings may be attended by the Executive Directors and external advisers.

Agendas, briefing notes and reports for each Committee meeting are distributed via a secure electronic Board portal in advance of each meeting and in sufficient time to allow proper consideration of their contents.

The core activities of the Committee are documented and planned on an annual basis and a list of matters arising from each meeting is maintained and followed up at subsequent meetings. Full minutes of each meeting are kept by the Company Secretary detailing the matters considered and decisions taken by the Committee.

The Nominations Committee has access to the Company Secretary for assistance as required and can obtain other professional advice at the Company's expense, if required.

### 2018 Committee evaluation

During the year, the Committee undertook an internal evaluation of its performance in accordance with the provisions of the Code and its terms of reference. The Company Secretary, on behalf of the Chair, circulated a comprehensive questionnaire to members and attendees of the Committee using the electronic Board portal, covering all issues related to the functioning of the Committee. The responses were consolidated and anonymised and common themes identified in order for the Committee to determine key actions and next steps for improving Committee effectiveness and performance.

# Nominations Committee Report continued

### Committee attendance in 2018

| Committee member | Number of meetings attended / maximum possible meetings | % of meetings attended |
|---|---|---|
| Keith Clarke | 3/3 | 100% |
| Noel Harwerth | 3/3 | 100% |
| Russell Scrimshaw | 3/3 | 100% |

## COMMITTEE ACTIVITY IN 2018

**During the year the Committee:**

- reviewed the composition, size and structure of the Board;
- reviewed the time commitment required of the Non-Executive Directors;
- approved the process for the evaluation of its own performance and undertook the performance evaluation;
- reviewed results of the annual evaluation of the Committee;
- reviewed and approved the Committee's report for inclusion in the 2017 Annual Report;
- considered and approved the contingency succession plan;
- considered the impact of the new 2018 UK Corporate Governance Code for the Committee.

The results of the 2018 internal evaluation showed that overall the Committee is operating effectively. It was agreed that the future needs of the Board and detailed succession planning would be looked at in more detail in 2019 and the schedule of annual agenda items for the Committee would be reviewed and developed as appropriate.

### Progress of actions from 2017 Committee evaluation

In addition to considering the results of this year's evaluation, the Committee reviewed the progress against the actions identified from last year's evaluation with the outcomes set out in the following table:

| 2017 action point | Outcome |
|---|---|
| The Committee to have an increased focus on succession planning for the Board and senior management. | The Committee approved the contingency succession plan during the year and will continue to look at Board and senior management succession plans in 2019. |
| Assist in the design of a programme of training for the Board. | The Committee reviewed and made recommendations to the 2019 Board training schedule. |
| The length of Committee meetings would be increased to allow sufficient time for the agenda and papers to be considered. | Committee meetings have been extended by one hour to allow for greater in-depth discussion on certain topics. This arrangement will continue going forward. |
| More Committee meetings to be held in person rather than conference call. | One Committee meeting was held in person in 2018. The Committee will have face-to-face meetings whenever possible in 2019. |

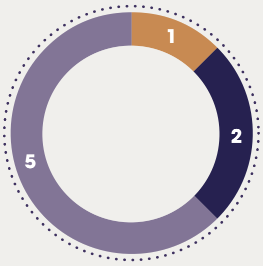
### Succession planning

During the year, the Committee approved the contingency succession plan detailing replacements for critical business roles should an unforeseen situation arise.

The Committee recognised that as the business continues to evolve, there is a need to align the right leadership capabilities to support the transition from the current phase of business development and construction into an operating entity. Anticipating the leadership skills, knowledge and behaviours required for the future of the Group is key and as such the Committee agreed that a detailed review should be carried out by management to define the future leadership requirements of the Group and to inform the identification and development of a diverse leadership succession pipeline before developing a longer-term succession and talent development plan. A specific focus will be placed on strengthening the female pipeline to support and reinforce our commitment to a more gender balanced and diverse senior leadership team.

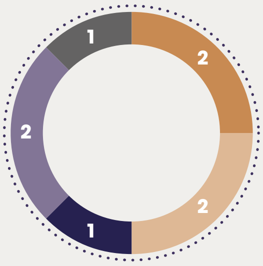
In 2019 a review of the tenure of the Non-Executive Directors will be undertaken and the Committee will consider the Board's succession plan in more detail following this review.

## BOARD COMPOSITION



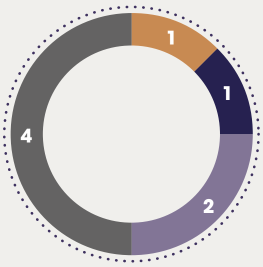

- Non-Executive Chairman
- Executive Directors
- Non-Executive Directors

## BOARD TENURE



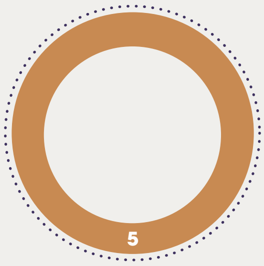

- 2 years
- 3 years
- 5 years
- 7 years
- 8 years

## NATIONALITY



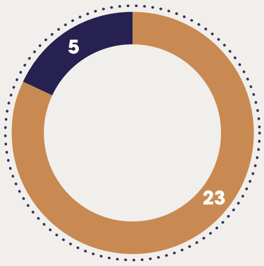

- Dual British/American
- Dual British/Australian
- Australian
- British

## STRATEGY GROUP




- Men
- Women

## DIRECT REPORTS TO THE STRATEGY GROUP (Excluding administrative support staff)




- Men
- Women

## Board diversity

WOMEN 3 MEN 5

 37. 5%  62.5%

## Average age of the board

58 years

# Nominations Committee Report continued

## Effectiveness and commitment

The Committee reviewed the effectiveness and commitment of each of the Non-Executive Directors during the year. The Committee agreed that all of the Non-Executives Directors were contributing effectively and devoting sufficient time to their roles bearing in mind their other offices and interests held. This enabled the Board to recommend the formal re-election to office of all the Directors at the 2018 AGM.

## Diversity

While all Board appointments are made on merit to ensure that the best candidates are appointed for the role, the Committee recognises the importance of diversity and inclusion at Board level and throughout the Group. The Committee will ensure that diversity in all of its forms, including age, social, educational and professional background, thinking styles, race, gender and ethnicity is considered when reviewing the skills and experience that the Board, as a whole, requires in order to maintain and enhance its effectiveness.

During the year, the Committee reviewed and monitored the balance and composition of the Board. The Board comprises two Executive Directors and six Non-Executive Directors, including the Chairman, providing an appropriate balance of executive and non-executive positions on the Board. Female representation on the Board is currently 37.5% which exceeds the recommendation of the Hampton-Alexander Review of 33% by 2020. The Directors have a broad range of relevant capabilities including strategic, construction, mining, financial, governance and other experience. The Directors' biographies on pages 44 to 45 provide further information about the particular skills, knowledge and experience each Director brings to the Board.

While the Committee agreed that the current composition of the Board was appropriate, it was agreed that the recruitment of a further Non-Executive Director with commercial agronomy experience and governance experience would be considered after the successful completion of stage 2 financing to further enhance the Board's composition.

Gender diversity and other measures of diversity on the Board are illustrated in the charts on page 59 and further measures of diversity are in the People section on page 35 of the Strategic Report.

**Keith Clarke**
Chair

30 April 2019

# Remuneration Committee Report
# Chair's Annual Statement

**LORD HUTTON**
Chair

**Dear Shareholder**
As Chair of the Remuneration Committee, I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2018.

Our Remuneration Policy (the Policy) was approved during the year by shareholders at our 2018 AGM with 80.83% of the shares voted in favour. Similarly, the Annual Report on Remuneration received strong support of 85.69% of votes in favour. The Committee was pleased with this outcome as a lot of work was undertaken, including a consultation with our major shareholders, to ensure the policy was appropriate for the UK premium listed company environment whilst continuing to support our strategic goal to develop and implement our world-class North Yorkshire polyhalite project and being mindful of the developmental stage of our Project. Our full Policy as approved by shareholders is set out on pages 76 to 81.

In the following report you will see the decisions and activities that the Committee has undertaken during the year. During the year, the Committee considered and took actions to address the governance changes being brought into effect by the 2018 Code. This included the implementation of a post-cessation shareholding requirement whereby departing Executive Directors will be expected to retain an interest in shares (excluding shares acquired as personal investment) of at least 50% of their guideline for 12 months following departure or actual holding on departure, if lower.

The Board also approved an approach to support the new principle in the 2018 Code relating to engagement with the workforce and other stakeholders. During 2019, there will be a series of 'exchange forums' whereby a cross section of individuals, representative of the Company's diverse workforce, will be invited to participate in an informal listening/exchange session hosted by the Chairs of the Remuneration or Nominations Committees or the Senior Independent Director. These forums will be organised at different Company locations and will include a virtual meeting with the non-UK based workers to create meaningful engagement with the whole workforce. It is intended that three forums will take place during 2019. The aim of these sessions will be to gather workforce views on a number of topics, including but not limited to, pay and conditions enabling the views of the workforce to be taken to the Committee.

The UK Government has now introduced legislation that will require all quoted companies with more than 250 employees to publish the ratio of their CEO's pay, using the single figure for total CEO remuneration to that of the median, 25th and 75th percentile total remuneration of full-time equivalent employees. Whilst the Company is not required to comply with this legislation until we have 250 employees, the Committee has made a decision to voluntarily disclose this information, as it provides a helpful opportunity to demonstrate the link between CEO pay in the context of overall workforce remuneration. Our disclosure can be found on page 73.

**Our performance and incentive outturns in 2018**
As outlined in the Chairman's letter on pages 6 to 7, 2018 has been another year of significant progress for our business.

Following a robust assessment of the Executive Directors' performance for the year against their 2018 objectives, the Remuneration Committee awarded bonuses of 115.5% and 92.25% of salary to Chris Fraser and Thomas Staley respectively. Chris Fraser chose to forfeit the share element of his 2018 bonus, which represented 15.5% of his salary, as a result of the Company not securing stage 2 financing during the year. Therefore, Chris Fraser's bonus in respect of 2018 was 100% of salary. Further detail in relation to the performance achieved and the associated bonuses earned in respect of 2018 is set out on pages 65 to 67.

No long-term incentives vested in respect of performance ending in 2018.

**Implementation of our Policy in 2019**
Fixed pay:
The Committee agreed to increase the Executive Directors' salaries by 2.4% in line with the increase awarded to the wider employee population.

Pension contributions for our Executive Directors will continue to be provided in line with auto-enrolment minimum contribution requirements at the level of circa 2% of salary with effect from April 2018 (3% with effect from April 2019) in line with the wider workforce and auto-enrolment requirements.

A car allowance of £11,000 per annum has been put in place for each of the Executive Directors in line with typical market practice, with effect from 1 January 2019, due to the increased travel requirements across the various sites.

# Remuneration Committee Report Chair's Annual Statement continued

### 2019 bonus opportunity:

The maximum bonus opportunity for our Executive Directors will be up to 175% of salary for Chris Fraser and up to 150% of salary for Thomas Staley. The maximum bonus earned for 2019 may be increased up to 200% of salary upon the Company being fully financed. This recognises the critical importance and transformational impact of successful financing for the Company. However, the Committee has agreed that there would be an offset mechanism in respect of the stage 2 financing objective whereby the bonus amounts awarded to each of the Executive Directors for stage 2 financing in 2018 (as detailed on pages 66 and 67) will be offset against the amounts awarded to them in respect of the financing objectives in 2019. The £73,625 forfeited by Chris Fraser in respect of 2018 as outlined above will reduce any offset required. The offset amounts will be capped at the amount earned by each of the Executive Directors in respect of the financing objectives in 2019. Further details in relation to the annual bonus performance measures for 2019 are set out on page 74.

### 2019 long-term incentive grants (LTIP):

The Committee has agreed that the Executive Directors will be granted LTIP awards of up to 200% of salary for Chris Fraser and up to 175% of salary for Thomas Staley in 2019. As set out in more detail on page 75, the vesting of the 2019 LTIP awards will be linked to the milestone of a total of five million tonnes of polyhalite being shipped to customers. A minimum of 20% of the maximum share award will vest on the completion of five million tonnes of polyhalite being shipped to customers. Maximum vesting of the share award is attained if a total of five million tonnes of polyhalite is shipped to customers by 31 December 2024.

No exceptional share award will be granted in 2019.

A holding period in line with the Code will apply to LTIPs granted to Executive Directors from 2019, so that vested shares are not released before the fifth anniversary of grant (other than sales to cover tax liabilities arising in relation to the award), regardless of whether or not the shareholding guidelines have been met.

I look forward to receiving your support on the Annual Report on Remuneration at the 2019 AGM.

**Lord Hutton**
Chair

30 April 2019

**Remuneration at a glance for 2019**

| | |
|---|---|
| Salary | 2.4% increase to base salary for each Executive Director, with effect from 1 January 2019, in line with the increase awarded to the wider employee population. |
| Annual bonus | 175% of salary for Chief Executive Officer.<br>150% of salary for Chief Financial Officer.<br>Maximum bonus may be increased up to 200% of salary upon the Company being fully financed. |
| LTIP award | 200% of salary for each Executive Director.<br>LTIP vesting and holding period of at least five years from grant date will apply. |
| Pension | 2% in line with auto-enrolment minimum contribution requirements (increasing to 3% with effect from April 2019) and in line with the wider workforce. |
| Benefits | Car allowance introduced for Executive Directors in line with typical market practice, with effect from 1 January 2019. |
| Chairman and Non-Executive Director fees | No fee increase for 2019. |
| Post-cessation shareholding requirement | 50% of shareholding guidelines (100% of salary) for 12 months following departure (or actual holding if lower). |

# Annual Report on Remuneration



This report provides details on remuneration in the year and some other information required by the applicable regulations. It will be subject to an advisory shareholder vote at the 2019 Annual General Meeting. The relevant sections of this report have been audited, as required.

## Composition

The Remuneration Committee is made up of four members: the Chairman of the Board (Russell Scrimshaw) and three independent Non-Executive Directors (Lord Hutton, Louise Hardy and Jane Lodge). The Chair of the Remuneration Committee is Lord Hutton.

## Responsibilities

The main role of the Committee is to:

- determine and set the ongoing appropriateness and relevance of the remuneration policy;
- review and approve the remuneration policy and remuneration of the Executive Directors respectively;
- recommend and monitor the level and structure of remuneration of senior management; and
- produce the Annual Report on the Directors' Remuneration.

The terms of reference for the Committee are set out in detail on the Company's website, siriusminerals.com. These terms are reviewed on at least an annual basis.

## Meetings

The Committee has regular scheduled meetings and holds additional meetings as and when required. Members are expected, where possible, to attend all Committee meetings. Six meetings were held in 2018 and individual attendance is set out in the table opposite.

At the invitation of the Committee, and as appropriate to the matters under discussion, meetings may be attended by the Executive Directors and other senior members of the management team.

Agendas, briefing notes and reports for each Committee meeting are distributed via a secure electronic Board portal in advance of each meeting and in sufficient time to allow proper consideration of their contents.

The core activities of the Committee are documented and planned on an annual basis and a list of matters arising from each meeting is maintained and followed up at subsequent meetings. Full minutes of each meeting are kept by the Company Secretary, detailing the matters considered and decisions taken by the Committee.

The Remuneration Committee has access to the Company Secretary for assistance as required and can obtain other professional advice at the Company's expense, if required. Deloitte LLP (Deloitte) was appointed by the Committee and has provided advice to the Committee during the year in relation to its consideration of matters relating to general remuneration advice, share scheme advice and other tax advice. Deloitte is retained to provide objective and independent advice to the Committee as required.

Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. Deloitte's fees for providing remuneration advice to the Committee were £36,774 for the year ended 31 December 2018. The Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and takes into account the Remuneration Consultants Group Code of Conduct when considering this.

### Committee attendance in 2018

| Committee members | Number of meetings attended / maximum possible meetings | % of meetings attended |
|---|---|---|
| Lord Hutton | 6/6 | 100% |
| Jane Lodge | 6/6 | 100% |
| Russell Scrimshaw | 5/6 | 83% |
| Louise Hardy | 6/6 | 100% |

## 2018 Committee evaluation

During the year, the Committee undertook an internal evaluation of its performance in accordance with the provisions of the Code and its terms of reference. The Company Secretary, on behalf of the Chair, circulated a comprehensive questionnaire to members and attendees of the Committee using the electronic board portal covering all issues related to the functioning of the Committee. The responses were consolidated and anonymised and common themes identified in order for the Committee to determine key actions and next steps for improving Committee effectiveness and performance.

The results of the 2018 internal evaluation show that overall the Committee is operating effectively. Areas identified for action for 2019 include extending the length of Committee meetings to allow for greater in-depth discussion and more Committee meetings to be held in person where possible.

## Progress of actions from 2017 Committee evaluation

In addition to considering the results of this year's evaluation, the Committee reviewed the progress against the actions identified from last year's evaluation with the outcomes set out in the following table:

| 2017 action point | Outcome |
|---|---|
| Incorporation of a programme of training and presentations into the Committee meeting schedule at appropriate times, including updates from Deloitte on topical issues on UK executive remuneration. | The Committee received an update presentation on market and governance developments in UK executive remuneration from Deloitte at the October 2018 Committee meeting. A further programme has been developed for 2019. |
| The development of an enhanced induction programme for new Remuneration Committee members. | This is being developed. |
| More Committee meetings to be held in person rather than by conference call. | Half of the 2018 Committee meetings were face-to-face meetings. |

# Annual Report on Remuneration continued

## COMMITTEE ACTIVITY IN 2018

**During the year the Committee:**

- conducted a consultation with major shareholders in relation to the Company's proposed binding Remuneration Policy;
- assessed and approved the Executive Directors' and senior management team's remuneration for 2017 performance;
- approved the bonus targets and long-term incentive awards for Executive Directors and senior management team for 2018;
- approved the Remuneration Report including the binding Remuneration Policy for inclusion in the 2017 Annual Report;
- approved the process for the Committee's 2018 annual performance evaluation;
- conducted and reviewed the results of the 2018 performance evaluation of the Committee and agreed actions for 2019;
- reviewed the effectiveness of Deloitte, the Committee's external remuneration advisers;
- considered the impact of the new 2018 UK Corporate Governance Code for the Committee and approved the implementation of a post-cessation shareholding requirement for Executive Directors and a workforce engagement proposal;
- received and considered an update presentation on market and governance developments in UK executive remuneration and the implications for the Company; and
- reviewed the Committee's terms of reference and recommended changes to the Board.

### Single figure table (subject to audit)

The following table sets out total remuneration for each Director in respect of the year ended 31 December 2018 and the prior year.

| | Salary and fees £'000 | | Benefits £'000 | | Annual bonus £'000 | | LTIP £'000 | | Pension £'000 | | Total remuneration £'000 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Executive Directors** | | | | | | | | | | | | |
| C Fraser | **475** | 475 | **13** | 29 | **475** | 333 | **–** | – | **8** | 5 | **971** | 842 |
| T Staley | **330** | 303 | **14** | 7 | **304** | 250 | **–** | – | **6** | 3 | **654** | 563 |
| **Non-Executive Directors** | | | | | | | | | | | | |
| R Scrimshaw | **188** | 188 | | | | | | | | | **188** | 188 |
| N Harwerth | **61** | 58[1] | | | | | | | | | **61** | 58[1] |
| K Clarke | **57** | 57 | | | | | | | | | **57** | 57 |
| L Hardy | **49** | 45 | | | | | | | | | **49** | 45 |
| J Hutton | **53** | 53 | | | | | | | | | **53** | 53 |
| J Lodge | **57** | 57 | | | | | | | | | **57** | 57 |

**Notes:**
1. The 2017 single figure number for Noel Harwerth has been restated to include the additional Senior Independent Director fee received for the period from 25 April 2017 for which she was the Senior Independent Director

The figures in the single figure table on the opposite page are derived from the following:

| Salary and fees | The amount of salary/fees received in the year |
|---|---|
| Benefits | The taxable value of benefits received in the year in respect of qualifying services as an Executive Director. |
| Annual bonus | Cash bonus approved and payable in the year based on the Committee's assessment of performance achieved during the year. (See further details below) |
| LTIP | 2018: No long-term incentive awards held by Executive Directors vested by reference to performance ending in 2018.<br>2017: No long-term incentive awards held by Executive Directors vested by reference to performance ending in 2017. |
| Pension | Value of the employer contribution to the defined contribution pension scheme on behalf of the Executive Director. |

## Additional disclosures in respect of the single figure table (subject to audit)

### Base salary and fees

As disclosed in the 2017 Directors' Remuneration Report, the Executive Directors' salaries were reviewed in February 2018. Following that review, no base salary increases were made. Details of annual base salaries for Executive Directors are set out below.

| | 2018 base salary | 2017 base salary | % increase |
|---|---|---|---|
| C Fraser | **£475,000** | £475,000 | 0% |
| T Staley | **£330,000** | £330,000 | 0% |

### Annual Short-term Incentive Plan

For the financial year ended 31 December 2018, the Executive Directors earned bonuses of £548,625 or 115.5% of salary (in the case of Chris Fraser) and £304,425 or 92.25% of salary (in the case of Thomas Staley). In line with the Remuneration Policy approved at the 2018 AGM, Chris Fraser received a cash payment of £475,000 (100% of salary) and £73,625 (15.5% of salary) would have been deferred into shares for a period of two years. However, Chris Fraser has chosen to forfeit the share element of his 2018 bonus as a result of the Company not securing the stage 2 financing during the year. These bonuses were approved in 2019 based on the Committee's assessment of performance achieved during the year ended 31 December 2018 as set out on the next page. However, the Committee has agreed that there would be an offset mechanism in respect of the stage 2 financing objective whereby the bonus amounts awarded to each of the Executive Directors for stage 2 financing in 2018 (as detailed on pages 66 and 67) will be offset against the amounts awarded to them in respect of the financing objectives in 2019. The £73,625 forfeited by Chris Fraser in respect of 2018 as outlined above will reduce any offset required. The offset amounts will be capped at the amount earned by each of the Executive Directors in respect of the financing objectives in 2019.

# Annual Report on Remuneration continued

| C Fraser | Weighting % of bonus maximum | Deliverable | Assessment | % max achieved | Bonus earned (% of salary) |
|---|---|---|---|---|---|
| Stage 2 financing to be completed successfully by the end of 2018 | 30% | • See below. | Partially achieved | 15% | 26.25% |
| Project procurement required for stage 2 financing in place | 15% | • Procurement for the major construction packages to support stage 2 financing completed in November 2018.<br>• The Company has established strong partnerships with world-leading construction companies to develop the Woodsmith Mine and associated infrastructure. | Partially achieved | 8% | 14% |
| Bankable supply agreements in place | 15% | • Total of 4.8 Mtpa peak aggregate volume take-or-pay supply agreements entered into in 2018 for the supply of POLY4 into Nigeria, China, Brazil and certain other countries in South America.<br>• The Company continues to progress key commercial discussions in a number of regions across the world. | Exceeded | 15% | 26.25% |
| Project safety objectives met | 15% | • The Project's lost time injury frequency rate (LTIFR) stands at 3.54. LTIFR is a measure of lost time incidents per million man hours on a 12 month rolling average basis.<br>• The Company continues to work closely with its employees and contractors to continually improve safety at all locations. | Achieved | 10% | 17.5% |
| Construction progress against Project timeline and budget | 15% | • The Company remains on track to achieve first polyhalite and commercial production on time and in line with the cost schedule announced on 6 September 2018. | Achieved | 12% | 21% |
| People culture and staff engagement | 5% | • Significant construction progress during the year, total Project working hours exceeded 2.5 million. Strong staff engagement and retention exhibited.<br>• Considerable progress has been made across all our construction sites, development activities advance at pace assisted by positive working environments. | Achieved | 3% | 5.25% |
| Quality of senior leadership team and succession planning | 5% | • The Company has in place a robust senior leadership team which has made significant progress during 2018. | Achieved | 3% | 5.25% |
| Overall assessment | | | | 66% | 115.5%[1] |
| Bonus earned | | | | | £548,625[1] |

**Notes:**
1. As outlined above, Chris Fraser has chosen to forfeit 15.5% of salary (£73,625) as a result of the Company not securing stage 2 financing during the year. Therefore Chris Fraser's bonus in respect of 2018 is 100% of salary (£475,000)

| T Staley | Weighting % of bonus maximum | Deliverable | Assessment | % max achieved | Bonus earned (% of salary) |
|---|---|---|---|---|---|
| Stage 2 financing to be completed successfully by the end of 2018 | 65% | • See below. | Partially achieved | 32.5% | 48.75% |
| Increase the percentage of share register held by institutional investors | 15% | • Significantly increased institutional awareness and interest on the Project during 2018. | Achieved | 10% | 15% |
| Effective management of Company controls, reporting processes and corporate infrastructure as reinforced by internal and external audit reports | 10% | • Administration and sustainability of Company controls, reporting process and corporate infrastructure sustained during the Company's expansion in 2018. | Exceeded | 9% | 13.50% |
| Implement and expand the market intelligence capability of the Company | 10% | • The Company continues to increase awareness of its peers within the extractive industry market. | Exceeded | 10% | 15% |
| Overall assessment | | | | 61.5% | 92.25% |
| Bonus earned | | | | | £304,425 |

### Stage 2 financing

On 12 March 2019, the Company announced that it had received a conditional proposal from a major global financial institution (the Financial Institution) in respect of its stage 2 financing (the Alternative Proposal). The Company has been pursuing a senior debt financing with a group of prospective lenders since 2016. This was most recently adjusted on 22 January 2019 to focus on a US$3 billion multi-tranche structure. The Alternative Proposal contains an alternative senior debt structure to completely replace that structure.

The Company believes that the Alternative Proposal potentially offers a more flexible and attractive solution to its stage 2 financing requirements and therefore it is pausing discussions with its existing prospective lenders to pursue the Alternative Proposal. A number of options for the additional non-senior debt financing requirement, as previously outlined in the Company's announcement of 6 September 2018, continue to be progressed. The Company is working towards obtaining firm commitments for the Alternative Proposal and its additional financing requirements before the end of May 2019. The Alternative Proposal is subject to the finalisation of the Financial Institution's due diligence and internal approvals.

### Long-term incentives

#### Awards vesting in respect of financial year

No long-term incentive awards held by Executive Directors vested by reference to performance ending in 2018.

# Annual Report on Remuneration continued

### Awards granted during the financial year (subject to audit)

LTIP awards were granted to the Executive Directors on 26 June 2018, as set out below.

The 2018 LTIP share grant consisted of two elements: ordinary grants of 200% of salary for Chris Fraser and 175% for Thomas Staley and an exceptional stretch award to encourage rapid and early construction which, we believe, will result in significant additional benefits to shareholders, potentially of many hundreds of millions of pounds. This exceptional stretch award was up to 300% of salary. As set out in further detail below, the vesting of the 2018 LTIP awards will be based on the critical milestone of first polyhalite being extracted from the ore body.

Ordinary award (up to 200% of salary for Chris Fraser and up to 175% of salary for Thomas Staley).

Vesting of the ordinary award is linked to the delivery of the first polyhalite by 31 March 2022 for maximum vesting of the ordinary award. Given the scale and complexities and nature of the Project a threshold award would vest regardless of when first polyhalite is delivered. However, the amount that would vest in this case would be modest (20% of the ordinary award).

| | % of ordinary award vesting |
|---|---|
| 31 March 2022 | 100% |
| 30 June 2022 | 75% |
| 31 October 2022 | 60% |
| 31 December 2022 | 50% |
| 30 June 2023 | 35% |
| First polyhalite achieved | 20% |

Exceptional Stretch Award (up to an additional 300% of salary).

Vesting of the exceptional stretch award is linked to the delivery of the first polyhalite significantly ahead of schedule. If polyhalite is not delivered by 30 September 2021 then none of the exceptional stretch award will vest. Maximum vesting of the exceptional stretch award requires this milestone to be delivered by 15 March 2021.

| | % of exceptional stretch award vesting |
|---|---|
| 15 March 2021 | 100% |
| 31 May 2021 | 70% |
| 31 July 2021 | 30% |
| 30 September 2021 | 10% |

In terms of the combined value of the award (as a % of salary at the date of grant) this means that the following will vest depending upon the date the first polyhalite is achieved:

| | C Fraser | | | T Staley | | |
|---|---|---|---|---|---|---|
| | Ordinary | Exceptional | Total | Ordinary | Exceptional | Total |
| 15 March 2021 | 200% | 300% | **500%** | 175% | 300% | **475%** |
| 31 May 2021 | 200% | 210% | **410%** | 175% | 210% | **385%** |
| 31 July 2021 | 200% | 90% | **290%** | 175% | 90% | **265%** |
| 30 September 2021 | 200% | 30% | **230%** | 175% | 30% | **205%** |
| 31 March 2022 | 200% | 0 | **200%** | 175% | 0 | **175%** |
| 30 June 2022 | 150% | 0 | **150%** | 131% | 0 | **131%** |
| 31 October 2022 | 120% | 0 | **120%** | 105% | 0 | **105%** |
| 31 December 2022 | 100% | 0 | **100%** | 88% | 0 | **88%** |
| 30 June 2023 | 70% | 0 | **70%** | 61% | 0 | **61%** |
| First polyhalite achieved | 40% | 0 | **40%** | 35% | 0 | **35%** |

In addition, the Committee will apply a general performance underpin which means that any formulaic amount which would vest will be considered against the overall performance of the business in determining the appropriateness of that level of vesting.

Vested shares will only be released to the Executive Director so that he can dispose of them (other than sales to cover tax liabilities arising in relation to the award) before the fifth anniversary of the date of grant of the award if the Executive Director satisfies the shareholding guideline.

| | Type of award | Number of shares | Face value at grant £[3] |
|---|---|---|---|
| C Fraser | 2018 Ordinary LTIP Award[1] | 2,994,767 | 992,466 |
| C Fraser | 2018 Exceptional LTIP Award[2] | 4,492,151 | 1,488,699 |
| T Staley | 2018 Ordinary LTIP Award[1] | 1,820,503 | 603,315 |
| T Staley | 2018 Exceptional LTIP Award[2] | 3,120,862 | 1,034,254 |

**Notes:**
1. The threshold amount (20%) of the 2018 Ordinary LTIP Awards were granted in the form of Jointly Owned Equity (JOE) awards which give the participant an interest in the future growth in value of shares owned jointly with a trustee, along with the right to acquire the trustee's interest in the shares for nil cost, so that the participant is entitled to the full value of the shares. The remaining 80% of the 2018 Ordinary LTIP Awards were granted in the form of nil cost options
2. Awards were granted as nil cost options under the Company's Long-term Incentive Plan
3. Based on the closing middle market share price on 26 June 2018 of 33.14 pence

## Payments made to former Directors during the year (subject to audit)

No payments were made in the year to any former Director of the Company.

## Payments for loss of office made during the year (subject to audit)

No payments for loss of office were made in the year to any Director of the Company.

## Statement of Directors' shareholdings, shareholding guidelines and share plan interests (subject to audit)

The interests of the Directors and their connected persons in the Company's ordinary shares as at 31 December 2018 are set out below. There have been no changes to those interests between 31 December 2018 and the date of signing of these financial statements.

Each Executive Director is required to build a shareholding equal to 200% of his annual base salary. Under the shareholding requirement arrangement, an additional holding period applies for long-term incentive awards, such that vested LTIP awards will only be released to an Executive Director prior to the fifth anniversary of the date of grant (so they can dispose of the shares acquired) if the shareholding guideline has been achieved, although sales to cover tax would be permitted.

From 2019 onwards, a holding period will apply to LTIPs granted to Executive Directors, so that vested shares are not released (other than sales to cover tax liabilities arising in relation to the award), regardless of whether or not the shareholding guidelines have been met.

### Share ownership

| Director | Shares owned as at 31 December 2018[1] | Shareholding guideline (% salary) | Shareholding value at 31 December 2018 (% salary)[2] | Shareholding guideline met |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| C Fraser | **123,747,368** | **200%** | **3012%** | **Yes** |
| T Staley | **1,135,525** | **200%** | **39.77%** | **No** |
| **Non-Executive Directors** | | | | |
| R Scrimshaw | **43,523,979** | – | – | |
| N Harwerth | **92,255** | – | – | |
| K Clarke | **852,207** | – | – | |
| J Hutton | **30,856** | – | – | |
| J Lodge | **386,953** | – | – | |
| L Hardy | – | – | – | |

**Notes:**
1. Includes shares held by members of the Director's immediate family, shares held by trusts where the Director or members of the Director's family are beneficiaries, and related companies
2. Based on average closing middle market price for three months ending on 31 December 2018 of 23.12p and base salary as at 31 December 2018

# Annual Report on Remuneration continued

Reflecting best practice, the Committee has adopted, with effect from 1 January 2019, a post-cessation shareholding requirement. This requires that for 12 months following cessation, an Executive Director must retain such of his 'relevant' shares as have a value (as at cessation) equal to 100% of base salary. If the Executive Director holds less than the required number of 'relevant' shares at any time, he must retain the 'relevant' shares he holds. Shares which the Executive Director has purchased or which have been acquired pursuant to LTIP awards granted before 1 January 2019 are not 'relevant' shares for these purposes. The Committee retains discretion to vary the post-cessation shareholding requirement in appropriate circumstances and will continue to review the requirement in light of developing market practice before formally enshrining it in the next Policy.

## Directors – share plan interests

| Director | Award | Date of grant | Number of shares at 1 January 2018 | Granted during the year | Lapsed during the year | Exercised during the year | Exercise price | Number of shares at 31 December 2018 | Status | Exercise period |
|---|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | | |
| C Fraser | IOS Option[1] | 26 September 2012 | 10,289,814 | – | 10,289,814 | – | 43.7p | 0 | Lapsed | 26 September 2015 to 26 September 2018 |
| | 2016 LTIP Award (JOE Award[2]) | 13 May 2016 | 826,004 | – | 413,002 | – | – | 413,002 | Unvested, subject to performance conditions[6] | Awards vest on achievement of the relevant milestone, with a backstop date of 30 November 2021. Awards can be realised between vesting and the tenth anniversary of grant. |
| | 2017 LTIP Award (JOE Award[2]) | 26 June 2017 | 1,479,452 | – | – | – | – | 1,479,452 | Unvested, subject to performance conditions[7] | Awards vest on achievement of the relevant milestone. Awards can be realised between vesting and the tenth anniversary of grant. |
| | 2018 Ordinary LTIP Award[10] | 26 June 2018 | – | 2,994,767 | – | – | – | 2,994,767 | Unvested, subject to performance condition[8] | Awards vest on achievement of the relevant milestone. Awards can be realised between vesting and the tenth anniversary of grant. |
| | 2018 Exceptional LTIP Award[11] | 26 June 2018 | – | 4,492,151 | – | – | – | 4,492,151 | Unvested, subject to performance condition[8] | Awards vest on achievement of the relevant milestone. Awards can be realised between vesting and the tenth anniversary of grant. |

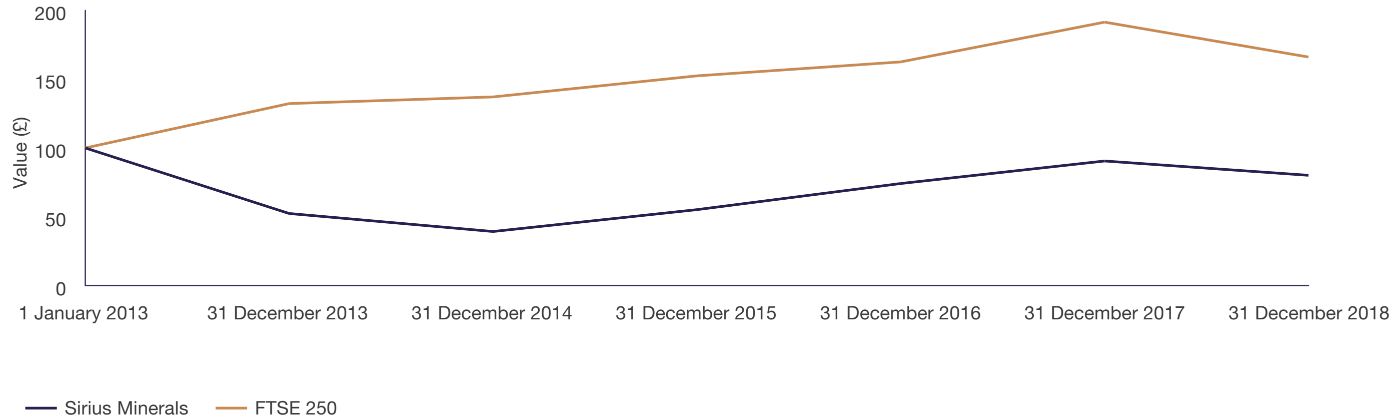
| Director | Award | Date of grant | Number of shares at 1 January 2018 | Granted during the year | Lapsed during the year | Exercised during the year | Exercise price | Number of shares at 31 December 2018 | Status | Exercise period |
|---|---|---|---|---|---|---|---|---|---|---|
| T Staley | IOS Option[1] | 27 January 2015 | 1,543,472 | – | 1,543,472 | – | 29.2p | 0 | Lapsed | 27 January 2016 to 27 January 2018 |
| | USOP Option[3] | 27 January 2015 | 1,233,555 | – | – | – | 29.2p | 1,233,555 | Vested | 27 January 2018 to 27 January 2025 |
| | CSOP Option[4] | 27 January 2015 | 309,917 | – | – | – | 29.2p | 309,917 | Vested | 27 January 2018 to 27 January 2025 |
| | Milestone Award[5] | 27 January 2015 | 1,000,000 | – | – | – | – | 1,000,000 | Unvested, subject to performance condition[9] | Award vests on achievement of the relevant milestone. |
| | 2017 LTIP Award (JOE Award[2]) | 26 June 2017 | 602,470 | – | – | – | – | 602,470 | Unvested, subject to performance condition[7] | Awards vest on achievement of the relevant milestone. Awards can be realised between vesting and the tenth anniversary of grant. |
| | 2018 Ordinary LTIP Award[10] | 26 June 2018 | – | 1,820,503 | – | – | – | 1,820,503 | Unvested, subject to performance condition[8] | Awards vest on achievement of the relevant milestone. Awards can be realised between vesting and the tenth anniversary of grant. |
| | 2018 Exceptional LTIP Award[11] | 26 June 2018 | – | 3,120,862 | – | – | – | 3,120,862 | Unvested, subject to performance condition[8] | Awards vest on achievement of the relevant milestone. Awards can be realised between vesting and the tenth anniversary of grant. |
| **Non-Executive Directors** | | | | | | | | | | |
| K Clarke | USOP Option[3] | 23 December 2013 | 1,852,167 | – | – | – | 29.2p | 1,852,167 | Vested | 23 December 2016 to 22 December 2023 |
| J Hutton | USOP Option[3] | 30 January 2012 | 1,852,167 | – | – | – | 29.2p | 1,852,167 | Vested | 30 January 2015 to 29 January 2022 |

**Notes:**
1. IOS Options are granted under the Company's Incentive Option Scheme, described in the Prospectus
2. Awards granted as Jointly Owned Equity Awards (as referred to on pages 90 and 91 in the Directors' Remuneration Report in the 2017 Annual Report) under the Company's Long-term Incentive Plan
3. USOP Options are granted under the Company's Unapproved Share Option Plan, described in the Prospectus
4. CSOP Options are granted under the Company's Company Share Option Plan, described in the Prospectus
5. The Milestone Award is the remaining part of the award referred to in Part 12, paragraph 6.1.2 of the Prospectus
6. The vesting of the 2016 LTIP Award is subject to the satisfaction of the following milestone: first commercial ore sales by ship by November 2021
7. The vesting of the 2017 LTIP Awards is subject to the performance milestones referred to on page 91 in the Directors Remuneration Report in the 2017 Annual Report
8. The vesting of the 2018 LTIP Awards is subject to the performance milestones referred to on page 68
9. The vesting of the Milestone Award is subject to completion of the subsequent major debt financing to complete the Project
10. The threshold amount (20%) of the 2018 Ordinary LTIP Awards were granted in the form of Jointly Owned Equity awards and the remaining 80% of the 2018 Ordinary LTIP Awards were granted in the form of nil cost options under the Company's Long-term Incentive Plan (as described on pages 68 and 69)
11. Awards granted as nil-cost options (as described on pages 68 and 69) under the Company's Long-term Incentive Plan

# Annual Report on Remuneration continued

### Performance graph and historical Chief Executive Officer Remuneration outcomes

The graph below shows the total shareholder return (TSR) performance for the Company's shares in comparison to the FTSE 250 for the period from 1 January 2013 to 31 December 2018. The Company is a constituent of this Index and as such it has been selected as an appropriate comparator group. For the purposes of the graph, TSR has been calculated as the percentage change during the period in the market price of the shares, assuming that dividends are reinvested. The graph shows the value, by 31 December 2018, of £100 invested in the Group over the period compared with £100 invested in the FTSE 250.




The table below shows details of the total remuneration and annual bonus and LTIP vesting (as a percentage of the maximum opportunity) for the Chief Executive Officer over the last six financial years.

| | Total remuneration £'000 | Annual bonus as a % of maximum opportunity[1] | LTIP as a % of maximum opportunity[2] |
|---|---|---|---|
| 2018 | 971 | 115.5 | n/a |
| 2017 | 842 | 40 | n/a |
| 2016 | 922 | 86 | n/a |
| 2015 | 597 | 36 | n/a |
| 2014 | 381 | n/a | n/a |
| 2013 | 640 | n/a | 100% |

**Notes:**

1 The Company has not previously operated an annual bonus scheme on the basis of a maximum annual bonus opportunity. For the purposes of this disclosure, the maximum opportunity for each year is assumed to be 175% of the salary for the year, in line with the normal maximum annual bonus opportunity under the Company's Directors' Remuneration Policy.

2 LTIP awards of 857,143 shares which vested in three tranches in 2014, 2015 and 2016 were granted on 21 May 2013. These awards were subject to continued employment only. Therefore this LTIP has been included in the single figure table at grant based on the closing middle market share price on 21 May 2013 of 25.25 pence. There were no other awards which vested in respect of a performance period ending in the five years to 31 December 2018.

### CEO pay increase in relation to all employees

The table below sets out the percentage change in base salary, value of taxable benefits and bonus for the Chief Executive Officer between 2017 and 2018 compared with the average percentage change for employees representing the wider workforce between 2017 and 2018.

| Percentage change | Chief Executive Officer | Wider workforce[1] |
|---|---|---|
| Salary | 0% | 4% |
| Taxable benefits[2] | 0% | 5.6% |
| Annual bonus | 42.6% | 51% |

**Notes:**

1. In order for the comparisons to be meaningful, the group of employees selected for the wider workforce comprised: (1) in relation to salary, those employees who were with the business in both 2017 and 2018 and, accordingly, were eligible for a salary review in 2018; (2) in relation to taxable benefits, those employees who received taxable benefits in 2017 and those employees who received taxable benefits in 2018 (other than benefits related to JOE awards, as described below); and (3) in relation to bonuses, those employees who were eligible for a bonus in both 2017 and 2018. These groups have been selected in order to provide a meaningful comparison and so that remuneration between 2017 and 2018 can be viewed on a like-for-like basis.
2. Benefits provided to the CEO and to other employees who receive JOE awards include the payment by the Company of the income tax and employee National Insurance contributions due in respect of the award of JOE awards under the LTIP. Because these benefits relate to the value of the long-term incentive awards granted to the CEO and other employees, they are excluded for the purposes of this analysis as, in the opinion of the Committee, their inclusion would not result in meaningful disclosure of the increase in the benefits.

### Spend on pay

The following table sets out the percentage change in dividends and the overall expenditure on pay (as a whole across the organisation).

| | 2018 £'000 | 2017 £'000 | Percentage change |
|---|---|---|---|
| Dividends and share buybacks | 0 | 0 | N/A |
| Overall expenditure on pay | 17,832 | 16,056 | 11.06% |

### CEO pay ratio

The table below sets out the CEO pay ratio at the median, 25th and 75th percentile.

| Financial year | Method | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| 2018 | Option A | 1:29 | 1:17 | 1:9 |

The Company used Option A as defined in The Companies (Miscellaneous Reporting) Regulations 2018 as the calculation methodology for the ratios as this was felt to be the most accurate method. The median, 25th and 75th percentile pay ratios were calculated using the full time equivalent total remuneration for all UK employees as at 31 December 2018, using the same methodology that is used to calculate the CEO single figure of remuneration as defined on page 64. For the purpose of calculating the total remuneration, a full-time equivalent was defined as 37.5 hours per week. No component was omitted from the calculation and this is the first year that we have published the CEO pay ratio.

### Pay details for the individuals are set out below:

| | CEO | 25th percentile | Median | 75th percentile |
|---|---|---|---|---|
| Salary | £475,000 | £33,000 | £41,000 | £86,000 |
| Total remuneration | £970,729 | £33,600 | £56,170 | £109,438 |

The majority of our wider workforce are eligible to participate in both the annual bonus and the LTIP. This is in line with our ethos of recognising the importance of our strong team culture, the contribution of the wider team and ensuring that incentives for the wider employee population remain aligned to the interests of shareholders. The Group aims to provide a competitive remuneration package which is appropriate to promote the long-term success of the Company and apply this policy fairly and consistently to attract and motivate staff. Our ratios shown above reflect fair and consistent pay for the Executive Directors and wider workforce generally.

In assessing our pay ratios versus ratios from companies that have disclosed their pay ratios early, we believe that we are towards the lower end of the range but there may be some differences in the calculation methods that are used. Our CEO single figure comprises of only fixed pay, taxable benefits, pension benefits and bonus, given that no long-term incentive vested in respect of performance in 2018. It should be noted that given the nature of the Company's milestone-based LTIPs, the ratio is likely to change significantly if awards vest in future years.

# Annual Report on Remuneration continued

## Implementation of Directors' Remuneration Policy for the financial year commencing 1 January 2019

Information on how Sirius Minerals intends to implement the Directors' Remuneration Policy for the financial year commencing on 1 January 2019 is set out below.

### Salary/fees and benefits

There was a 2.4% increase to the base salary for each of the Executive Directors with effect from 1 January 2019 in line with the increase awarded to the wider employee population. Base salaries for the Executive Directors for 2019 will be as follows:

| | 2019 base salary |
|---|---|
| C Fraser | £486,400 |
| T Staley | £337,920 |

Pension will continue to be provided in line with auto-enrolment minimum contribution requirements, at the level of 2% with effect from April 2018 rising to 3% from April 2019, in line with the wider workforce and auto-enrolment requirements.

A car allowance of £11,000 per annum has been put in place for each of the Executive Directors in line with typical market practice, with effect from 1 January 2019, due to the increased travel requirements across the various sites.

Fees for the Chairman and Non-Executive Directors are unchanged from 2018 for 2019 and will be as follows:

| Chairman fee | Non-Executive fee | Committee Chair fee | Committee membership fee | Senior Independent Director fee |
|---|---|---|---|---|
| £180,000 | £45,000 | £8,000 | £4,000 | £8,000 |

### 2019 annual Short-term Incentive Plan bonus disclosure

For 2019, the Executive Directors' maximum bonus opportunity will be 175% of salary for Chris Fraser and 150% of salary for Thomas Staley. The maximum bonus earned for 2019 may be increased up to 200% of salary upon the Company being fully financed. This recognises the critical importance and transformational impact of successful financing. However, the Committee has agreed that there would be an offset mechanism in respect of the stage 2 financing objective whereby the bonus amounts awarded to each of the Executive Directors for stage 2 financing in 2018 will be offset against the amounts awarded to them in respect of the financing objectives in 2019. The £73,625 forfeited by Chris Fraser in respect of 2018 as outlined above will reduce any offset required. The offset amounts will be capped at the amount earned by each of the Executive Directors in respect of the financing objectives in 2019.

Details of the bonus measures and targets for 2019, to the extent that they can be shared prospectively, and the weightings which apply to each element are provided below. The Company will disclose further detail to explain how performance is assessed against each of these strategic goals on a retrospective basis in the 2019 Annual Report.

Any bonus earned in excess of 100% of salary will be deferred into shares for a period of two years.

| **Objectives for Chris Fraser have been set around the following key areas:** | Weighting % of bonus maximum |
|---|---|
| Securing necessary finance for the Company to continue development and execution of the Company's strategy | 40% |
| Project on schedule and budget | 30% |
| Company safety objectives met | 15% |
| People, culture and staff engagement | 10% |
| Quality of senior leadership team and succession planning agreed | 5% |

| **Objectives for Thomas Staley have been set around the following key areas:** | Weighting % of bonus maximum |
|---|---|
| Securing necessary finance for the Company to continue development and execution of the Company's strategy | 40% |
| Increase the percentage of share register held by institutional investors | 20% |
| Effective management of Company controls, reporting processes and corporate infrastructure as reinforced by internal and external audit reports | 15% |
| Commence deployment of the Company's technology strategy, including successful implementation of the enterprise asset management system | 15% |
| Provide timely and insightful market intelligence capabilities to the broader Company | 10% |

### Long-term Incentive Plan

The Remuneration Committee has agreed that an LTIP award would be made to each of the Executive Directors in 2019. The 2019 LTIP share grant consists of an ordinary share award of up to 200% of salary for Chris Fraser and up to 175% of salary for Thomas Staley. No exceptional share award will be granted in 2019. As set out in further detail below, the vesting of the 2019 LTIP awards will be based on the critical milestone of a total of five million tonnes of polyhalite being shipped to customers.

| | |
|---|---|
| Ordinary award (up to 200% of salary for Chris Fraser and up to 175% of salary for Thomas Staley). | Vesting of the ordinary award is linked to a total of five million tonnes of polyhalite being shipped to customers by 31 December 2024 for maximum vesting of the ordinary award. Given the scale and complexities and nature of the Project, a threshold award would vest regardless of when five million tonnes of polyhalite is shipped to customers. However, the amount that would vest in this case would be modest (20% of the ordinary award). |

| | % of ordinary award vesting |
|---|---|
| 31 December 2024 | 100% |
| 31 March 2025 | 75% |
| 30 June 2025 | 60% |
| 30 September 2025 | 50% |
| 31 December 2025 | 35% |
| Five million tonnes shipped | 20% |

In addition, the Committee will apply a general performance underpin which means that any formulaic amount which would vest will be considered against the overall performance of the business in determining the appropriateness of that level of vesting.

Vested shares will not be released to the Executive Directors before the fifth anniversary of grant (other than sales to cover tax liabilities arising in relation to the award), regardless of whether or not the shareholding guidelines have been met.

As discussed on page 70, from 2019 onwards a post-cessation shareholding requirement will apply. This requires that for 12 months following cessation, an Executive Director must retain such of his 'relevant' shares as have a value (as at cessation) equal to 100% of base salary or actual holding if lower.

### Statement of voting outcomes at the Annual General Meeting

The table below shows votes cast by proxy at the AGM held on 31 May 2018 in respect of the Directors' Remuneration Report and Directors' Remuneration Policy.

| Resolution | Votes For | % of votes cast | Votes Against | % of votes cast | Votes Withheld |
|---|---|---|---|---|---|
| To approve the Directors' Remuneration Policy in the form set out in the Annual Report and Accounts for the year ended 31 December 2017 (binding vote) | 1,333,185,183 | 80.83% | 307,851,979 | 18.67% | 1,520,505 |
| To approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in the form set out in the Annual Report and Accounts for the year ended 31 December 2017 (advisory vote) | 1,413,288,630 | 85.69% | 227,649,317 | 13.80% | 1,619,720 |

# Directors' Remuneration Policy

The Policy was approved by shareholders at the AGM held on 31 May 2018 and became effective from the close of that meeting. The full Policy as approved by shareholders is set out below, excluding the illustrations of the application of the policy for the 2018 financial year (which is disclosed within our 2017 Annual Report, available on our website at siriusminerals.com).

## Policy for Executive Directors

| Component | Purpose and link to strategy | Operation | Maximum opportunity | Performance measures |
|---|---|---|---|---|
| **Base salary** | Core element of fixed remuneration reflecting the individual's role and experience. | The Remuneration Committee ordinarily reviews base salaries annually, taking into account a number of factors including (but not limited to) the value of the individual and their experience and performance.<br>The Remuneration Committee also takes into consideration:<br>• pay increases within the Group more generally; and<br>• Group organisation, affordability and prevailing market conditions. | Whilst there is no maximum salary, increases will normally be within the range of salary increases awarded (in percentage of salary terms) to other employees in the Group. However, higher increases may be awarded in appropriate circumstances, including (but not limited to):<br>• an increase in scope of the role or the individual's responsibilities;<br>• where an individual has been appointed at a lower than typical market salary to allow for growth in the role, in which case larger increases may be awarded to move salary positioning to a typical market level as the individual gains experience;<br>• change in size and complexity of the Group; and/or<br>• significant market movement.<br>Such increases may be implemented over such time periods as the Remuneration Committee deems appropriate. | While no formal performance conditions apply, an individual's performance in the role is taken into account in determining any salary increase. |
| **Benefits** | To provide broadly market competitive benefits. | The Company provides benefits in line with market practice and includes private medical insurance and travel insurance (for the Executive Director and his/her family), life insurance, provision of a mobile phone (or reimbursement of mobile phone costs) and laptop.<br>Other benefits may be provided based on individual circumstances, which may include relocation costs. | Whilst the Remuneration Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level which the Remuneration Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances. | Not applicable. |

| Component | Purpose and link to strategy | Operation | Maximum opportunity | Performance measures |
|---|---|---|---|---|
| **Retirement benefits** | To provide a means of saving to deliver income in retirement. | The Company may make a contribution to a defined contribution pension arrangement, personal pension or pay a salary supplement. | Up to 10% of salary.<br><br>At the date of the approval of this Policy, the Company makes a contribution in line with auto-enrolment requirements (2% with effect from April 2018). | Not applicable. |
| **Bonus** | The Remuneration Committee may award Executive Directors a bonus opportunity, which will be earned for performance against targets and/or objectives linked to the delivery of the Company's strategy. | Targets and objectives will be reviewed annually. Performance will typically be assessed over a period of one year.<br><br>The Remuneration Committee has discretion to amend the payout should any formulaic output not reflect the Remuneration Committee's assessment of overall business performance.<br><br>Any bonus earned in excess of 100% of base salary will be deferred into shares, typically for a period of two years.<br><br>Recovery provisions apply, as referred to on page 78. | The overall maximum annual bonus opportunity is up to 200% of base salary. However, in normal circumstances, the maximum annual opportunity will be up to 175% of base salary for the Company's CEO and up to 150% of base salary for the Company's CFO. The additional opportunity up to the overall maximum will only be used in exceptional circumstances, linked to the achievement of a transformational strategic milestone. | Targets (which may be based on financial or strategic measures) and individual objectives are determined to reflect the Company's strategy. Where more than one measure applies, the Remuneration Committee will determine the weighting.<br><br>Bonuses will vest to the extent determined by the Remuneration Committee between 0% and 100% of the opportunity based on its assessment of the extent to which the measure or objective is achieved. |
| **Long-term incentives (the Sirius Minerals Plc Long Term Incentive Plan or LTIP)** | Long-term incentive awards will be granted under the LTIP, which provides a clear link between the remuneration of the Executive Directors and the creation of value for shareholders by rewarding the Executive Directors for the achievement of objectives aligned to shareholders' interests. | Awards may be granted in the form of conditional shares, nil-cost options or Jointly Owned Equity[1] awards, or as cash-based equivalents.<br><br>The vesting of awards will be subject to the satisfaction of performance conditions.<br><br>Recognising the Company's strategy and the stage of its development, performance conditions may be achieved, so that awards vest, before the third anniversary of the date of grant. However, vested shares will, ordinarily, only be released to the Executive Director so that he can dispose of them (other than sales to cover tax liabilities arising in relation to the award) before the fifth anniversary of the date of grant of the award if the Executive Director satisfies the shareholding guideline.<br><br>Recovery provisions apply, as referred to below. | The overall maximum value of shares over which a participant may be granted an award in respect of any financial year of the Company is up to 500% of base salary. However, in normal circumstances, the maximum annual award will be up to 200% of base salary for the Company's CEO and up to 175% of base salary for the Company's CFO. Any additional award up to the overall maximum will only be granted where awards are subject to exceptional / aspirational stretch targets. | Performance conditions will be determined by the Remuneration Committee in advance of each grant and aligned with the Company's strategy. These conditions may be based on operational strategic milestones or financial measures.<br><br>Vesting will be determined in accordance with a vesting schedule set by the Remuneration Committee as at the date of grant. |

**Notes:**

1. A Jointly Owned Equity award (JOE) gives the participant an interest in the future growth in value of shares owned jointly with a trustee. A JOE award may also include the right to acquire the trustee's interest in the shares for nil cost, so that the participant is entitled to the full value of the vested shares.

# Directors' Remuneration Policy continued

### Recovery provisions (malus and clawback)

Bonus and LTIP awards are subject to the following recovery provisions:

**Malus**: The bonus opportunity may be cancelled or reduced before payment and an LTIP award may be cancelled or reduced before vesting in the event of material error or misstatement of results, material failure of risk management, material misconduct by the Executive Director, material health and safety failure.

**Clawback**: For up to two years following the vesting of a bonus or an LTIP award, the bonus paid may be recovered (and any deferred bonus award may be cancelled or reduced) and the LTIP award may be cancelled or reduced (if it has not been realised) or may be recovered in the event of material error or misstatement of results, material misconduct by the Executive Director, material health and safety failure.

### Explanation of performance measures chosen

In order that incentive remuneration is appropriately linked to the delivery of the Company's strategy and taking into account the stage of the Company's development, LTIP awards will typically be subject to performance conditions based on the delivery of operational milestones linked to the delivery of the Company's North Yorkshire polyhalite project.

The Remuneration Committee may vary or substitute any performance measure if an event occurs which causes it to determine that it would be appropriate to do so (including to take account of acquisitions or divestments, a material change in strategy or a change in prevailing market conditions), provided that any such variation or substitution is fair and reasonable and (in the option of the Remuneration Committee) the change would not make the measure less demanding than the original measure would have been but for the event in question. If the Remuneration Committee were to make such a variation, an explanation would be given in the next Directors' Remuneration Report.

### Shareholding guidelines

To align the interests of Executive Directors with those of shareholders, the Remuneration Committee has adopted formal shareholding guidelines in accordance with which each Executive Director is required to build a shareholding equal to 200% of his or her annual base salary. In accordance with the Policy table set out above, a post-vesting holding period applies to the LTIP awards until the holding is achieved. Shares subject to awards which have vested but have not been realised and shares subject to any deferred bonus award count towards the guidelines on a net of assumed tax basis.

### Operation of share plans

The Remuneration Committee may amend the terms of awards and options under its share plans in accordance with the plan rules in the event of a variation of the Company's share capital or a demerger, special dividend or other similar event or otherwise in accordance with the rules of those plans. The Remuneration Committee may operate any such plan in accordance with its rules. Share awards granted under any such plan may be settled in cash, although the Remuneration Committee would only do so where the particular circumstances made this the appropriate course of action (for example, where a regulatory reason prevented the delivery of shares).

### Total remuneration – annual cap

For the reasons referred to in the statement from the Chairman of the Remuneration Committee, there is an overall annual total remuneration cap of £20 million for each Executive Director. If the remuneration otherwise disclosable in the single figure table in the Directors' Remuneration Report for a year would exceed this limit, the Remuneration Committee shall reduce variable pay as it considers appropriate.

### Policy for Non-Executive Directors

| Element | Purpose and link to strategy | Operation | Opportunity |
|---|---|---|---|
| **Fees and benefits**[1] | To provide fees within a market-competitive range reflecting the experience of the individual, responsibilities of the role and the expected time commitment.<br><br>To provide benefits, where appropriate, which are relevant to the requirements of the role. | The fees of the Chairman are determined by the Remuneration Committee and the fees of the Non-Executive Directors are determined by the Board following a recommendation from both the Chief Executive Officer and the Chairman.<br><br>Non-Executive Directors may be eligible to receive benefits such as travel and other reasonable expenses. | Fees are set taking into account the responsibilities of the role and expected time commitment.<br><br>Non-Executive Directors are paid a basic fee with additional fees paid for the membership and chairing of Board Committees.<br><br>An additional fee may also be paid for the role of Senior Independent Director.<br><br>Non-Executive Directors may be paid additional fees on a daily rate basis where the time required to fulfil their duties is significantly more than anticipated.<br><br>Where benefits are provided to Non-Executive Directors they will be provided at a level considered to be appropriate taking into account the individual circumstances. |

**Notes:**

1 Non-Executive Directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes. However, certain Non-Executive Directors participate in share option arrangements established by the Company prior to Admission as disclosed in the Prospectus; those options shall continue and may be exercised in accordance with their terms; however, no options have been granted to Non-Executive Directors since 2013 and no further options will be granted to Non-Executive Directors.

### Policy for the remuneration of employees more generally

The Group aims to provide a competitive remuneration package which is appropriate to promote the long-term success of the Company. The Company intends to apply this policy fairly and consistently and does not intend to pay more than is necessary to attract and motivate staff. In respect of the Executive Directors, a greater proportion of the remuneration package is 'at risk' and determined by reference to performance conditions. A significant number of the Company's employees participate in LTIP awards in line with the Company's ethos of ensuring that incentives for the wider employee population remain aligned to the interests of shareholders.

### Recruitment remuneration policy

When hiring a new Executive Director, the Remuneration Committee will typically align the remuneration package with the above Policy.

When determining appropriate remuneration arrangements, the Remuneration Committee may include other elements of pay which it considers are appropriate. However, this discretion is capped and is subject to the principles and the limits referred to below.

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.
- Retirement benefits will be provided in line with the above Policy.
- The Remuneration Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').
- Other elements may be included in the following circumstances:
  - an interim appointment being made to fill an Executive Director role on a short-term basis;
  - if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis;
  - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis; and
  - if the Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Remuneration Committee.

# Directors' Remuneration Policy continued

- The Remuneration Committee may also alter the performance measures, performance period and vesting period, deferral period and holding period of the bonus or LTIP if the Remuneration Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the next Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) is 700% of salary, reflecting an annual bonus opportunity of up to 200% of salary and an LTIP grant of up to 500% of salary. However, awards at these levels would only be made in the event of exceptional performance targets applying.

The Remuneration Committee may make payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so, the Remuneration Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Remuneration Committee will generally seek to structure buyout awards or payments on a comparable basis to the remuneration arrangements forfeited. Any such payments or awards are excluded from the maximum level of variable remuneration referred to above. 'Buyout' awards will ordinarily be granted on the basis that they are subject to forfeiture or 'clawback' in the event of departure within 12 months of joining Sirius Minerals, although the Remuneration Committee will retain discretion not to apply forfeiture or clawback in appropriate circumstances.

Any share awards referred to in this section will be granted as far as possible under Sirius Minerals' existing share plans. If necessary and subject to the limits referred to above, recruitment awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue in accordance with their terms.

Fees payable to a newly appointed Chairman or Non-Executive Director will be in line with the policy in place at the time of appointment.

### Executive Directors' service agreements and Non-Executive Directors' letters of appointment

The Company's policy is for Executive Directors to be employed on service agreements which, ordinarily, may be terminated on not more than six months' notice by the Executive Director or the Company. However, the Company reserves the right to offer a notice period of up to 12 months for any Executive Director appointed after the date on which this Policy becomes effective. Non-Executive Directors do not have service agreements but serve under letters of appointment which may be terminated on three months' notice by the Non-Executive Director or the Company.

Details of the service contracts, letters of appointment and notice periods for the current Directors are set out below.

| Name | Commencement | Notice period by Company/Director |
|---|---|---|
| **Executive Directors** | | |
| Chris Fraser | 17 January 2011 | Six months[1] |
| Thomas Staley | 20 October 2014 | Six months |
| **Non-Executive Directors** | | |
| Russell Scrimshaw | 19 December 2010 | Three months |
| Noel Harweth | 27 July 2015 | Three months |
| Keith Clarke CBE | 23 December 2013 | Three months |
| Louise Hardy | 12 May 2016 | Three months |
| Lord Hutton | 18 January 2012 | Three months |
| Jane Lodge | 27 July 2015 | Three months |

**Notes:**
1 In the event of a change of control of the Company (or certain similar events), the notice required to be given by the Company (including in relation to any notice of termination given before the relevant event) shall increase to 12 months.

## Payment for loss of office

Eligibility for the various elements of remuneration is set out below:

### Executive Directors

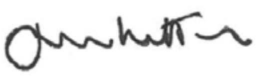
| Provision | Treatment |
|---|---|
| **Fixed remuneration** | Salary, benefits and pension contributions (or salary supplement) will paid to the date of termination. |
| **Payments in lieu of notice** | Where a payment in lieu of notice is made this will include salary, benefits and pension contributions (or a salary supplement) until the end of the notice period that would otherwise have applied. Alternatively, the Company may continue to provide the relevant benefits. |
| **Bonus** | This will be reviewed on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors including the circumstances of the Executive Director's departure and his or her contribution to the business during the bonus period in question. Any bonus payment would typically be pro-rated for time in service to termination and paid at the usual time (although the Remuneration Committee retains discretion to pay the bonus earlier in appropriate circumstances).<br><br>If bonus deferral would otherwise apply to any bonus for the year of termination or previous year, the Remuneration Committee may pay the full bonus earned in cash.<br><br>Any outstanding deferred bonus awards would typically continue (other than in the event of summary dismissal, where the entitlement would lapse) and vest at the originally anticipated date, although the Remuneration Committee retains discretion to release any such award at the date of cessation or some other date. |
| **LTIP** | LTIP awards will vest if the participant is a 'good leaver' to the extent determined by the Remuneration Committee taking into account their assessment of performance relative to the performance condition and such other factors as they consider relevant, which may include the length of time from grant to cessation. The Remuneration Committee shall determine whether awards vest at cessation or continue and can vest following satisfaction of the milestone, or on some other date.<br><br>For these purposes, 'good leaver' reasons are death, injury, redundancy, agreed retirement and any other reason at the Remuneration Committee's discretion.<br><br>If an Executive Director ceases employment with the Group after an award under the LTIP has vested but during a post-vesting holding period, the realised shares will, ordinarily, remain subject to the original holding period. |
| **Other payments** | The Remuneration Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment and/or in respect of accrued holiday entitlement.<br><br>Where a 'buyout' or other award is made in connection with recruitment, the leaver provisions would be determined at the time of the award.<br><br>In accordance with his service agreement entered into in January 2011, Chris Fraser is also entitled on termination by the Company to a minimum of one month's base salary for every year of employment by the Company, pro-rated for any part year of service. |
| **Change of control** | LTIP awards will vest on a change of control to the extent determined by the Remuneration Committee. In determining the extent of vesting, the Remuneration Committee would have regard to the extent to which the performance measures had been satisfied, and other factors the Remuneration Committee considers relevant.<br><br>Any deferred bonus shares will vest on a change of control or other relevant event.<br><br>As described on page 83, the notice to which Chris Fraser is entitled to increases to 12 months' in certain change of control situations. |

### Non-Executive Directors

The Non-Executive Directors are not entitled to compensation on termination of their appointment in excess of their fees for the notice period.

## Approval

This Report was approved by the Board on 30 April 2019 and signed on its behalf by:



**Lord Hutton**
Chair

# Directors' Report

The Directors present their report and the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2018.

## Additional disclosures

Other information that is relevant to this report is incorporated by reference, including information required in accordance with the Companies Act 2006 and associated regulations, Listing Rules and Disclosure Guidance and Transparency Rules (DTR).

The following sets out where items to be included in this report under Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 can be found:

| Disclosure | Location |
|---|---|
| Indication of future developments | Pages 1 to 41 |
| Financial risk management | Pages 28 to 29<br>Page 37<br>Pages 116 to 120 |
| Research and development | Pages 20 to 21 |
| Greenhouse gas emissions | Page 33 |
| Employees | Page 34 to 35 |
| Financial instruments | Page 118 to 119 |
| Post balance sheet events | Page 116 |

The following sets out where items required under Listing Rule 9.8.4 can be found:

| Disclosure | Location |
|---|---|
| Interest capitalised | Page 101 |
| Details of long-term incentive schemes | Page 67 to 69 |
| Contracts of significance | Page 84 |
| Waiver of emoluments by a Director | Page 65 |
| Shareholder waiver of dividends | Page 84 |
| Shareholder waiver of future dividends | Page 84 |

## Strategic Report

The Company is required by the Companies Act to include a Strategic Report in this Annual Report, which provides an overview of the development and performance of the Company's business in the year ended 31 December 2018 and its position at the end of that year, and which covers likely future developments in the business of the Company and the Group. The information that fulfils the requirements of the Strategic Report can be found on pages 1 to 41, which are incorporated by reference.

For the purposes of compliance with DTR 4.1.5 R(2) and DTR 4.1.8 R, the required content of the management report can found in the Strategic Report and this report, including the sections of the Annual Report incorporated by reference.

## Company status

Sirius Minerals Plc is a public limited company incorporated under the laws of England and Wales. It has a premium listing on the London Stock Exchange main market for listed securities (LON:SXX) and is a constituent member of the FTSE 250 Index.

## Branches outside the UK

The Company has no branches.

## Directors

The Directors of the Company as at the date of approval of this Annual Report, including their biographical details, are set out on pages 44 and 45.

Copies of Executive Directors' service contracts are available to shareholders for inspection at the Company's registered office and at the AGM. Details of the Directors' remuneration and service contracts and their interests in the shares of the Company are included in the Directors' Remuneration Report, which is set out on pages 61 to 81.

### Appointment and replacement of Directors

The appointment and replacement of Directors is governed by the Company's Articles of Association (Articles), the Code, the Companies Act 2006 (Act) and related legislation. The Board may appoint a Director either to fill a casual vacancy or as an addition to the Board so long as the total number of Directors does not exceed the limit prescribed in the Articles. An appointed Director must retire and seek election to office at the next AGM of the Company. In addition to any power of removal conferred by the Act, the Company may by ordinary resolution remove any Director before the expiry of their period of office and may, subject to the Articles, by ordinary resolution appoint another person who is willing to act as a Director in their place. In line with the Code and the Board's policy, all Directors are required to stand for re-election at each AGM.

In accordance with the Code, all the Directors will retire at the 2019 AGM and offer themselves for re-election. The Board is satisfied that each Director is qualified for re-election by virtue of their skills, experience and contribution to the Board. In addition, the Board considers that all Directors have the necessary skills and experience as set out in their biographies on pages 44 and 45.

### Powers of the Directors

Subject to the provisions of the Articles, the Directors may exercise all the powers of the Company.

A shareholders' authority for the purchase by the Company of a maximum of 10% of its own shares was in existence during the year. However, the Company did not purchase any of its shares during that time. The authority expires at the forthcoming AGM and it is proposed that a similar authority be approved.

### Conflicts of interest

Under the Companies Act 2006 and the provisions of the Company's Articles, the Board is required to consider potential conflicts of interest. The Company has established formal procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such matters of conflict by the Board. To this end the Board considers and, if appropriate, authorises any conflicts, or potential conflicts, of interest as they arise and reviews any such authorisation regularly. The Board believes that the procedures established to deal with conflicts of interest are operating effectively.

### Directors' indemnities and insurance

The Company has provided each Director with an indemnity to the extent permitted by law in respect of the liabilities incurred as a result of their holding office as a Director of the Company.

The Company had in place appropriate Directors' and Officers' Liability insurance cover in respect of potential legal action against its Directors during the year and up to the date of the signing of the Annual Report.

### Directors' interests in contracts

Except as stated in note 21 on page 115, no contract existed during the year in relation to the Company's business in which any Director was materially interested.

### Major shareholdings

The table below shows the holdings in the Company's issued share capital which had been notified to the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules as at 30 April 2019. The information in this table was correct at the date of notification. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

| Owner | Date notified | Shares issued | % |
|---|---|---|---|
| The Capital Group Companies, Inc | 08.04.2019 | 219,482,361 | 4.5754 |
| Jupiter Asset Management Limited | 13.03.2014 | 111,173,507 | 5.966 |

### Basis of preparation of the financial statements

The consolidated financial statements have been prepared under the going concern assumption. However, the Directors recognise that there are a number of material uncertainties inherent in the Project which may cast significant doubt on the Project's ability to continue as a going concern. The impact of these uncertainties on the Directors' consideration of the going concern assumption is set out in note 1 to the financial statements and is also specifically referred to in our independent auditors' opinion which accompanies the financial statements.

### Political contributions

During the year, the Company sponsored a Northern Powerhouse Evening Reception, a Northern Leaders lunch, attended and exhibited at the 2018 Conservative Party Conference and attended two local political dinners, all of which totalled £27,515.04.

# Directors' Report continued

## Share capital
As at 31 December 2018, the Company's issued share capital was made up of 4,797,057,259 Ordinary shares of 0.25 pence each, which each carry one vote at general meetings of the Company. No shares are held in treasury. Details of shares issued during the year are set out in note 12 on page 107.

Except as stated in the Articles or in applicable legislation, there are no restrictions on the transfer of the shares in the Company and there are no restrictions on the voting rights in the Company's shares.

The Company is not aware of any agreements entered into between any shareholders in the Company which restrict the transfer of shares or the exercise of any voting rights attached to the shares.

## Share schemes
As at 31 December 2018, Sanne Fiduciary Services Limited (Sanne), as trustee of the Sirius Minerals Plc Employee Benefit Trust (Trustee), held 19,457,639 Shares, which are held jointly by Sanne as Trustee and employees as JOE Award holders under the JOE Awards (JOE Shares) and 885,636 shares in trust to satisfy future employee share awards (the Shares). The Trustee has agreed to waive rights to vote or receive dividends in respect of the JOE Shares and the Shares. The JOE Award holders have agreed to waive rights to vote or receive dividends until the exercise of the JOE Awards. More information on the JOE Awards can be found in the Directors' Remuneration Report on pages 61 to 81.

## Articles of Association
Amendments to the Company's Articles can only be made by means of special resolution at a general meeting of the shareholders of the Company.

## Significant agreements
The Company is not a party to any significant agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

There are provisions in the Executive Directors' service agreements in relation to change of control which are described in detail in the Directors' Remuneration Report on pages 61 to 81.

## External auditors
The Company's external auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to reappoint them will be proposed at the AGM.

## Disclosure of information to auditors
As far as each Director is aware, there is no relevant audit information of which the Company's external auditors are unaware. Each Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's external auditors are aware of that information.

## Annual General Meeting
The 2019 AGM will be held at 1pm on Thursday 13 June 2019 at The Events Centre, The Principal York, Station Road, York, YO24 1AA. The Notice of 2019 AGM will be available on our website and sent to shareholders in the format selected by them.

The Directors' Report was approved by the Board on 30 April 2019 and signed on its behalf by:

**Nicholas King**
General Counsel and Company Secretary

Sirius Minerals Plc
Registered no. 04948435

# Directors' Responsibilities



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 Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company 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 Group and Company and of the profit or loss of the Group and 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 IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, 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 Group and Company will continue in business.

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' confirmations

The Directors consider that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are set out in the Corporate Governance Report, confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

**Chris Fraser**
Managing Director and CEO
30 April 2019

**Thomas Staley**
Finance Director and CFO
30 April 2019

## Financial Statements



## Additional Information



North York Moors National Park
Image Credit: Ebor images

# FINANCIAL STATEMENTS

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIRIUS MINERALS PLC

## Report on the audit of the financial statements

### Opinion

In our opinion:

- Sirius Minerals Plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and parent Company statements of financial position as at 31 December 2018; the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and parent Company statements 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.

Our opinion is consistent with our reporting to the Audit Committee.

### 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 Group 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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We have provided no non-audit services to the Group or the Company in the period from 1 January 2018 to 31 December 2018 other than those disclosed in the Director's report.

### Material uncertainty relating to going concern – Group and Parent

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's and Company's ability to continue as a going concern.

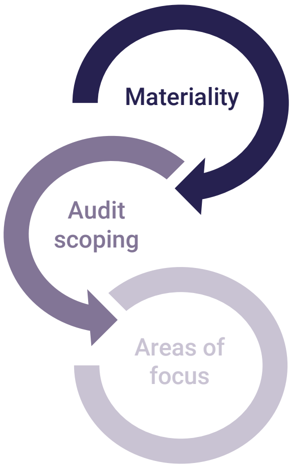
As described in note 1 to the Group financial statements, the Directors have considered the funding available to the Group, and have assessed the likelihood that the proceeds of the equity issuance (which is about to be launched) and the stage 2 financing (which is currently being negotiated) will be available when required. The Group is reliant on both the equity issuance and the stage 2 financing to be able to continue with the development of the Project. The going concern assessment of the Company is linked to the going concern of the Group due to its loans to subsidiaries, as described in note F of the Company's financial statements. Given the risks associated with the equity issuance and with concluding the stage 2 financing negotiations, the Directors have drawn attention to this in disclosing a material uncertainty relating to going concern in the basis of preparation within note 1 to the financial statements.

These conditions, along with the other matters explained in note 1 to the Group financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

In concluding that there is a material uncertainty, our audit procedures included reviewing the available documents in connection with the equity issuance launch preparations and the stage 2 financing negotiations and obtaining the Directors' approved papers in which they considered the going concern of the Group. In reviewing these papers we considered the financial liquidity of the Group by comparing the financial information in the papers to the most recently approved cash flow projections and to the Directors' latest expectations on the timing of the equity issuance proceeds and the timing and structure of the stage 2 financing.

## Our audit approach

### Overview




- Overall Group materiality: £5 million (2017: £4 million), based on 0.5% of total assets
- Overall Company materiality: £3.6 million (2017: £3.6 million), based on 0.5% of total assets

---

- We, as the Group engagement team, audited Sirius Minerals Plc, York Potash Limited and Sirius Minerals Finance Limited. Each is considered to be a financially significant component of the Group due to the quantum of their asset base. Taken together these three entities represent 97% of the Group's total assets and 91% of its Loss before Tax

---

- Going concern (Group and Parent)
- Valuation of complex financing arrangements (Group and Parent)
- Valuation of expected credit loss provision on loans to subsidiaries (Parent)

---

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, Companies Act 2006, the Listing Rules, financial conduct & UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with tax authorities, review of correspondence with legal advisors and enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIRIUS MINERALS PLC CONTINUED

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to going concern, described in the material uncertainty relating to going concern section above, we determined the matter described below to be the key audit matter to be communicated in our report. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of complex financing arrangements**<br>The Group's Stage 1 financing activities during the 2016 financial year resulted in a number of complex financing arrangements being entered into with third parties, specifically:<br>• US$250 million royalty agreement with Hancock British Holdings Limited<br>• US$50 million equity arrangement with Hancock British Holdings Limited<br>• US$400 million of Group issued Dollar denominated convertible bonds.<br>Accounting for each of these financing instruments under IFRS is complex and, where valuation models are required, the eventual valuation is sensitive to key management estimates.<br>The accounting framework for each of these financing instruments and the respective valuation models employed by management remains consistent with those adopted in 2017. The new valuation model for the royalty agreement is also consistent with the accounting framework adopted in 2017. However, the valuations recognised in the 2018 financial statements remain sensitive to current year inputs in the valuation models. Given the material nature of these instruments and the judgemental nature of these inputs we consider this to be a key audit matter.<br>(Group and Parent) | We obtained management's valuation model for each of the financing instruments listed. To assess application we:<br>• read the underlying contract and assessed whether the contract terms supported the accounting treatment adopted;<br>• in relation to the US$50 million equity arrangement and the US$400 million of the denominated convertible bonds, we assessed whether the valuation model adopted was consistent with the model applied during the period ended December 2017;<br>• evaluated discount rate assumptions made by management;<br>• confirmed convertible bond conversion rates to source documentation;<br>• in relation to the US$250 million royalty agreement, we evaluated management's future royalty payment assumptions and recalculated the internal rate of return and amortised cost;<br>• read the disclosures made in the financial statements.<br>We found, based on the results of our testing, that the valuation, recognition and disclosures made in the financial statements in respect of these financial instruments were consistent with the supporting evidence we obtained. |
| **Valuation of Expected Credit Loss ('ECL') provision on loans to subsidiaries**<br>The Parent company holds receivable balances due from its subsidiaries, amounting to £811.7 million. In accordance with IFRS 9, "Financial instruments", and having regard to the current stage of development of the Project and its current funding position, management has considered the level of ECL on these receivable balances and recorded a provision in the Parent Company financial statements of £44.7 million.<br>The ECL calculation requires an estimation of the various possible outcomes for the Project, including those where partial or no recovery is anticipated, and the probabilities of those outcomes. This estimation is considered a key management estimate in the context of the Parent company financial statements.<br>The ECL has no effect on the Group financial statements as the intercompany receivables are eliminated on consolidation.<br>(Parent) | We obtained management's valuation model and calculation of the ECL provision, which is arrived at by multiplying the probability of each outcome that results in less than full recovery of the receivable balance by the amount of that under-recovery. The ECL provision is the sum of these weighted outcomes. To assess the calculation (and in the light of our knowledge of the Project) we:<br>• assessed whether the outcomes identified by management were appropriate;<br>• assessed the reasonableness of the probabilities assigned to each outcome;<br>• evaluated the expected recovery for those outcomes where less than full recovery was anticipated; and<br>• read the disclosures made in the Parent company financial statements.<br>We also checked that the methods applied in the valuation model were in accordance with IFRS 9 and tested the calculations within the model.<br>We found, based on the results of our testing, that the valuation and disclosure of the ECL provision in the Parent company financial statements was consistent with our knowledge of the Project and the supporting evidence we obtained. |

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group, headed by Sirius Minerals Plc, comprises fourteen wholly owned statutory entities, nine of which are registered and domiciled in England & Wales. The remaining entities are registered and domiciled in each of Jersey, Canada, Singapore, India and the USA.

The Group's activities are fully centred on its UK operations, in particular the development of the Woodsmith Mine, an asset held by York Potash Limited. The Group is financed via equity and external debt instruments held principally by Sirius Minerals Plc and Sirius Minerals Finance Limited. Each of these three entities is considered to be a financially significant component due to the quantum of their asset base. Taken together these three entities represent 97% of the Group's total assets and 91% of its Loss before Tax.

The Group audit team has performed statutory audits on each of the financially significant components with the work on these entities concluded as part of the Group audit. In addition the Group audit team has performed statutory audit on York Potash Processing & Ports Limited, York Potash Holdings Limited, SACH 1 Limited, SACH 2 Limited and Sirius Minerals Holdings Limited.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | **Group financial statements** | **Company financial statements** |
|---|---|---|
| **Overall materiality** | £5 million (2017: £4 million). | £3.6 million (2017: £3.6 million). |
| **How we determined it** | 0.5% of total assets. | 0.5% of total assets. |
| **Rationale for benchmark applied** | The Group is in a pre-trading phase and is focused on developing the Woodsmith Mine asset. Accordingly total assets is the primary measure used by shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. | The Company holds investments in wholly owned subsidiary entities focused on developing the Woodsmith Mine asset. Accordingly total assets is the primary measure used by shareholders in assessing the performance of the Company, and is a generally accepted auditing benchmark. |

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.0 million and £3.6 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.25 million for the Group audit (2017: £0.1 million) and £0.1 million for the Company audit (2017: £0.1 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Going concern

In accordance with ISAs (UK) we report as follows:

| **Reporting obligation** | **Outcome** |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to other than the material uncertainty we have described in the material uncertainty relating to going concern section above. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. |
| We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. | We have nothing to report. |

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIRIUS MINERALS PLC CONTINUED

## 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, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### 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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

### The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 36 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 41 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 85, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 54 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

## Responsibilities for the financial statements and the audit

### Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 85, 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 Group's and 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 Group or 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 Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the audit committee, we were appointed by the members on 10 October 2012 to audit the financial statements for the year ended 31 March 2013 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 March 2013 to 31 December 2018.

Randal Casson

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

30 April 2019

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## for the year ended 31 December 2018

| | Note | 2018 £m | 2017 £m |
|---|---|---|---|
| **Revenue** | | **–** | – |
| Operating costs | | **(23.6)** | (24.0) |
| Loss from equity accounted investments | | **(0.6)** | – |
| **Operating loss** | 2 | **(24.2)** | (24.0) |
| Net finance income/(costs) | 4 | **10.7** | (55.3) |
| **Loss before taxation** | | **(13.5)** | (79.3) |
| Taxation | 5 | **1.0** | 0.4 |
| **Loss for the year** | | **(12.5)** | (78.9) |
| | | | |
| **Other comprehensive expense:** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Cash flow hedging movement | | **(6.7)** | (0.9) |
| **Other comprehensive expense for the year** | | **(6.7)** | (0.9) |
| **Total comprehensive loss for the year attributable to the owners of the Company** | | **(19.2)** | (79.8) |
| | | | |
| **Loss per share:** | | | |
| – Basic (pence) | 6 | **(0.27)** | (1.82) |
| – Diluted (pence) | 6 | **(0.41)** | (1.82) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

| ASSETS | Note | 2018 £m | 2017 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 7 | **24.8** | 14.7 |
| Property, plant and equipment | 8 | **668.8** | 306.6 |
| Investments in associates | 9 | **25.6** | – |
| Restricted cash | 10 | **43.7** | 54.3 |
| **Total non-current assets** | | **762.9** | 375.6 |
| **Current assets** | | | |
| Restricted cash | 10 | **16.6** | 20.2 |
| Other receivables | 11 | **20.8** | 7.1 |
| Bank deposits | | **–** | 158.5 |
| Cash and cash equivalents | | **230.1** | 235.5 |
| **Total current assets** | | **267.5** | 421.3 |
| **TOTAL ASSETS** | | **1,030.4** | 796.9 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 12 | **12.0** | 11.2 |
| Share premium account | | **789.0** | 695.3 |
| Share-based payment reserve | 13 | **6.5** | 6.1 |
| Other reserves | | **(5.3)** | 0.4 |
| Accumulated losses | | **(227.6)** | (207.9) |
| **Total equity** | | **574.6** | 505.1 |
| **Non-current liabilities** | | | |
| Provisions | 14 | **5.1** | 2.8 |
| Royalty financing | 15 | **208.5** | – |
| **Total non-current liabilities** | | **213.6** | 2.8 |
| **Current liabilities** | | | |
| Convertible loans | 16 | **196.2** | 249.3 |
| Derivative financial instrument | 17 | **2.5** | 10.0 |
| Trade and other payables | 18 | **43.5** | 29.7 |
| **Total current liabilities** | | **242.2** | 289.0 |
| **TOTAL LIABILITIES** | | **455.8** | 291.8 |
| **TOTAL EQUITY AND LIABILITIES** | | **1,030.4** | 796.9 |

The financial statements on pages 94 to 126 were issued and approved by the Board of Directors on 30 April 2019 and signed on its behalf by:

**Thomas Staley**
Finance Director and CFO

Company registration number: 04948435

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## for the year ended 31 December 2018

| | Note | Share capital £m | Share premium account £m | Share-based payment reserve £m | Other reserves £m | Accumulated losses £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| **At 1 January 2017** | | 10.4 | 590.7 | 6.1 | 1.2 | (112.3) | 496.1 |
| Loss for the year | | – | – | – | – | (78.9) | (78.9) |
| Other comprehensive expense | | – | – | – | (0.9) | – | (0.9) |
| Transferred to non-current assets | | – | – | – | 0.1 | – | 0.1 |
| *Transactions with owners:* | | | | | | | |
| Shares issued on conversion of convertible loans | 12 | 0.8 | 104.5 | – | – | (18.7) | 86.6 |
| Share-based payments | 13 | – | 0.1 | – | – | 2.0 | 2.1 |
| **At 31 December 2017** | | 11.2 | 695.3 | 6.1 | 0.4 | (207.9) | 505.1 |
| Loss for the year | | **–** | **–** | **–** | – | **(12.5)** | **(12.5)** |
| Other comprehensive expense | | **–** | **–** | **–** | **(6.7)** | **–** | **(6.7)** |
| Transferred to non-current assets | | **–** | **–** | **–** | **1.0** | **–** | **1.0** |
| *Transactions with owners:* | | | | | | | |
| Shares issued to acquire investments in associates | 12 | **0.3** | **25.9** | **–** | **–** | **–** | **26.2** |
| Shares issued on conversion of convertible loans | 12 | **0.5** | **66.6** | **–** | **–** | **(8.4)** | **58.7** |
| Share-based payments | 13 | **–** | **1.2** | **0.4** | **–** | **1.2** | **2.8** |
| **At 31 December 2018** | | **12.0** | **789.0** | **6.5** | **(5.3)** | **(227.6)** | **574.6** |

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

The share-based payment reserve is used to record the fair value of share-based payments relating to the Company's shares which are outstanding.

Other reserves comprise the foreign exchange reserve (which arises on translation of foreign operations with a functional currency other than Sterling) of a surplus of £1.2 mllion (31 December 2017: £1.2 million) and the cash flow hedge reserve (which accumulates unrecognised gains or losses on instruments in designated cash flow hedge relationships) of a deficit of £6.5 million (31 December 2017: £0.8 million).

# CONSOLIDATED STATEMENT OF CASH FLOWS
## for the year ended 31 December 2018

| | 2018 £m | 2017 £m |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating loss | **(24.2)** | (24.0) |
| *Adjustments for:* | | |
| Depreciation and amortisation | **0.6** | 0.3 |
| Share-based payments | **1.4** | 0.8 |
| Loss from equity accounted investments | **0.6** | – |
| Changes in working capital | **(1.3)** | 0.4 |
| **Cash used in operating activities** | **(22.9)** | (22.5) |
| Tax credit received | **0.4** | – |
| **Net cash used in operating activities** | **(22.5)** | (22.5) |
| **Cash flow from investing activities** | | |
| Purchase of intangible assets | **(9.4)** | (6.7) |
| Purchase of property, plant and equipment | **(322.9)** | (111.5) |
| Redemption of bank deposits | **180.8** | 241.2 |
| Purchase of bank deposits | **(21.8)** | (87.6) |
| Interest received | **3.4** | 3.6 |
| **Net cash (used in)/generated from investing activities** | **(169.9)** | 39.0 |
| **Cash flow from financing activities** | | |
| Proceeds from royalty financing | **190.1** | – |
| Purchase of restricted cash | **(9.1)** | (36.4) |
| Redemption of restricted cash | **24.1** | 39.0 |
| Interest paid | **(19.5)** | (33.0) |
| Proceeds from issue of shares | **0.6** | – |
| Debt issuance costs | **(4.3)** | – |
| Share issue costs | **–** | (0.9) |
| Convertible loans issue costs | **–** | (2.4) |
| **Net cash generated from/(used in) financing activities** | **181.9** | (33.7) |
| **Net decrease in cash and cash equivalents** | **(10.5)** | (17.2) |
| Cash and cash equivalents at the beginning of the year | **235.5** | 260.1 |
| Gain/(loss) from foreign exchange | **5.1** | (7.4) |
| **Cash and cash equivalents at end of the year** | **230.1** | 235.5 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. REFERENCE INFORMATION

Sirius Minerals Plc (the Company) is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (Registration number 04948435). The Company is registered in England and its registered address is 3rd floor, Greener House, 68 Haymarket, London, SW1Y 4RF.

### BASIS OF PREPARATION

These consolidated financial statements of the Company and its subsidiaries (together, the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS. The standards used are those published by the International Accounting Standards Board and endorsed by the EU as at 31 December 2018.

The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (principally derivatives) stated at fair value through profit or loss. The principal accounting policies set out both below and throughout the subsequent notes have been consistently applied to all years presented unless otherwise stated. The consolidated financial statements are presented in Sterling (rounded to the nearest million), which is the functional currency of the Company and its principal subsidiaries.

### GOING CONCERN

These financial statements have been prepared on a going concern basis. The Group continues to incur significant cash outflows due to the development activity that it is undertaking of its polyhalite project in North Yorkshire (the Project).

The stage 1 financing conducted in November 2016 generated sufficient funds to allow the Group to commence construction of the Project. As a result, the Group held total cash and cash equivalents and bank deposits of £230.1m at 31 December 2018 (31 December 2017: £394.0m).

The Group does not currently anticipate generating any positive net cash flows from the Project until 2023. Therefore, its ability to continue as a going concern for the time being is dependent upon it securing sufficient funding from external parties to enable it to complete development of the Project.

The Group is currently working towards obtaining financial commitments that will allow it to complete development of the Project (the stage 2 financing) to a point at which it would be able to generate sufficient cash flows to operate profitably and without need for additional fundraisings. In order to meet the Group's funding needs prior to financial close of stage 2 financing, on 30 April 2019 the Directors approved a plan for the Group to raise US$400 million from the issuance of new ordinary shares in the Company.

The Board of Directors believes that both the US$400 million equity issuance and the stage 2 financing will be successfully completed, however there is a risk that a successful outcome may not be reached. This therefore represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

The Group's latest cash flow forecasts indicate that, including the receipt of the funds from the equity issuance of US$400 million, it will have sufficient liquidity to continue development of the Project on its current schedule into Q3 of 2019, when proceeds from the stage 2 financing will be required. Should the Group need to continue operating without the stage 2 financing, it would need to curtail discretionary expenditures until further financing was secured but this would significantly threaten the Group's ability to continue as a going concern.

Having assessed the principal risks and having regard for the above, based on the current likelihood of the success of the US$400 million equity issuance and stage 2 financing, the Directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements. Therefore, these financial statements do not include any adjustments that would result if the going concern basis of preparation was inappropriate.

### BASIS OF CONSOLIDATION

The Group's consolidated financial statements incorporate the financial statements made up to 31 December each year of the Company and all of its subsidiaries over which it has control. All intra-group transactions and balances are eliminated in preparing the consolidated financial statements.

The Group's associates (being entities over which the Group has significant influence but not outright control) are not consolidated in the same way as the Group's controlled subsidiaries, but instead are accounted for using the equity method. See note 9 for further details of the accounting for associates.

## ACCOUNTING POLICIES

Accounting policies that are material to the financial statements are generally described in the specific note in relation to the individual component of the financial statements indicated by a symbol. The accounting policies set out in the following paragraphs within this note are considered to be general to the financial statements and not covered by a specific subsequent note.

### Segment reporting

IFRS 8 *Operating Segments* requires information to be disclosed about each business activity and economic environment in which the Group operates. Management has determined the operating segments by considering the business from both a geographic and activity perspective.

The Group is currently organised into one business division (the UK segment) which consists of project-related activities and the corporate operations. This division is the segment for which the Group reports information internally to the Board of Directors.

The Group's only material non-UK operations are in its investments in associates in South America. Note 9 provides detailed disclosures over the performance of these investments during the year as well as their carrying value at year-end. These investments in associates are the only non-current assets that the Group holds in any country other than the UK.

Therefore, all disclosures required under IFRS 8 are already included elsewhere in these financial statements and so no further segment information requires disclosure.

### Foreign currencies

The presentation currency of the Group and functional currency of the majority of the Group's subsidiaries is Sterling. Transactions denominated in a foreign currency are translated into Sterling at the rate of exchange prevailing at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate prevailing at that date. All exchange differences that are not designated within effective cash flow hedges at the end of the period are reported as part of finance costs in the income statement.

On consolidation, the assets and liabilities of foreign operations which have a functional currency other than Sterling are translated into Sterling at foreign exchange rates prevailing at the balance sheet date. The expenses of these subsidiary undertakings are translated at average exchange rates applicable in the period. All resulting exchange differences are recognised through other comprehensive income and accumulated within other reserves. Upon the disposal or dissolution of foreign subsidiaries, all historic exchange differences associated with that subsidiary are recycled from other reserves through the income statement.

The year-end rate which was applied in translating balances denominated in US Dollars into Sterling in the financial statements at 31 December 2018 was £1=$1.27 (2017: £1=$1.35). The average exchange rate which was applied to US Dollar transactions occurring during 2018 was £1=$1.34 (2017: £1=$1.29).

### Cash and cash equivalents

Cash and cash equivalents include various instant-access deposits and short-term fixed deposits with maturities of three months or less from the date in which they were entered into.

### Bank deposits

Amounts reported as bank deposits represent short-term investments held by the Group with maturities on deposit date in excess of three months, which the Group intends to hold until maturity, at which point it will receive cash from the counterparty. These amounts are recorded at amortised cost using the effective interest method.

## NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

All accounting policies applied by the Group in the preparation of these financial statements are consistent with those applied and disclosed in the financial statements for the year ended 31 December 2017, other than the Group's accounting policies for financial instruments which have been updated for the impact of IFRS 9, as described below.

The Group adopted the new IFRS standard IFRS 9 *Financial Instruments* on 1 January 2018 which was its mandatory date for adoption. The standard provides updated principles around the classification and measurement of *financial instruments* compared to its predecessor IAS 39 *Financial Instruments*: *Recognition* and *Measurement*. The initial adoption of IFRS 9 has not caused any changes in the measurement of any financial instruments recognised by the Group either in the current or comparative year, nor has it impacted the Group's accounting for its unrecognised financial instruments (principally, the US$250 million royalty financing agreement prior to its drawdown during 2018).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 1. REFERENCE INFORMATION CONTINUED

IFRS 16 *Leases* will become mandatory for the Group to adopt from 1 January 2019. IFRS 16 provides new principles around accounting for leases compared to its predecessor, IAS 17 *Leases*, with which the accounting policies used in the preparation of these financial statements comply. The main change of IFRS 16 compared to the existing IAS 17 will be that future liabilities in respect of operating leases will be recognised on the balance sheet at the inception of a lease, alongside a corresponding right-of-use asset.

This contrasts with the existing treatment of such leases whereby the only liabilities recognised in respect of operating leases are cash amounts outstanding for lease periods up to the balance sheet date which have not yet been paid over to the lessor.

The Group is party to a large volume of lease transactions relating to its ongoing access to mineral deposits around the Project's area of interest. Consistent with IAS 17, the scope of IFRS 16 specifically excludes its application to leases of mineral rights, therefore the adoption of IFRS 16 will have no impact upon the Group's existing accounting policy for these leases. The Group is also party to a number of other operating lease contracts whose accounting will be modified by the transition to IFRS 16. However, the fair value of the liabilities due under these leases is, in aggregate, immaterial to the Group and therefore it is not currently expected that initial adoption of IFRS 16 will materially impact the value of the Group's reported assets or liabilities.

### SIGNIFICANT ACCOUNTING JUDGEMENTS

In the preparation of these financial statements, the Group's management was required to exercise significant judgement in applying the Group's accounting policies in accounting for the royalty financing commitment prior to its drawdown.

The Group entered into the royalty financing agreement during 2016. Significant judgement was 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 Group concluded that the agreement should be accounted for as a financial instrument, to be accounted for in accordance with IFRS 9 (and, previously, IAS 39). Furthermore, the Group concluded that prior to drawdown occurring, the agreement is analogous to a loan commitment and therefore no recognition of it was necessary in the financial statements until drawdown occurred.

There were no further significant judgements that the Group's management was required to make in these financial statements in applying the Group's accounting policies.

### SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of these financial statements has required the use of estimates that affect the reported amounts of assets, liabilities and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The most significant area of estimation uncertainty at the balance sheet date that has a significant risk of resulting in a material adjustment to the carrying amount of assets or liabilities within the next financial year is in the estimation of the fair value of the convertible loans' embedded derivative. In addition, although it is not expected to lead to a material adjustment to the carrying value of assets or liabilities in the next financial year, the estimation of the fair value of the royalty financing embedded derivative will be a significant area of estimation uncertainty in future years once more certainty is gained around the level of future revenues (and consequent royalty payments).

Derivative financial instruments held by the Group do not have observable market prices and so the Group is required to identify appropriate valuation models in calculating these fair values. In making its estimates, priority is given to inputs based on actual market data and transactions, although these valuations nevertheless require some level of subjective assessment and the use of different valuation assumptions could have a significant impact upon the Group's reported financial performance and position. Further information is given within note 24 around the valuation methods and sources of estimation uncertainty around each of the Group's derivatives.

## 2. OPERATING LOSS

Operating loss is stated after charging:

| | 2018 £m | 2017 £m |
|---|---|---|
| Depreciation of property, plant and equipment | **0.5** | 0.3 |
| Amortisation of intangible assets | **0.1** | – |
| Operating lease charges | **0.6** | 0.6 |
| Share-based payments | **1.4** | 0.8 |
| Sirius Minerals Foundation donation | **–** | 2.0 |

## 3. STAFF NUMBERS AND COSTS

| | 2018 Number | 2017 Number |
|---|---|---|
| Average monthly number of staff (including Directors) | **143** | 91 |
| | £m | £m |
| Wages and salaries | **15.4** | 12.4 |
| Social security costs | **2.2** | 1.6 |
| Pension costs | **0.2** | 0.1 |
| Share-based payments | **2.2** | 2.0 |
| **Total staff costs** | **20.0** | 16.1 |

£8.7 million (2017: £6.4 million) of the above total expense has been capitalised as part of additions to non-current assets during the year.

Total directors' emoluments and emoluments of the highest-paid Director, together with full details of Directors' remuneration, pensions and benefits in kind are given in the Remuneration Committee Report.

## 4. NET FINANCE INCOME/(COSTS)

Interest income is accrued using the effective interest rate method. Interest expense is expensed as incurred except where it relates to the financing of construction or development of qualifying assets.

Interest on borrowings directly relating to the financing of qualifying assets in the course of construction is added to the capitalised cost of those projects under 'capital works in progress', until such time as the assets are substantially ready for their intended use or sale. Where funds have been borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred net of all interest income earned on the temporary re-investment of those borrowings prior to utilisation. All other borrowing costs are recognised as part of interest expense in the period in which they are incurred.

| | 2018 £m | 2017 £m |
|---|---|---|
| Interest income | **3.2** | 3.8 |
| Interest income capitalised on qualifying assets | **(2.1)** | (1.9) |
| Interest expense | **(32.2)** | (27.7) |
| Interest expense capitalised on qualifying assets | **32.1** | 25.0 |
| Fair value gain/(loss) on convertible loans embedded derivative | **2.1** | (42.5) |
| Fair value gain/(loss) on royalty financing derivative | **7.5** | (11.1) |
| Foreign exchange gains/(losses) on net debt | **0.1** | (0.9) |
| **Total net finance income/(costs)** | **10.7** | (55.3) |

During January 2017 the Group commenced significant development work at the Project. After this point all interest expense incurred and interest income earned on the temporary investment of borrowings has been capitalised as part of capital works in progress within property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 5. 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 in the period in which they can be reasonably estimated.

| | 2018 £m | 2017 £m |
|---|---|---|
| Corporation tax credit receivable | **1.0** | 0.4 |
| **Total tax recognised in statement of comprehensive income** | **1.0** | 0.4 |

The tax credit for the year is lower (2017: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25%). The differences are explained below:

| | 2018 £m | 2017 £m |
|---|---|---|
| Loss on ordinary activities before taxation | **(13.5)** | (79.3) |
| Loss on ordinary activities multiplied by the standard rate of corporation taxation in the UK of 19% (2017: 19.25%) | **2.6** | 15.3 |
| *Taxation effects of:* | | |
| Expenses not deductible for tax purposes | **(2.5)** | (8.0) |
| Tax losses not recognised (see note 20) | **(0.1)** | (7.3) |
| Research and development tax credit | **1.0** | 0.4 |
| **Total tax credit for the year** | **1.0** | 0.4 |

The standard rate of corporation tax changed from 20% to 19% from 1 April 2017. Accordingly the Group's loss for the year is taxed at an effective rate of 19% (2017: 19.25%). Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2017 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The research and development tax credit is in relation to the HMRC Research and Development Relief Scheme for SMEs and enables the Group 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.

## 6. LOSS PER SHARE

Basic loss per share is calculated by dividing the total loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted loss per share is calculated by adjusting the total loss for the year to reverse any recognised dilutive gains recognised in the total loss for the year, as well as by adjusting the weighted average number of ordinary shares as if all classes of dilutive potential ordinary shares had been issued at the beginning of the year.

In 2018, the only dilutive potential ordinary shares that existed and were relevant to the calculation of diluted loss per share were in relation to the Hancock US$50 million equity investment derivative detailed in note 17. This instrument was anti-dilutive in 2017 therefore there is no difference between basic and diluted loss per share in that year. All other potential ordinary shares that the Group has in issuance (as detailed in note 12) are anti-dilutive in both years presented.

| | | | 2018 | | | 2017 |
|---|---|---|---|---|---|---|
| | Loss £m | Weighted average number of shares millions | Loss per share pence | Loss £m | Weighted average number of shares millions | Loss per share pence |
| Basic loss per share | **(12.5)** | **4,623.3** | **(0.27)** | (78.9) | 4,322.9 | (1.82) |
| Add back: effect of dilutive potential ordinary shares | **(7.5)** | **200.1** | **(3.75)** | – | – | – |
| **Diluted loss per share** | **(20.0)** | **4,823.4** | **(0.41)** | (78.9) | 4,322.9 | (1.82) |

## 7. INTANGIBLE ASSETS

### EXPLORATION COSTS AND 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.

### BUSINESS COMBINATIONS AND GOODWILL

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair value of identifiable net assets acquired is recognised as goodwill. Goodwill arising on consolidation is recognised as an asset and allocated to cash-generating units for the purpose of impairment testing. Any goodwill recognised is stated at cost less accumulated impairment and any impairment is recognised immediately in the income statement and is not subsequently reversed.

### OTHER INTANGIBLES

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 three and five years). Amortisation of software is included within operating costs in the income statement.

### IMPAIRMENT

At each reporting date, the Group 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 any assets that have not been amortised in the year), the Group 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 Group's latest approved forecasts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 7. INTANGIBLE ASSETS CONTINUED

| Year ended 31 December 2018 | Exploration costs and rights £m | Goodwill £m | Other intangibles £m | Total £m |
|---|---|---|---|---|
| **Net book value** | | | | |
| At 1 January 2018 | **–** | **6.6** | **8.1** | **14.7** |
| Additions | **–** | **–** | **10.2** | **10.2** |
| Amortisation for the year | **–** | **–** | **(0.1)** | **(0.1)** |
| **At 31 December 2018** | **–** | **6.6** | **18.2** | **24.8** |
| – cost | **–** | **6.6** | **18.3** | **24.9** |
| – accumulated amortisation | **–** | **–** | **(0.1)** | **(0.1)** |

| Year ended 31 December 2017 | £m | £m | £m | £m |
|---|---|---|---|---|
| **Net book value** | | | | |
| At 1 January 2017 | 140.5 | 6.6 | 3.1 | 150.2 |
| Additions | 2.2 | – | 5.0 | 7.2 |
| Transfers to property, plant and equipment | (142.7) | – | – | (142.7) |
| **At 31 December 2017** | – | 6.6 | 8.1 | 14.7 |
| – cost | – | 6.6 | 8.1 | 14.7 |
| – accumulated amortisation | – | – | – | – |

All of the net book value of goodwill relates to the Group's acquisition of York Potash Limited (the legal entity developing the Project) in January 2011. Goodwill is assessed annually for impairment. No reasonably possible change in the key assumptions on which the goodwill's recoverable amount is based would cause its value to fall short of its carrying amount as at 31 December 2018.

## 8. PROPERTY, 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, include 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 Group 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.

Capital works in progress include all spend directly attributable to the development of the Project, including buildings, civil works, equipment, labour, direct services and professional fees. These assets are not depreciated. At the point in time in the future when the Project commences production, all assets within this category will be transferred to appropriate separate asset classes and depreciation will commence from that point.

The plant and equipment category currently represents assets used for general administrative purposes and which are not directly involved in development of the Project, including the Group's head office leasehold improvements and IT hardware. Depreciation is provided on all assets within this category over the estimated useful lives of the assets, which are generally between three and five years. Freehold land is not depreciated.

| **Year ended 31 December 2018** | Freehold land £m | Plant and equipment £m | Capital works in progress £m | Total £m |
|---|---|---|---|---|
| **Net book value** | | | | |
| At 1 January 2018 | **29.7** | **2.9** | **274.0** | **306.6** |
| Additions | **–** | **0.1** | **362.9** | **363.0** |
| Disposals | **(0.3)** | **–** | **–** | **(0.3)** |
| Depreciation for the year | **–** | **(0.5)** | **–** | **(0.5)** |
| **At 31 December 2018** | **29.4** | **2.5** | **636.9** | **668.8** |
| – cost | **29.4** | **3.7** | **636.9** | **670.0** |
| – accumulated depreciation | **–** | **(1.2)** | **–** | **(1.2)** |

| **Year ended 31 December 2017** | £m | £m | £m | £m |
|---|---|---|---|---|
| **Net book value** | | | | |
| At 1 January 2017 | 6.1 | – | – | 6.1 |
| Additions | 23.6 | 3.2 | 131.3 | 158.1 |
| Depreciation for the year | – | (0.3) | – | (0.3) |
| Transfers from intangible assets | – | – | 142.7 | 142.7 |
| **At 31 December 2017** | 29.7 | 2.9 | 274.0 | 306.6 |
| – cost | 29.7 | 3.6 | 274.0 | 307.3 |
| – accumulated depreciation | – | (0.7) | – | (0.7) |

During January 2017 the Group commenced significant development work at its Project. All exploration costs and rights in relation to the Project previously capitalised by the Group 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 9. INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence but not overall control. Significant influence is presumed to exist where the Group has over 20% of the voting rights, unless it can be clearly demonstrated that this presumption is not the case. Investments in associates are accounted for using the equity-accounting method.

The total carrying values of investments in associates represent the initial cost of each investment including the carrying value of goodwill, the share of post-acquisition retained earnings and any other movements in reserves. The carrying values of associates are regularly reviewed and if there is objective evidence that an impairment in value has occurred as a result of one or more events during the period, the investment is impaired down to its estimated recoverable value.

On 26 November 2018 the Group acquired 30% of the ordinary share capital of each of Cibrafertil – Companhia Brasileira de Fertilizantes (Cibrafertil) and Cibra Trading Inc (Cibra Trading) from the Omimex Group. On this date it was judged that the Group had gained significant influence over the two companies and that they should be accounted for as associates under the equity method. Both associates are private companies for which there are no quoted market prices available for their shares. There are no contingent liabilities relating to the Group's interest in either associate.

Set out below is summarised financial information covering the period over which the Group had significant influence over the associates from 26 November and at 31 December 2018. The losses incurred in this period are reflective of the seasonality of the associates' businesses in relation to the portion of the year in which the Group began accounting for them. All of Cibra Trading's revenues are in respect of sales made to Cibrafertil.

| 2018 | Cibrafertil £m | Cibra Trading £m | Total £m |
|---|---|---|---|
| Revenue – 100% | 36.5 | 11.9 | 48.4 |
| Loss after tax – 100% | (1.7) | (0.2) | (1.9) |
| **Loss from equity-accounted investments** | (0.5) | (0.1) | (0.6) |
| | | | |
| Current assets | 123.1 | 146.1 | 269.2 |
| Non-current assets | 150.8 | – | 150.8 |
| Current liabilities | (40.3) | (46.1) | (86.4) |
| Non-current liabilities | (160.9) | (86.9) | (247.8) |
| Net assets – 100% | 72.7 | 13.1 | 85.8 |
| **Carrying amounts of investments in associates** | 22.0 | 3.6 | 25.6 |

## 10. RESTRICTED CASH

Restricted cash represents amounts set aside by the Group in bank accounts and which are not available for general use due to contractual restrictions. Amounts are reclassified from restricted cash to cash and cash equivalents when the contractual restrictions expire. All amounts are classified as non-current except for those amounts which are expected to be released back to the Group within the next 12 months which are classified as current assets.

| | 2018 £m | 2017 £m |
|---|---|---|
| USD amounts in relation to convertible loans coupon payments | 16.5 | 39.2 |
| GBP amounts for local authorities' security requirements | 43.8 | 35.3 |
| **Total restricted cash** | 60.3 | 74.5 |

US Dollar amounts reported by the Group are in relation to the US$400 million convertible loans, as further described in note 16 and all (2017: half) are classified as current assets. Sterling amounts are in respect of local authorities' security requirements which reflect a combination of providing environmental remediation for construction works and the security requirements of the Section 106 agreement and essentially all are classified as non-current assets.

## 11. OTHER RECEIVABLES

Other receivables are recognised and carried at the lower of their original invoiced value or recoverable amount. Costs relating to future debt issuances will be reclassified against the carrying value of the related debt upon its future issuance.

| | 2018<br>£m | 2017<br>£m |
|---|---|---|
| Incurred costs relating to future debt issuance | **4.8** | - |
| Prepayments | **7.1** | 3.5 |
| VAT recoverable | **7.9** | 3.2 |
| Income tax credit receivable | **1.0** | 0.4 |
| **Total other receivables** | **20.8** | 7.1 |

## 12. SHARE CAPITAL

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments (generally ordinary shares) issued by the Group 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.

The Company has only one class of share capital, being ordinary shares with a par value of 0.25p each. Shares included in the table below are all allotted, issued and fully paid up.

| | Number of shares millions | Ordinary share capital £m |
|---|---|---|
| At 1 January 2017 | 4,164.5 | 10.4 |
| Allotted on conversion of convertible loans | 291.3 | 0.8 |
| Allotted in respect of vested share incentives | 1.1 | – |
| Allotted to employee benefit trust | 6.2 | – |
| **At 31 December 2017** | **4,463.1** | **11.2** |
| Allotted on conversion of convertible loans | **225.9** | **0.5** |
| Allotted as consideration for investments in associates | **95.0** | **0.3** |
| Allotted in respect of vested share incentives | **3.7** | **–** |
| Allotted to employee benefit trust | **9.4** | **–** |
| **At 31 December 2018** | **4,797.1** | **12.0** |

At 31 December of the respective years the following number of ordinary shares were contingently issuable depending on the achievement of conditions or exercise of options by the counterparties:

| | 2018<br>millions | 2017<br>millions |
|---|---|---|
| Convertible loans | **793.9** | 1,009.1 |
| Hancock US$50 million equity investment derivative | **200.1** | 200.1 |
| Employee share options | **24.9** | 40.4 |
| Employee senior awards | **8.0** | 10.8 |
| Employee exceptional target awards | **91.9** | – |
| **Total contingently issuable shares** | **1,118.8** | 1,260.4 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 13. SHARE-BASED PAYMENTS

The Group issues equity-settled share-based payments to certain Directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed to the income statement on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. For employees employed directly in relation to the Project, 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 Group 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 share-based payment reserve and reclassified to share capital upon the issuance of the underlying shares. If fully vested share options are not exercised and expire then the accumulated expense in respect of these is reclassified to accumulated losses.

The Group operates four equity-settled share-based payment arrangements as part of its employee remuneration strategy, which are detailed below. All shares to be issued under each of the schemes are ordinary shares in the Company. The total expense recognised within the income statement in relation to equity-settled share-based payment transactions in the year is £1.4 million (2017: £0.8 million). Further amounts of £0.8 million (2017: £1.2 million) have been capitalised within property, plant and equipment in relation to the fair value of share-based payments earned by employees who are employed solely on direct development work on the Project.

### Share options

The Group's share option scheme historically provided for the grant of share options to certain parties at stipulated exercise prices. The options are generally conditional upon the completion of a set service period (between one and three years) and typically expire ten years after grant date. The Group used the Black-Scholes model to value the share options that it awarded under the scheme. The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 4.3 years (2017: 3.9 years) and exercise prices between 10.2p and 34.0p (2017: 10.2p and 43.7p). For the options exercised during 2018, the weighted average share price at the date of exercise was 30.26p.

| | Number of options millions | 2018 Weighted average exercise price pence | Number of options millions | 2017 Weighted average exercise price pence |
|---|---|---|---|---|
| Outstanding at 1 January | **40.4** | **31.30** | 61.0 | 33.04 |
| Forfeited/lapsed | **(13.1)** | **40.96** | (20.6) | 36.45 |
| Exercised | **(2.4)** | **25.16** | – | – |
| **Outstanding at 31 December** | **24.9** | **26.80** | 40.4 | 31.30 |
| Exercisable at 31 December | **22.3** | **25.97** | 36.3 | 31.20 |

### Senior awards

The senior awards scheme provides for grants of awards in the form of conditional free shares or nil cost options to certain senior employees. Shares in relation to the awards vest to participants upon the Group's achievement of strategic milestones to which the employees directly contribute. The fair value of awards granted is equal to the share price on the grant date of the awards. Movements in the number of shares awarded under the scheme are as follows:

| Number of ordinary share awards (millions) | 2018 | 2017 |
|---|---|---|
| Outstanding at 1 January | **10.8** | 9.8 |
| Granted | **0.2** | 3.2 |
| Vested | **(1.3)** | (1.1) |
| Forfeited | **(1.7)** | (1.1) |
| **Outstanding at 31 December** | **8.0** | 10.8 |

### Exceptional target awards

During 2018 the Group issued exceptional target awards to incentivise employees to achieve first polyhalite materially earlier than planned in the form of nil cost options or conditional shares granted to employees. The fair value of awards granted is equal to the share price on the grant date of the awards. As set out in the table below, the vesting of the awards is linked to the delivery of first polyhalite significantly ahead of schedule. If polyhalite is not delivered by 30 September 2021 then none of the awards will vest.

| First polyhalite by: | Percentage of award that will vest |
|---|---|
| 15 March 2021 | 100% |
| 31 May 2021 | 80% |
| 30 June 2021 | 40% |
| 30 September 2021 | 10% |

Movements in the maximum number of shares awarded under the scheme are as follows:

| Number of ordinary share awards (millions) | 2018 |
|---|---|
| Outstanding at 1 January | **–** |
| Granted | **94.3** |
| Forfeited | **(2.4)** |
| **Outstanding at 31 December** | **91.9** |

### EBT awards

The Group's employee benefit trust (EBT) grants awards in the form of jointly owned shares or conditional share awards or nil cost options to employees. The vesting of the shares to employees is conditional upon employees' continued employment with the Group and the achievement of key Group-level strategic milestones (principally: the commencement of shaft-sinking, the securement and then completion of stage 2 financing, commencement of tunnelling from Woodsmith, first production and first commercial ore sale). The fair value of awards granted is equal to the share price on the grant date of the awards. Movements in the number of shares awarded under the scheme are as follows:

| Number of ordinary share awards (millions) | 2018 | 2017 |
|---|---|---|
| Outstanding at 1 January | **10.2** | 3.1 |
| Granted | **11.1** | 7.3 |
| Forfeited | **(2.3)** | (0.2) |
| **Outstanding at 31 December** | **19.0** | 10.2 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 14. PROVISIONS

The Group 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 licence 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 disturbance expected to be caused in future years.

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. Any change in the net present value of provisions due to the unwinding of the discount in relation to the time value of money is recognised in finance costs within the income statement in the period in which the change in discount factor occurs.

| | 2018<br>£m | 2017<br>£m |
|---|---|---|
| At 1 January | **2.8** | – |
| New amounts capitalised as part of property, plant and equipment | **2.2** | 2.8 |
| Charged to the income statement | **0.1** | – |
| At 31 December | **5.1** | 2.8 |

The Group's development work on the Project gives 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 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.

## 15. ROYALTY FINANCING

The royalty financing is a financial instrument committing the Group to make future royalty payments over the life of the Project in return for an up-front payment by Hancock. The contract commits the Group to make cash payments linked to its revenues and is therefore a financial liability. In substance, the royalty agreement means that the Group receives cash up-front from the counterparty, who will be repaid over the Project's life through royalty payments, analogous to a loan arrangement. Therefore, the royalty instrument is treated as a financial liability measured under amortised cost, with the value on initial recognition being equal to its fair value, which is the value of the cash that was received on drawdown. Each period, an interest charge is recognised, with the interest rate applied being the instrument's internal rate of return which discounts the present value of all expected cash flows over the royalty's life back to the value of the proceeds received on the drawdown date.

The exact value of royalty payments that will be made over the life of the royalty is not fixed, but will vary based on the exact level of revenues achieved by the Group. This uncertainty over future cash flows represents an embedded derivative to be measured at fair value which must be separately accounted for from the host royalty liability. This embedded derivative is valued as the discounted present value of all differences in expected royalty payments between the expectation prevailing on the drawdown date and the latest period-end date. The Group will report a derivative liability (asset) when the present value of royalty payments due to Hancock is expected to be greater (lower) than those originally forecast because of expected revenues being higher (lower) than those originally forecast, meaning that the Group's royalty payments will then be higher (lower). On the drawdown date, the embedded derivative was designated as a hedging instrument in a cash flow hedge relationship and so any forecast changes in cash flows are accounted for through other comprehensive income rather than the income statement.

On 19 September 2018, Hancock British Holdings Limited (Hancock) paid the Group US$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.

On receipt of the US$250 million cash, a corresponding host US Dollar-denominated royalty liability of the same amount was recognised in respect of the present value of future royalty payments that the Group expects to pay Hancock over the Project's life. As a US Dollar-denominated liability, the host royalty liability will give rise to foreign exchange volatility in respect of foreign exchange fluctuations that arise in each period from translating the underlying liability back into the Company's functional currency of Sterling based on the Sterling /US Dollar exchange rate prevailing at the period-end date compared to the exchange rate at the start of each period.

On the drawdown date, the Group designated the host liability as a hedging instrument in a cash flow hedge relationship against the Group's future US Dollar-denominated revenues. Therefore all foreign exchange gains and losses arising on the host royalty liability will be recognised through the statement of comprehensive income (instead of finance costs within the income statement) and accumulated within the cash flow hedge reserve within equity. Accumulated foreign exchange differences will be recycled out of the cash flow hedge reserve through the income statement in the periods in which the underlying revenue transactions are expected to occur. The value of the host royalty liability has moved in the year as follows:

| Value of host royalty liability | 2018<br>£m |
|---|---|
| Outstanding at 1 January | – |
| Drawdown in the year | **190.1** |
| Interest charged | **12.0** |
| Foreign exchange movements | **6.4** |
| **Outstanding at 31 December** | **208.5** |

On the drawdown date, the Group designated the royalty's embedded derivative as a hedging instrument in a cash flow hedge relationship against the Group's future revenues. This is on the basis that any changes in the value of expected future royalty payments will be inevitably offset by changes in the Group's revenues compared to the original drawdown-date expectation. Therefore all fair value gains or losses upon re-measurement of the derivative will be recorded through the statement of comprehensive income (instead of finance costs within the income statement) and accumulated within the cash flow hedge reserve within equity. Accumulated fair value differences will be recycled out of the cash flow hedge reserve through the income statement in the same periods as differences occur between royalty payments anticipated on the drawdown date and royalty payments actually due.

On 31 December 2018 the embedded derivative had nil value as there was no difference between the latest expectation of royalty payments due and the expectation that prevailed on the drawdown date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 16. CONVERTIBLE LOANS

Convertible loans represent liabilities entered into by the Group which are principally loans that require repayment, but which may ultimately be settled by conversion into shares at the option of the Group and/or counterparty based on the terms of a conversion element which is written into the terms of the loan contract.

Convertible loans are assessed according to the substance of the contractual arrangements. The conversion element of each agreement is split out of the host loan and is classified as a liability or equity on the basis of the contractual characteristics of the conversion features. Conversion features of convertible loans denominated in the Group's functional currency of Sterling are typically classified as equity amounts and not re-measured while conversion features of convertible loans denominated in a currency other than Sterling are classified as derivative financial instruments.

All transaction costs that are directly attributable to the issuance of the convertible loans are deducted from the initial carrying value of the host loan. These transaction costs are amortised in line with the host loan and recognised as part of finance costs.

At inception, the conversion element is separated from the host loan and is assigned a fair value based on an appropriate fair-valuation technique. The initial carrying amount of the host loan is equal to the funds raised less the fair value attributable to the conversion option at inception and less transaction costs. The host loan is held at amortised cost and measured using the effective interest rate method, with all interest being charged to finance costs.

Conversion elements that are derivative instruments are re-measured to fair value at each balance sheet and conversion date with any movement in fair value being recorded in finance costs.

Upon conversion, the carrying value of the host loan and conversion derivative is extinguished from liabilities and reclassified into equity as share capital and share premium.

| | Host loan £m | Derivative £m | 2018 Total £m | Host loan £m | Derivative £m | 2017 Total £m |
|---|---|---|---|---|---|---|
| Opening balance on 1 January | **200.9** | **48.4** | **249.3** | 278.9 | 42.4 | 321.3 |
| Interest charge | **20.1** | **–** | **20.1** | 27.7 | – | 27.7 |
| Interest and make-whole payments | **(19.5)** | **–** | **(19.5)** | (33.0) | – | (33.0) |
| Fair value re-measurement | **–** | **(2.1)** | **(2.1)** | – | 42.5 | 42.5 |
| Conversions | **(38.0)** | **(20.7)** | **(58.7)** | (51.0) | (36.5) | (87.5) |
| Foreign exchange revaluation | **7.1** | **–** | **7.1** | (21.7) | – | (21.7) |
| **Closing balance on 31 December** | **170.6** | **25.6** | **196.2** | 200.9 | 48.4 | 249.3 |

On 28 November 2016 the Group issued US$400 million of seven year, 8.5% quarterly coupon US Dollar-denominated convertible loans at par, receiving gross proceeds of £319.9 million. The key terms of the convertible loans are that at any date subsequent to 8 January 2017 up until maturity a loanholder may convert their loans into ordinary shares in the Company at a conversion price of US$ 0.31 per share.

If a loanholder elected to convert prior to 28 November 2018 then, as well as receiving ordinary shares in the Company, they would also have received a make-whole cash payment equal to the total value of coupon payments that they would have been owed had they held their loans until 28 November 2018. The Group also has a call option to redeem all loans at par should the Company's share price consistently exceed US$ 0.54 from 19 December 2018 onwards. Loanholders may not request early cash-repayment of their loans except under certain protective clauses relating to changes of ownership in the Group.

Under the terms of the convertible loan, the Group has also been required to set aside an amount in an escrow bank account in respect of all coupon payments due until 28 November 2019, which is disclosed as part of restricted cash. The Group is not able to use this restricted cash for any purpose other than the payment of quarterly coupons and make-whole payments.

Due to the conversion terms of the loans leading to the issuance of a fixed number of ordinary shares in the Company in return for the extinguishment of the bonds whose value is variable in terms of the Company's functional currency of Sterling, the Group has accounted for the bonds as a host loan instrument containing an embedded derivative liability in respect of the conversions features. See note 24 for further information around the estimation of the embedded derivative.

During 2018, conversion notices in respect of 16.6% (2017: 22.4%) of the US$400 million convertible loans were delivered by convertible loanholders to the Group, leading to the creation of 225.9 million (2017: 291.3 million) new ordinary shares in the Company.

## 17. DERIVATIVE FINANCIAL INSTRUMENT

### DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are recognised by the Group when it becomes party to contractual arrangements which include derivative features on a standalone basis or embedded within a linked host non-derivative instrument. Derivatives are measured at fair value at each reporting date with all changes in fair value being recognised within finance costs within the income statement, unless the derivatives are designated in hedge accounting relationships. The Group does not use derivative financial instruments for speculative purposes.

### LOAN COMMITMENTS

Loan commitments are a financial instrument, to be accounted for in accordance with IFRS 9 (and, previously, IAS 39). IFRS 9 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 will be subsequently measured at amortised cost using the effective interest rate method.

On 25 October 2016 the Group entered into a US$250 million royalty financing agreement with Hancock. As a loan commitment, no amounts were recognised in the financial statements in respect of it. Drawdown of the US$250 million occurred on 19 September 2018 at which point it became recognised in the financial statements as disclosed further in note 15.

As part of the royalty financing agreement, Hancock is committed to subscribe for 200 million new ordinary shares in the Company for an additional consideration of US$50 million. Hancock is required to subscribe for these shares upon the Group's securement of its stage 2 funding commitments. A derivative liability is recognised in respect of this commitment and its fair value is measured as the difference between the fair value of the US$50 million that will be received and the fair value of 200 million new ordinary shares that will be issued on the drawdown date. Further information about the fair value estimation of this equity investment derivative is provided in note 24.

## 18. TRADE AND OTHER PAYABLES

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

| | 2018<br>£m | 2017<br>£m |
|---|---|---|
| Trade payables | **13.9** | 3.0 |
| Taxation and social security | **0.4** | 0.3 |
| Accruals | **29.2** | 26.4 |
| **Total trade and other payables** | **43.5** | 29.7 |

## 19. NET CASH

| | 2018<br>£m | 2017<br>£m |
|---|---|---|
| Opening balance on 1 January | **267.6** | 386.3 |
| Net decrease in cash and cash equivalents | **(10.5)** | (17.2) |
| Net cash receipts from restricted cash and bank deposits | **(174.0)** | (156.2) |
| Interest expense on convertible loans | **(20.1)** | (27.7) |
| Interest paid on convertible loans | **19.5** | 33.0 |
| Conversions of convertible loans | **38.0** | 51.0 |
| Foreign exchange differences | **(0.7)** | (1.6) |
| **Closing balance on 31 December** | **119.8** | 267.6 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 19. NET CASH CONTINUED

Net cash is defined by the Group as being the total value of cash and cash equivalents, bank deposits and restricted cash, less all interest-bearing debt. Interest-bearing debt includes only the host loan element of the US$400 million convertible loans and not the embedded conversion derivative on the basis that the Group has no obligation to cash-settle the embedded derivative. Interest-bearing debt also excludes the Royalty financing on the basis that obligations to make cash payments against this liability only arise when the Group generates revenues, and that otherwise the Group is not currently contractually liable to make any payments under this arrangement (other than in the event of the Group's insolvency).

## 20. DEFERRED TAXATION

Deferred taxation represents temporary differences in 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.

The following table shows the nature of deferred tax assets/(liabilities) recognised by the Group:

| | Non-current assets £m | Convertible Loans £m | Tax losses £m | Net Total £m |
|---|---|---|---|---|
| At 1 January 2017 | (6.5) | (9.2) | 15.7 | – |
| (Charged)/credited to income statement | (4.3) | 5.4 | (1.1) | – |
| At 31 December 2017 | (10.8) | (3.8) | 14.6 | – |
| (Charged)/credited to income statement | **(3.4)** | **–** | **3.4** | **–** |
| **At 31 December 2018** | **(14.2)** | **(3.8)** | **18.0** | **–** |

All deferred tax balances arise from timing differences in relation to UK corporation taxes and are expected to be able to be offset between UK Group companies. Deferred tax assets in respect of tax losses are only recognised to the extent that they offset deferred tax liabilities.

In addition to those tax losses recognised above, the Group has further unused UK tax losses which would represent a deferred tax asset of £8.8 million (2017: £9.7 million). These losses have not been recognised due to uncertainty over the availability of future taxable profits against which to set them. For the same reason, a deferred tax asset in relation to the cash flow hedging movement in Other comprehensive income (which would otherwise give rise to such an asset) has not been recognised.

In the UK tax losses generally have no expiry. However for companies which have not yet begun formal trading (including the Group's main subsidiary), only expenditure from the seven years prior to the date of commencement of trade are available for future use. Consequently, £1.1 million (2017: £1.1 million) of the potential deferred tax asset in respect of unrecognised losses noted above are expected to expire before the expected commencement of trading and therefore will likely not be available for use by the Group.

## 21. RELATED PARTY TRANSACTIONS

There have been no material related party transactions in the year ended 31 December 2018 (2017: nil), except for key management compensation. The key management compensation below includes eight (2017: eight) Sirius Minerals Plc Directors and three (2017: three) further executive management employees who are not Sirius Minerals Plc Directors. Key management personnel received the following compensation during the year:

| | 2018 £m | 2017 £m |
|---|---|---|
| Salaries and short-term benefits | **3.4** | 4.4 |
| Share-based payments | **0.8** | 1.4 |
| **Total key management compensation** | **4.2** | 5.8 |

Total directors' emoluments and emoluments of the highest-paid Director, together with full details of Directors' remuneration, pensions and benefits in kind are given in the Remuneration Committee Report.

## 22. COMMITMENTS AND CONTINGENCIES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### Operating lease commitments

The Group leases certain buildings 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 2.

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

| | 2018 £m | 2017 £m |
|---|---|---|
| No later than 1 year | **0.4** | 0.4 |
| Later than 1 year and no later than 5 years | **1.9** | 1.8 |
| Later than 5 years | **1.4** | 1.9 |
| **Total amounts due under operating leases** | **3.7** | 4.1 |

### Capital expenditure commitments and contingent liabilities

At 31 December 2018 the Group had contracted but unrecognised capital expenditure commitments of £100.8 million (2017: £20.8 million). On 9 July 2018 the Group entered into an arrangement to lease 40 acres of land adjacent to its Bran Sands port location for a term of 30 years. At 31 December 2018 the lessor had not yet fulfilled all conditions precedent to the commencement of the lease (therefore its financial effects are not included in the table above) although these conditions were expected to be completed in early 2019, thus representing a material commitment to the Group. The Group has no other commitments or contingent liabilities at 31 December 2018 (2017: nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 23. POST BALANCE SHEET EVENTS

On 25 April 2019 the Group entered into a 10-year supply and distribution agreement with BayWa AG covering most of Europe for guaranteed minimum volumes of POLY4 ramping up to 2.5Mtpa in year five of the agreement.

On 30 April 2019 the Company's Directors approved a plan for the Group to raise US$400 million from the issuance of new ordinary shares in the Company.

## 24 FINANCIAL RISK MANAGEMENT

The main financial risks faced by the Group relate to the availability of funds to meet business needs (liquidity risk) and fluctuations in foreign exchange rates (market risk).

### a. Liquidity risk and capital management

**Liquidity risk**

The Group's policy on overall liquidity is to ensure that it can call on sufficient funds to facilitate all ongoing operations and planned expansion of the Project on its optimal production timetable.

The Group monitors its levels of working capital and financial investments to ensure that it can meet its payments as they fall due. The following table shows the gross contractual maturities of the Group's recognised financial liabilities, including unrecognised future interest payments:

| 31 December 2018 | Trade and other payables £m | Convertible loans £m | Total £m |
|---|---|---|---|
| **Amount due within 1 year or less** | **43.1** | **16.5** | **59.6** |
| **Amount due within 1-2 years** | **–** | **16.5** | **16.5** |
| **Amount due within 2-5 years** | **–** | **241.3** | **241.3** |
| **Total contractual cash flows** | **43.1** | **274.3** | **317.4** |

| 31 December 2017 | Trade and other payables £m | Convertible loans £m | Total £m |
|---|---|---|---|
| Amount due within 1 year or less | 29.4 | 19.6 | 49.0 |
| Amount due within 1-2 years | – | 19.6 | 19.6 |
| Amount due within 2-5 years | – | 58.7 | 58.7 |
| Amount due after 5 years | – | 249.6 | 249.6 |
| Total contractual cash flows | 29.4 | 347.5 | 376.9 |

All cash flows contractually due in respect of the convertible loans until the end of 2019 will be settled with the Group's restricted cash.

The above table does not include cash flows in relation to the royalty financing on the basis that cash flows under this arrangement are not contractually defined, but instead are wholly dependent upon the Group's revenue in future years.

**Capital management**

The Group's objectives when managing capital are to ensure that it is best placed to further its development of the Project, whilst also safeguarding the Group's ability to continue as a going concern. The Group defines capital as being cash and cash equivalents plus bank deposits. The Board of Directors monitors the level of capital as compared to the Group's commitments and approves plans to adjust the level of capital accordingly in the best interests of shareholders. The Group is not subject to any externally imposed capital requirements.

As part of the annual budgeting and long-term planning process, the Group's cash flow forecast is reviewed and approved by the Board. The cash flow forecast is updated on a monthly basis, taking account of the latest expenditure forecasts. Based on the size and timing of the forecast expenditures, the Group adjusts the mix of holdings of its cash and cash equivalents and bank deposits in order to ensure that it has sufficient liquidity to meet its expenditures, whilst maximising the return on its funds, within the bounds of the Group's Board-approved treasury policy.

## b. Foreign currency exchange rate risk

The Group's operations are essentially based in the United Kingdom and it is expected that future revenues will be denominated in US dollars. The majority of the Group's operating and capital expansion costs are denominated in Sterling although a significant portion of capital expansion costs are expected to be denominated in Euros. The Group's existing debt financing is denominated in US Dollars.

The table below shows the currency denomination of the Group's recognised financial assets/(liabilities):

| 31 December 2018 | Cash & cash equivalents £m | Bank deposits £m | Restricted cash £m | Trade and other payables £m | Derivatives £m | Convertible loans £m | Non-current liabilities £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Sterling** | **196.9** | **–** | **43.8** | **(37.7)** | **–** | **–** | **(5.1)** | **197.9** |
| **US Dollars** | **10.7** | **–** | **16.5** | **(0.2)** | **(2.5)** | **(196.2)** | **(208.5)** | **(380.2)** |
| **Euros** | **16.6** | **–** | **–** | **(5.2)** | **–** | **–** | **–** | **11.4** |
| **Canadian Dollars** | **5.8** | **–** | **–** | **–** | **–** | **–** | **–** | **5.8** |
| **Other** | **0.1** | **–** | **–** | **–** | **–** | **–** | **–** | **0.1** |
| **Total** | **230.1** | **–** | **60.3** | **(43.1)** | **(2.5)** | **(196.2)** | **(213.6)** | **(165.0)** |

| 31 December 2017 | Cash & cash equivalents £m | Bank deposits £m | Restricted cash £m | Trade and other payables £m | Derivatives £m | Convertible loans £m | Non-current liabilities £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Sterling | 148.0 | 60.1 | 35.3 | (23.1) | – | – | (2.8) | 217.5 |
| US Dollars | 69.6 | 59.4 | 39.2 | (0.2) | (10.0) | (249.3) | – | (91.3) |
| Euros | 9.1 | 30.1 | – | (4.9) | – | – | – | 34.3 |
| Canadian Dollars | 8.7 | 8.9 | – | (1.2) | – | – | – | 16.4 |
| Other | 0.1 | – | – | – | – | – | – | 0.1 |
| Total | 235.5 | 158.5 | 74.5 | (29.4) | (10.0) | (249.3) | (2.8) | 177.0 |

Foreign exchange differences on retranslation of monetary items upon settlement and at year-end is recognised as part of finance costs in the income statement, except for financial assets in a designated cash flow hedge relationship where these differences are recognised as part of other comprehensive income.

The Group is exposed to foreign currency transaction risk on transactions that are denominated in currencies other than its presentational currency of Sterling. It is the Group's policy to hedge foreign currency exposures associated with committed or probable expenditures in order to mitigate potential transaction risk. The Group achieves this by purchasing cash and bank deposits in the relevant foreign currencies ahead of the occurrence of the transactions and simultaneously designating these foreign cash and bank deposits as hedging instruments in cash flow hedge relationships. As a result the Group is able to significantly mitigate its exposures to movements in the Sterling/Euro and Sterling/Canadian dollar exchange rates, both in its expected cash flows and upon its income statement.

The Group is also exposed to foreign currency translation risk since its convertible loan debt financing is denominated in US Dollars. It is the Group's policy to not hedge this risk. As a result, movements in the Sterling/US Dollar exchange rate will impact upon the Group's reported financial position and performance. A strengthening of the US dollar against Sterling would have an adverse impact on reported losses and the Group's financial position. It is expected that this exposure will reduce over time by conversion of the convertible loans (which will crystallise all currency fluctuations in equity without requiring any cash settlement by the Group), meaning that this is not expected to give rise to a material cash flow risk.

The Group is also exposed to foreign currency translation risk in relation to the royalty financing, however it has designated this as the hedging instrument in a cash flow hedge relationship as detailed further in note 15.

The impact of a 10% weakening in the Sterling/US dollar exchange rate compared to the rate prevailing at 31 December 2018 would be an increase in reported loss of £19.1 million (2017: £9.1 million) and a reduction of £40.9 million (2017: £9.1 million) to the Group's reported equity.

The Group has put in place a foreign exchange risk management system within its intercompany borrowing structure to minimise the risk that any adverse fluctuations in the Sterling/US Dollar exchange rate indicated by the sensitivities in the paragraph above could give rise to any material cash tax exposures.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 24. FINANCIAL RISK MANAGEMENT CONTINUED

### c. Interest rate risk

The Group's convertible loans have a fixed rate of interest of 8.5% and so interest payments due under these loans are not exposed to any cash flow risk arising from fluctuations in market interest rates. The Group has no other interest-bearing liabilities.

Cash and cash equivalents, bank deposits and restricted cash held by the Group all earn interest which is either floating or fixed for no longer than one year. The Group seeks to invest its interest-bearing financial assets in such a way so as to maximise the interest earned based on prevailing market rates, within the bounds of first minimising credit risk associated with the investments and then ensuring that the investments are sufficiently liquid to allow the Group to service its day-to-day operating and expected capital expenditures.

### d. Credit risk

The Group's credit risk is primarily attributable to its cash and cash equivalents, bank deposits and restricted cash. The Group's maximum credit exposure is equal to the carrying value of its financial assets as reported in the statement of financial position.

This risk is mitigated by placing cash and cash equivalents, bank deposits and restricted cash only with approved institutions that have an S&P credit rating of at least A-. Furthermore, to prevent concentration risk, the Group's treasury policy mandates that no more than 20% of the Group's surplus funds can be placed with any single institution (other than the Group's primary relationship bank).

### e. Market risk

The Group's expected future revenues will fluctuate depending upon market conditions and so these may be different from those currently anticipated. The royalty financing mitigates a portion of this risk as the arrangement means that the Group has passed over an element of market risk to Hancock in return for an up-front fixed cash payment in 2018. Accordingly, the Group has designated the arrangement as part of a cash flow hedge relationship to faithfully reflect the risk transfer that the royalty achieves. See note 15 for further details.

### f. Financial instruments

The carrying value of each class of the Group's financial instruments is detailed below:

| 31 December 2018 | Designated as cash flow hedges £m | At fair value through profit and loss £m | Financial assets/ (liabilities) at amortised cost £m | Total £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Restricted cash | **–** | **–** | **60.3** | **60.3** |
| Cash and cash equivalents | **22.4** | **–** | **207.7** | **230.1** |
| | **22.4** | **–** | **268.0** | **290.4** |
| **Financial liabilities** | | | | |
| Provisions | **–** | **–** | **(5.1)** | **(5.1)** |
| Royalty financing | **(208.5)** | **–** | **–** | **(208.5)** |
| Convertible loans | **–** | **(25.6)** | **(170.6)** | **(196.2)** |
| Derivative financial instrument | **–** | **(2.5)** | **–** | **(2.5)** |
| Trade and other payables | **–** | **–** | **(43.1)** | **(43.1)** |
| | **(208.5)** | **(28.1)** | **(218.8)** | **(455.4)** |
| **Net financial assets/(liabilities)** | **(186.1)** | **(28.1)** | **49.2** | **(165.0)** |

## f. Financial Instruments continued

| 31 December 2017 | Designated as cash flow hedges £m | At fair value through profit and loss £m | Financial assets/ (liabilities) at amortised cost £m | Total £m |
|---|---|---|---|---|
| Financial assets | | | | |
| Restricted cash | – | – | 74.5 | 74.5 |
| Bank deposits | 39.0 | – | 119.5 | 158.5 |
| Cash and cash equivalents | 16.4 | – | 219.1 | 235.5 |
| | 55.4 | – | 413.1 | 468.5 |
| Financial liabilities | | | | |
| Provisions | – | – | (2.8) | (2.8) |
| Convertible loans | – | (48.4) | (200.9) | (249.3) |
| Derivative financial instrument | – | (10.0) | – | (10.0) |
| Trade and other payables | – | – | (29.4) | (29.4) |
| | – | (58.4) | (233.1) | (288.7) |
| Net financial assets/(liabilities) | 55.4 | (58.4) | 180.0 | 177.0 |

The carrying value of all the Group's financial assets and liabilities is equivalent to their fair value except for the convertible loans and royalty financing (where the host elements are measured at amortised cost). The fair value of the convertible loans at 31 December 2018 was £208.8 million (2017: £286.5 million) compared to the stated carrying value of £196.2 million (2017: £249.3 million). The traded market price of the Group's convertible loan at 31 December 2018 was 108.9 (2017: 124.5). The fair value of the royalty financing at 31 December 2018 based upon discounting it at an annual rate of 10% (which is normal for development projects of the type being undertaken by the Group) was £981.8 million compared to its stated carrying value of £208.5 million.

## g. Fair value

Financial instruments measured at fair value are grouped into one of three levels as set out by IFRS 13 Fair Value based on the lowest level input that is significant to the fair value measurement. These levels are as follows:

Level 1 – Quoted prices (unadjusted) based on active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (I.e prices) or indirectly (I.e. derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data.

The only assets or liabilities that the Group has which are measured at fair value are the derivatives associated with the convertible loans and the royalty financing.

### *Convertible loans' embedded derivative*

This has been assessed as being a level 2 financial instrument. In order to estimate the fair value of the convertible loans' embedded derivative at any point in time, the Group estimates the fair value of the cash flows due under the host loan at an assumed discount rate that would likely apply to any debt issued by the Group which was not convertible and subtracting this from the market value of the convertible loans (based on the quoted trading price) at the measurement date. In estimating this assumed discount rate, the Group considers publicly quoted bond yield data of comparable entities with similar credit profiles and their prevailing bond yields at the measurement date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 24. FINANCIAL RISK MANAGEMENT CONTINUED

*Hancock equity investment derivative liability*

This has been assessed as being a level 2 financial instrument. The fair value of the Hancock equity investment derivative is estimated as the net present value of the difference between the US$50 million receivable (in Sterling terms, based on the forward exchange rate estimated for the drawdown date) and the 200 million shares to be issued on the royalty drawdown date (whose value is based on the Group's share price at the measurement date).

*Royalty financing embedded derivative*

This has been assessed as being a level 3 financial instrument. The fair value of the derivative is based on the latest projections of expected royalty payments, (which is dependent upon expectations over the Project's future revenues), compared to the equivalent expectation which prevailed at the drawdown date.

**Fair valuation sensitivities**

The inputs used in the fair valuation estimates of these derivatives reflect the Group's exposure to various market risks. Movements in these inputs cause the fair valuation of the derivatives (but not the cash flows, except for the royalty financing embedded derivative) to fluctuate and affect reported net finance costs. Correlated increases in the convertible loans' price and share price would cause an increase in the loss reported from the convertibles loans' embedded derivative and Hancock equity investment derivatives while an increase in the discount rate assumed would cause an increase in the loss reported from the convertible loans' embedded derivative. Increases in expected future revenues (and consequently, royalty payments) compared to the expectation on drawdown date would cause the royalty embedded derivative to become a liability, although would have no impact on total loss as the derivative has been designated in a cash flow hedge relationship.

The sensitivity of each of the derivatives' valuation in respect of a 10% change in the most significant input variables is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Impact on total loss £m | Impact on equity £m | Impact on total loss £m | Impact on equity £m |
| Convertible loans and share price (increase)/decrease | **(24.9)/24.9** | **(24.9)/24.9** | (33.1)/33.1 | (33.1)/33.1 |
| Discount rate (increase)/decrease | **(6.6)/6.9** | **(6.6)/6.9** | (8.2)/8.6 | (8.2)/8.6 |
| Estimate of future revenues (increase)/decrease | **(–)/–** | **(125)/125** | (–)/– | (–)/– |

## 25. AUDITORS' REMUNERATION

Fees payable to the Group's auditors and its associates included in operating costs are as follows:

| | 2018 £000s | 2017 £000s |
|---|---|---|
| **Audit fees** | | |
| Fees payable for the audit of the Group's consolidated financial statements | **109** | 95 |
| Fees payable for the audit of the Company's subsidiaries | **50** | 50 |
| Fees payable for review of the Group's half-year financial statements | **11** | 11 |
| **Total audit-related fees** | **170** | 156 |
| Other non-audit assurance services | **–** | 348 |
| **Total non-audit fees** | **–** | 348 |
| **Total auditors' remuneration** | **170** | 504 |

Other non-audit assurance services in 2017 relate to reporting upon the Group's financial position and prospects to support the Group's move from AIM to the Main list of the London Stock Exchange that the Audit Committee deemed appropriate for the Group's auditors to perform.

## 26. SUBSIDIARY UNDERTAKINGS

The following table lists all of the Group's subsidiary undertakings. The Group owns 100% of the ordinary share capital and consolidates the full results of each of these entities. The registered office of these subsidiaries is 3rd Floor, Greener House, 68 Haymarket, London SW1Y 4RF ('3f GH') unless otherwise stated.

| Name | Country of incorporation | Activity | Registered address |
|---|---|---|---|
| York Potash Limited | England | Project development | 3f GH |
| York Potash Processing & Ports Limited | England | Project development | 3f GH |
| York Potash Holdings Limited | England | Holding company | 3f GH |
| Sirius Minerals Holdings Limited[1] | England | Holding company | 3f GH |
| Sirius Exploration Limited | England | Dormant | 3f GH |
| Sirius Resources Limited | England | Dormant | 3f GH |
| Sirius Potash Limited | England | Dormant | 3f GH |
| SACH 1 Limited[1] | England | Intercompany financing | 3f GH |
| SACH 2 Limited[1] | England | Intercompany financing | 3f GH |
| Sirius Minerals Finance Limited | Jersey | Fundraising | 47 Esplanade, St Helier, Jersey JE1 0BD |
| Auspotash Corporation Limited[1] | Canada | Dormant | 102A-1075 Bay Street, Suite 414, Toronto, Ontario, M5S 2B2, Canada |
| Dakota Salts LLC | USA | Employee payroll | 314 E. Thayer Avenue #300, Bismarck, North Dakota, 58501, USA |
| Sirius Minerals (Singapore) Pte Ltd | Singapore | Employee payroll | 80 Robinson Road, Singapore, 068898 |
| Sirius Minerals India Private Limited | India | Employee payroll | B-376, Third floor, Nirman Vihar, New Delhi, 110092 |

The following table lists all of the Group's investments in associates. The Group owns 30% of the ordinary share capital of each of these entities and does not consolidate the results of these entities in full, but instead accounts for these investments using the equity method as further disclosed in note 9.

| Name | Country of incorporation | Activity | Registered address |
|---|---|---|---|
| Cibrafertil – Companhia Brasileira de Fertilizantes | Brazil | Fertilizer production and distributor | 1428 Rua Alfa, Polo Petroquimico, Camacari, Bahia, Brazil |
| Cibra Trading Inc[2] | Panama | Fertlizer purchasing | 2nd Floor, MMG Tower, East 53rd Street, Marbella, Panama City, 0807, Panama |

**Notes:**

1. Represents those companies whose shares are directly held by Sirius Minerals Plc.
2. Formerly known as OFD Supply Inc at the date of the Group's acquisition of its shareholding in the Company, the Company legally changed its name in December 2018.

# PARENT COMPANY STATEMENT OF FINANCIAL POSITION
## as at 31 December 2018

| ASSETS | Note | 2018 £m | 2017 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **–** | 0.1 |
| Investments | D | **318.2** | 249.6 |
| Restricted cash | | **–** | 19.7 |
| **Total non-current assets** | | **318.2** | 269.4 |
| **Current assets** | | | |
| Restricted cash | | **16.5** | 19.6 |
| Other debtors | | **0.3** | 1.5 |
| Loans to subsidiaries | F | **811.7** | 519.3 |
| Bank deposits | | **–** | 119.4 |
| Cash and cash equivalents | | **50.8** | 210.7 |
| **Total current assets** | | **879.3** | 870.5 |
| **TOTAL ASSETS** | | **1,197.5** | 1,139.9 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 12 | **12.0** | 11.2 |
| Share premium account | | **789.0** | 695.3 |
| Share-based payment reserve | 13 | **6.5** | 6.1 |
| Accumulated losses | | **(302.6)** | (259.4) |
| **Total equity** | | **504.9** | 453.2 |
| **Current liabilities** | | | |
| Derivative financial instruments | E | **28.1** | 58.5 |
| Loans from subsidiaries | G | **660.9** | 625.4 |
| Trade and other payables | | **3.6** | 2.8 |
| **Total liabilities** | | **692.6** | 686.7 |
| **TOTAL EQUITY AND LIABILITIES** | | **1,197.5** | 1,139.9 |

Included within accumulated losses is a loss for the year of £23.0 million (2017: loss for the year of £74.7 million).

**Thomas Staley**
Finance Director and CFO

Company registration number: 04948435

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
## for the year ended 31 December 2018

| | Note | Share capital £m | Share premium account £m | Share-based payment reserve £m | Accumulated losses £m | Total equity £m |
|---|---|---|---|---|---|---|
| At 1 January 2017 | | 10.4 | 590.7 | 6.1 | (186.7) | 420.5 |
| Loss for the year | | – | – | – | (74.7) | (74.7) |
| *Transactions with owners:* | | | | | | |
| Shares issued on conversion of convertible loans | 12 | 0.8 | 104.5 | – | – | 105.3 |
| Share-based payments | 13 | – | 0.1 | – | 2.0 | 2.1 |
| **At 31 December 2017** | | 11.2 | 695.3 | 6.1 | (259.4) | 453.2 |
| Impact of initial adoption of IFRS 9 | A | – | – | – | (21.4) | (21.4) |
| Restated balance at 1 January 2018 | | 11.2 | 695.3 | 6.1 | (280.8) | 431.8 |
| Loss for the year | | **–** | **–** | **–** | **(23.0)** | **(23.0)** |
| *Transactions with owners:* | | | | | | |
| Shares issued for a subsidiary to acquire investments in associates | | **0.3** | **25.9** | **–** | **–** | **26.2** |
| Shares issued on conversion of convertible loans | 12 | **0.5** | **66.6** | **–** | **–** | **67.1** |
| Share-based payments | 13 | **–** | **1.2** | **0.4** | **1.2** | **2.8** |
| **At 31 December 2018** | | **12.0** | **789.0** | **6.5** | **(302.6)** | **504.9** |

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

The share-based payment reserve is used to record the fair value of share-based payments relating to the Company's shares which are outstanding.

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

## A. REFERENCE INFORMATION

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### BASIS OF PREPARATION

These financial statements relate to Sirius Minerals Plc, a publicly traded company incorporated and domiciled in England. The registered address is 3rd Floor, Greener House, 68 Haymarket, London SW1Y 4RF.

These financial statements present the results of the Company as an individual entity and are prepared on the going concern basis, in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and the Companies Act 2006. These financial statements have been prepared on the going concern basis as detailed in note 1 of the consolidated Group financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under the standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of share capital, presentation of a cash flow statement, standards not yet effective and related party transactions. Where required, equivalent disclosures are provided in the consolidated Group financial statements within this Annual Report.

The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (principally derivatives) stated at fair value through profit or loss. The principal accounting policies set out below have been consistently applied to all years presented. The financial statements are presented in Sterling (rounded to the nearest million), which is the functional currency of the Company.

The going concern assumption has been adopted in the preparation of the Company's financial statements. As explained within note 1 to the consolidated financial statements, the Group (and Company's) ability to continue operating is dependent upon the successful outcome of the US$400 million equity issuance and the stage 2 financing. The risk that a successful outcome may not be reached represents a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. As explained in note 1, based on the current likelihood of the success of the US$400 million equity issuance and the stage 2 financing, the Directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the Company's financial statements.

### PRINCIPAL ACCOUNTING POLICIES

The accounting policies which have been applied by the Company when preparing the financial statements are in accordance with FRS 101. FRS 101 is based on the recognition and measurement requirements of EU-adopted IFRS, under which the consolidated Group financial statements have been prepared. As a result, the accounting policies of the Company are consistent with those used and disclosed in the consolidated Group financial statements, except for the policy relating to investments in subsidiaries, which is detailed in note D.

### NEW AND AMENDED ACCOUNTING POLICIES ADOPTED BY THE COMPANY – IFRS 9

The Company adopted IFRS 9 on 1 January 2018 (further information about this accounting standard is provided in note 1 to the consolidated financial statements). At that date the Company elected to apply the transition exemption available within IFRS 9 to not restate balances reported for prior years. The only material impact of transitioning from valuing financial instruments under the measurement principles set out in IFRS 9 compared to those stipulated by IAS 39 has been the requirement to recognise an expected credit loss (ECL) provision in relation to the Company's loans to subsidiaries. IFRS 9's ECL measurment requirments require a provision to be recognised based on a probability-weighted statistical likelihood of any default occurring, even though the Company continues to expect that the book value of all loans are likely to be repaid in full. The impact of the recognition of the ECL provision in respect of loans to subsidiaries at 1 January 2018 has resulted in an increase in the value of accumulated losses of £21.4 million, which has been recognised as an adjustment through the statement of changes in equity at that date.

### SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The most significant estimates and judgements relevant to the Company's financial statements are broadly the same as those for the consolidated Group financial statements as detailed in note 1. In addition, the estimation of the value of the ECL provision recognised in respect of loans to certain subsidiaries as detailed in note F represents a significant estimate. Identifying the appropriate value of the provision requires significant estimation as it is based on the Company's subjective assessment of hypothetical credit outcomes of the loans. A one percentage point increase (decrease) in the estimated chance of a full impairment of the loans would result in an increase (decrease) in the provision and expense recorded during the year of £5 million. Should the Group's stage 2 financing reach a succcessful outcome, the value of the provision assoicated with the loans outstanding at 31 December 2018 would be expected to decrease by a material amount, with the associated reduction to be reported as a gain through the income statement by the Company during 2019.

## B. PROFIT AND LOSS ACCOUNT

The Company has not presented its own income statement or statement of comprehensive income as permitted by section 408 of the Companies Act 2006. The loss for the Company for the year was £23.0 million (2017: loss of £74.7 million). Included in the Company's profit and loss account is a charge of £109,000 (2017: £95,000) in respect of the Company's audit fee.

## C. STAFF NUMBERS AND COSTS

| | 2018 Number | 2017 Number |
|---|---|---|
| Average monthly number of staff (including Directors) | **32** | 33 |

| | 2018 £m | 2017 £m |
|---|---|---|
| Wages and salaries | **4.6** | 4.7 |
| Social security costs | **0.7** | 0.7 |
| Share-based payments | **0.9** | 0.6 |
| **Total staff costs** | **6.2** | 6.0 |

Detailed information concerning Directors' remuneration, interests and options is shown in the table within the Directors' Remuneration Report which is subject to audit on pages 61 to 81 and which forms part of the Annual Report. Details on key management compensation is contained within note 21 of the consolidated Group financial statements.

## D. INVESTMENTS

Investments are initially stated at cost. Investments are tested for impairment when an indication of impairment becomes apparent. An impairment loss is recognised in the income statement to the extent that the carrying amount cannot be recovered either by selling the asset or is not supported by the discounted future cash flows from the investment.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Company is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiary undertakings, with a corresponding credit to equity.

| **Net book value of investments in subsidiaries** | 2018 £m | 2017 £m |
|---|---|---|
| At 1 January | **249.6** | 81.8 |
| Additions | **73.8** | 171.1 |
| Impairments recognised | **(8.5)** | (3.3) |
| Impairments reversed | **3.3** | – |
| **At 31 December** | **318.2** | 249.6 |

Disclosure of the Company's subsidiaries is given in note 26 of the consolidated Group financial statements. The value of the investments is supported by the projected discounted cash flows of the subsidiaries which are based on the Group's most recent financial projections.

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

## E. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2018 £m | 2017 £m |
|---|---|---|
| Hancock equity investment derivative | **2.5** | 10.0 |
| Convertible loans conversion derivative | **25.6** | 48.5 |
| **Total derivative financial liabilities** | **28.1** | 58.5 |

The Hancock equity investment derivative liability is the same as that disclosed in note 17 of the consolidated Group financial statements. The convertible loans conversion derivative is effectively identical to that disclosed in note 16 of the consolidated Group financial statements. Further disclosures in relation to these derivatives are included within note 24 of the consolidated Group financial statements.

## F. LOANS TO SUBSIDIARIES

All loans to subsidiaries do not bear interest, are unsecured and are repayable on demand. The total value of loans to subsidiaries reported by the Company at 31 December 2018 on its statement of financial position of £811.7 million is stated net of ECL provisions of £44.7 million. The value of loans to subsidiaries reported at 31 December 2017 of £519.3 million contained no provision under the measurement requirements of IAS 39 as the Company believed them to be fully recoverable, however upon transition to IFRS 9 on 1 January 2018 a provision of £21.4 million was recognised, as discussed in note A, with an associated charge being made directly to accumulated losses. The increase in the ECL provision during 2018 of £23.3 million has been charged as an expense to the income statement of the Company in the year, with the increase in the provision being principally due to the advancement of additional loans to certain subsidiaries during the year.

## G. LOANS FROM SUBSIDIARIES

| | 2018 £m | 2017 £m |
|---|---|---|
| Loan from Sirius Minerals Finance Limited | **193.2** | 249.6 |
| Other loans from subsidiaries | **467.7** | 375.8 |
| **Total loans from subsidiaries** | **660.9** | 625.4 |

An intercompany loan is in place from Sirius Minerals Finance Limited ('SMF') to the Company for the gross proceeds of the US$400 million convertible loans.

The terms of the intercompany loan mirror the terms of the external convertible loans detailed in note 16 to the consolidated Group financial statements. The liability recognised by the Company in its own financial statements reflects the principal amount of all loans, all accrued interest and the gross value of all make-whole payments potentially payable. The intercompany loan has a stated interest rate of 8.5% payable on the outstanding par value of all unredeemed convertible loans held by SMF.

Upon any conversion of the US$400 million convertible loans, the Company will receive a redeemable preference share in SMF from external loanholders in exchange for issuing those loanholders ordinary shares in the Company. These redeemable preference shares are generally redeemed on the day of issuance against the intercompany loan, meaning that the gross intercompany liability faced by the Company continues to mirror the gross contractual liability that the Group has to external bondholders at each point in time.

All other loans from subsidiaries do not bear interest, are unsecured and are repayable on demand.

## H. SHARE-BASED PAYMENTS

The total charge for the year in respect of share-based remuneration schemes was £0.9 million (2017: £0.6 million). The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to the share-based payment reserve.

The key elements of each scheme, along with the assumptions employed to arrive at the charge in the profit and loss account, are set out in note 13 to the consolidated Group financial statements.

## I. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption available under FRS 101 from disclosing transactions with other Group undertakings. Information on the Group can be found in note 26 of the consolidated Group financial statements. There were no other related party transactions during the year other than those already disclosed in note 21 of the consolidated Group financial statements.

# SHAREHOLDER INFORMATION

**Directors**

Chairman
Russell Scrimshaw

Executive Directors
Chris Fraser – Managing Director and CEO
Thomas Staley – Finance Director and CFO

Non-Executive Directors
Lord John Hutton
Jane Lodge
Louise Hardy
Keith Clarke, CBE
Noel Harwerth – Senior Independent Director

Company Secretary
Nicholas King

**Registered office**
Third Floor
Greener House
68 Haymarket
London
SW1Y 4RF
Telephone: 020 3327 3660
Website: siriusminerals.com

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

**Sponsor**
J.P. Morgan Cazenove
25 Bank Street
Canary Wharf
London
E14 5JP

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

**Brokers**
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London
EC2Y 9LY

J.P. Morgan Cazenove
25 Bank Street
Canary Wharf
London
E14 5JP

WH Ireland
20 Martin Lane
London
EC4R 0DR

Shore Capital
Bond Street House
14 Clifford Street
London
W1S 4JU

**Solicitors**
Allen & Overy LLP
One Bishops Square
London
E1 6AD

Pinsent Masons
30 Crown Place
London
EC2A 4ES

**Registrars**
Link Asset Services
34 Beckenham Road
Beckenham
Kent
BR3 4TU

For any queries relating to your shareholding in Sirius Minerals Plc (including changing your address or in relation to a lost share certificate), you need to contact Sirius Minerals' registrars.

By phone – From the UK call – 0871 664 0300, from overseas call +44 (0) 371 664 0300. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9am – 5.30pm, Monday to Friday excluding public holidays in England and Wales

By email – enquiries@linkgroup.co.uk

**Annual General Meeting 2019**
Date: 13 June 2019
Time: 1pm
Venue: The Events Centre
The Principal York
Station Road
York
YO24 1AA

# GLOSSARY

| | |
|---|---|
| 2017 Annual Report | Annual Report and financial statements for the year ended 31 December 2017 (available on the Company's website, siriusminerals.com) |
| AGM | Annual General Meeting |
| AN | Amonium nitrate-based NPKs |
| CEO | Chief Executive Officer |
| $CO_2$ | Carbon dioxide |
| CFO | Chief Financial Officer |
| CSR | Corporate social responsibility |
| DTR | Disclosure Guidance and Transparency Rules |
| EBIT | Company's earnings before interest and tax |
| EBITDA | Company's earnings before interest, taxes, depreciation and amortisation |
| EC | Electric conductivity |
| ECL | Expected credit loss |
| FCA | Financial conduct authority |
| FDI | Foreign direct investment |
| FSA | Financial Services Authority |
| GDP | Gross domestic product |
| GHG | Greenhouse gases |
| GWP | Global warming potential |
| IFRS | International financial reporting standards |
| ISA | International standards on auditing |
| JORC | Australasian Joint Ore Reserves Committee |
| KCL | Potassium chloride |
| LSE | London Stock Exchange |
| LTIFR | Lost time injury frequency rate |
| LTIP | Long-term incentive plan |
| MHF | Materials handling facility |
| MOP | Muriate of potash – common name for potassium chloride |
| MTS | Mineral transport system |
| Mtpa | Million tonnes per annum |
| NPK | NPK is a fertilizer product containing at least two of nitrogen, phosphorus, and potassium plant nutrients as a complete product |
| NYMA | North Yorkshire Moors Association |
| NYMNP | North York Moors National Park |
| NYMNPA | North York Moors National Park Authority |
| OECD | Organisation for Economic Cooperation and Development |
| POLY4 | Sirius Minerals' trademarked polyhalite product. |
| Prospectus | Prospectus issued by the Company on 25 April 2017 for the admission to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities (available on the Company's website, siriusminerals.com) |
| R&D | Research and development |
| RBT | Redcar bulk terminal |
| RNS | Regulated news service |
| S106 | Legal agreement linked to our planning permissions |
| SID | Senior Independent Director |
| SBR | Shaft boring roadheader |
| SOP | Sulphate of potash |
| SOP-M | Sulphate of potash and magnesium |
| STEM | Science, technology, engineering and maths |
| TBM | Tunnel boring machine |
| ToP | Take-or-pay in relation to sales agreement – a take-or-pay contract is a rule structuring negotiations between companies and their suppliers. With this kind of contract, the company either takes the product from the supplier or pays the supplier a penalty |
| TSR | Total shareholder return |
| UN | United Nations |
| VSM | Vertical sinking machine |