ANNUAL REPORT 2016

For the year ended
31 December 2016

SIRIUS
MINERALS PLC

WELCOME TO THE SIRIUS MINERALS 2016 ANNUAL REPORT

SIRIUS MINERALS IS FOCUSED ON THE DEVELOPMENT OF THE WORLD'S LARGEST AND HIGHEST GRADE POLYHALITE DEPOSIT LOCATED IN NORTH YORKSHIRE, UNITED KINGDOM.

POLYHALITE IS A UNIQUE MULTI-NUTRIENT FERTILIZER, WHICH CAN BE USED TO INCREASE BALANCED FERTILIZATION AROUND THE WORLD.

THE COMPANY IS ALSO COMMITTED TO ULTIMATELY DEVELOPING A PORTFOLIO OF PROJECTS AND CONTINUES TO REVIEW OPPORTUNITIES AROUND THE GLOBE THAT FIT THE COMPANY'S LONG-TERM STRATEGY TO BE A WORLD-CLASS FERTILIZER BUSINESS.

The annual report contains forward-looking statements. These forward-looking statements are not guarantees of future performance. Rather they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results to differ from any future results or developments expressed or implied from the forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement.

CONTENTS

SIRIUS MINERALS PLC

OUR VISION

TO BE A WORLD-CLASS FERTILIZER BUSINESS

LARGE SCALE:
TARGET OF PRODUCING UP TO 20 MTPA OF POLYHALITE

LOW COST:
WORLD'S LARGEST AND HIGHEST GRADE RESOURCE OF POLYHALITE WITH SIMPLE BUSINESS MODEL

LONG LIFE:
ASSETS WITH LONG-LIFE RESOURCES, IDEALLY OVER 50 YEARS

INDEPENDENT AND CUSTOMER ALIGNED:
ENGAGE DIRECTLY AND ALIGN THE COMPANY WITH MAJOR CUSTOMERS

CHAIRMAN'S STATEMENT

Dear Shareholders,

Welcome to the 2016 annual report which covers the period from 1 January to 31 December.

Some five years ago, in my first Chairman's overview, I commented that Sirius Minerals is one of the world's most exciting resource development companies. For me nothing has changed in terms of the sentiment, although clearly we have made significant progress towards reaching our goals.

If 2015 was principally about securing key approvals, until that time seen by the market as the major barrier to our progress, then 2016 was the year we cleared the second major hurdle – stage 1 financing. As long-term shareholders will know, the completion of our stage 1 financing in November 2016 was the culmination of much hard work in the preceding years including resource exploration and definition, the signing of several bankable sales contracts and the securing of key planning approvals.

In 2016 we published the key findings of our definitive feasibility study (DFS). The study was essentially prepared over two years, with input from the results of planning approvals and contributions from a wide range of experienced consultancies. The DFS defined a business that has the potential to be a world leader in the fertilizer industry, with expected low operating costs, healthy margins and a very long asset life.

In the period around and immediately after the DFS announcement we had been running competitive tender processes for both the construction of the mine shafts and the mineral transport system, and subsequently we announced our preferred contractors.

This, together with the receipt of the final major planning approval – the harbour facilities – and the update on stage 2 financing progress, provided the ideal spring board that we needed to execute the stage 1 financing. I can assure all shareholders that we undertook a tremendous amount of detailed work with a number of financing and consulting parties in the run up to the announcement of the Royalty Financing Agreement with Hancock British Holdings Ltd in October 2016.

"OUR BUSINESS HAS THE POTENTIAL TO SIT AS A WORLD LEADER IN THE FERTILIZER INDUSTRY, WITH EXPECTED LOW OPERATING COSTS, HEALTHY MARGINS AND A VERY LONG ASSET LIFE"

Russell Scrimshaw
Chairman

Hancock Prospecting Chairman, Mrs Gina Rinehart, needs no introduction given her extremely successful business track record. We were delighted to partner with her company, particularly given its extensive experience in both the mining industry and with royalty agreements. Hancock's growing agricultural interests also make them an excellent partner for us.

With this part of the stage 1 financing in place, we could execute the remaining elements of the financing package being the convertible bonds and a firm placing and placing and open offer. This meant we were able to secure funding of US$1.2 billion required to begin the construction of our Project.

I believe, after many further successes, people will look back and truly appreciate what a momentous achievement this financing was. A great deal of credit should be attributed to our executive team, led by Chris Fraser, and our Chief Financial Officer, Thomas Staley. But the credit stretches throughout the entire organisation, such is the level of effort needed across the business in preparing for, coordinating and executing such a complex structure – essentially three separate significant finance components.

We have also made other substantial progress this past year including a new, upgraded take-or-pay offtake agreement, an increase to our polyhalite probable reserve and the development of a potential de-icing salt opportunity at our Project. On the governance side in 2016 Louise Hardy replaced Stephen Pycroft on the Sirius Minerals Board as a non-executive director. Louise has brought to our Board additional extensive major project experience in senior roles in the UK construction industry. Her background is already proving most valuable for the Company.

POST-BALANCE SHEET EVENTS

On 19 January 2017 we set out a schedule for reporting our Project construction updates. Given the levels of interest in our construction from both shareholders and wider stakeholders, we felt it was important to give clarity on when to expect Project progress information to be shared. The first of these updates is scheduled for release alongside the issue of this annual report.

On 2 February 2017 we appointed our Chief Financial Officer, Thomas Staley, to the role of Finance Director and Executive Board Director. Thomas has demonstrated his strong capabilities as Sirius CFO over the last two years and he brings valuable financing and governance experience to the Board.

As always, I thank all shareholders for their support for the Company. We are continually uplifted by the good wishes we receive from our very large number of loyal shareholders. We look forward to our first year of construction as we continue to develop our world-class polyhalite Project.

Kind regards

RUSSELL SCRIMSHAW
Chairman

24 March 2017

£2.3 BILLION

ANNUAL CONTRIBUTION TO UK GDP

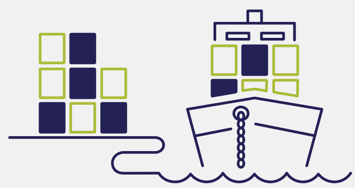
£500 MILLION

IN TAX CONTRIBUTIONS ANNUALLY

£2.5 BILLION

OF EXPORTS ANNUALLY

(REPRESENTING A 7% REDUCTION IN TRADE DEFICIT)



STRATEGIC REPORT

THE DIRECTORS PRESENT THE GROUP'S STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

CHIEF EXECUTIVE OFFICER'S STATEMENT

I am delighted to bring you my update in what is now my sixth annual report statement and possibly my most significant one to date. This report covers the period from 1 January 2016 to 31 December 2016 – the first full year since we changed our accounting reference date in March 2015.

The 2016 financial year has proved to be another defining period for the group with the completion of our engineering studies and, crucially, the stage 1 financing for our North Yorkshire polyhalite project (the Project). As I said to several media outlets at the time, and it applies to the year as a whole, this represents "the end of the beginning" for the exciting journey we are on to achieving our corporate goals.

MINE NAME

I start my update with an event from outside the financial year, but which is relevant to references throughout this report. Over the last two years we have phased out the York Potash name because it no longer accurately reflected either the location or the product to be primarily produced at the Project.

References to the Project as a whole have been appropriate to date, but as we approach production we will increasingly be referring to the mine and its output (with the mineral transport system, materials handling facility and harbour facilities merely being supporting infrastructure for the mine). With all main approvals in place and stage 1 financing secured, it was an appropriate time to finally name the mine.

The official naming ceremony was held on Friday 24 February 2017. We were delighted that the Minister for the Northern Powerhouse, Andrew Percy MP, could join us and officially name the **Woodsmith Mine**. The name has been something I have kept confidential and personal for a very long time, but I am now delighted to explain that it honours the contribution of the two original geologists that worked with me back in 2010 (and continue to have involvement today), Peter Woods and Rick Smith.

Without their willingness to take a chance on my vision for the Project and their contribution and extensive knowledge and experience of the geology in the Project area, none of what the Group has achieved to date would have been possible.

"WE VERY MUCH BELIEVE THAT THE WOODSMITH MINE IS ON A CLEAR PATH TO LONG-TERM, LOW-COST AND HIGH-VOLUME PRODUCTION"

Chris Fraser
Managing Director and CEO

It was important in choosing a name not only to recognise the heritage of the Project and the team approach to its delivery, but also to ensure that no local community became perceived to be dominated by the mine – we have spent thousands of design hours and millions of pounds in trying to ensure that the development is sympathetic with the surroundings of the National Park, and it was important not to undo that hard work. Likewise, we wanted a name that would respect the National Park setting, have undertones of craftsmanship and portray a rural feel.

SAFETY

It has been another positive year for safety, with no injuries or lost time incidents reported for the financial year. Our activities have again largely been office-based – with lower risks than we will experience in the future in the development of the Woodsmith Mine – but nonetheless these numbers represent our high standards and successful safety management.

Safety is front of mind for the management team, who is acutely aware that successful, safe delivery will be driven more by our safety culture than anything else. Our leaders are committed to creating an environment to ensure everyone – our staff, our contractors' and sub-contractors' staff – goes home safely every day by looking after each other and ourselves.

During construction we will be working with our contracting partners to maintain our safety focus and to drive a project-wide safety culture. Sirius and contractor safety personnel will work closely together to assist supervisors and managers across the Project with their safety responsibilities.

POLY4

The main sales update to give on our POLY4 product during the year has been a new take-or-pay offtake agreement with Yunnan Dian Huang Peony Industrial Group Co. Ltd (Dian Huang). This replaced our previous offtake contract with Yunnan TCT and was facilitated as part of the relationships we now have in China. It strengthened the Group's supply position in Yunnan because we will now be supplying a customer closer to the end user.

During the year we have progressed with our agronomy work and crop trial programme around the world. We have now completed over 200 trials, covering 26 crops in 14 countries. The programme continues to demonstrate the value-in-use of POLY4 and helps us to build the detailed understanding of performance on all major crops and soil types. We regularly update our website with new developments in this area.

PROJECT STUDIES AND APPROVALS

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

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

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

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

FINANCING

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

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

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

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

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

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

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

FINANCE AND RISKS

The consolidated financial statements for the year ended 31 December 2016 have been prepared under the going concern assumption. However, the directors recognise that there are a number of material uncertainties inherent in the Project. The impact of this uncertainty on the directors' consideration of the going concern assumption is set out in note 1 to the financial statements.

During the financial year ended 31 December 2016 the Group made a consolidated loss of £23.0 million compared to a loss of £7.0 million for the nine-month period to 31 December 2015. Cash resources at the end of December 2016 were £665.3 million, of which is made up of liquid funds (investments and restricted cash) compared to £29.1 million as at 31 December 2015.

The Group's net assets at 31 December 2016 were £496.3 million compared to £165.2 million at 31 December 2015.

The principal risks and uncertainties facing the Group can be found in the *Strategic report* under the *Principal risks and uncertainties* section.

THE YEAR AHEAD

I'm sure shareholders won't tire of the message I have delivered in consecutive years that we have another exciting year ahead. As we continue to provide construction updates through the year, we will continue to get ever closer to our goal of becoming a multi-nutrient fertilizer producer.

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

Thank you for your continuing support.
Here's to another year of success.

CHRIS FRASER
Managing Director and CEO

BUSINESS REVIEW

BUSINESS REVIEW

STRATEGIC CONTEXT

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

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

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

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

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

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

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

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

GROUP STRATEGY

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

- **ADOPTING A DISRUPTIVE MARKET PENETRATION STRATEGY**

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

- **INSTALLING LARGE PRODUCTION CAPACITIES**

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

- **DESIGNING SUSTAINABLY LOW CASH OPERATING COSTS**

  The ability to achieve this is driven by the resource quality and core infrastructure implementation decisions. The Group believes the resource to represent the largest and highest grade polyhalite resource in the world, reported using the internationally accepted JORC code.

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

- **SELECT QUALITY OVER COST WHERE IT LEADS SAFELY TO EITHER REDUCED OPERATIONAL RISK OR OPERATING COST**

  The Group has made a conscious decision to opt for higher quality where it could either enhance the sustainable competitive advantage of low cash operating costs or reduce the risk of implementation delays and capital variation risks.

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

- **MITIGATE RISK WHERE POSSIBLE THROUGH STRATEGY, DESIGN OR IMPLEMENTATION APPROACH**

  The Group continues to progressively de-risking the Project by moving towards production at the Woodsmith Mine. This began with the exploration programme and resource definition and moved through the successful planning approvals stages for key permissions needed to start construction.

  It has included the securing of multiple customer contracts and commitments for the Project's POLY4 product. It has also delivered an improved business model through the progression of several project studies, culminating in the publication of the material findings of the DFS and then the cost reductions made possible through contractor engagement.

BUSINESS MODEL

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

Safety

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

Customers

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

Our people

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

The environment

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

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

Community

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

CONTINUED PROGRESS

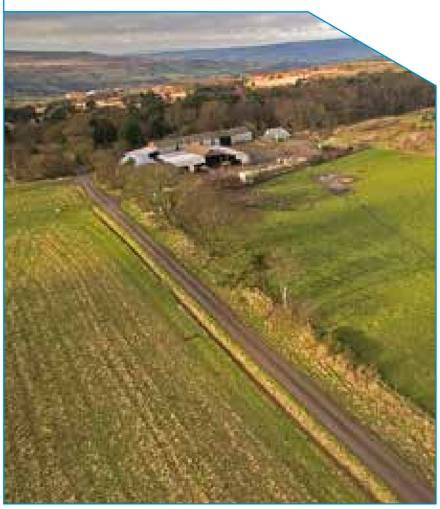
SIRIUS MINERALS' POLYHALITE PROJECT HAS MADE GOOD PROGRESS SINCE BEING ACQUIRED BY THE COMPANY IN 2011.

2011

- **JANUARY**
  Acquisition of York Potash Project
- **JULY**
  Drilling commences
- **DECEMBER**
  Pre-feasability study published

2012

- **APRIL**
  Detailed scoping study published
- **JUNE**
  Maiden resource statement
  1.35 billion tonnes of polyhalite
- **SEPTEMBER**
  Mine location announced



2013

- **JANUARY**
  Offshore mining licence received
- **MAY**
  Resource increase
  2.66 billion and upgrade of 820 million tonnes to indicated category
- **JUNE**
  Major polyhalite offtake contract
  1 Mtpa for ten years with Yunnan TCT
- **SEPTEMBER**
  Maiden reserve report
  250 million tonnes of 87.8% polyhalite

2014

- **JANUARY**
  US-based agri-business signs take-or-pay agreement for 500,000tpa
- **FEBRUARY**
  New mineral transport system (MTS) announced
- **SEPTEMBER**
  Planning application submitted

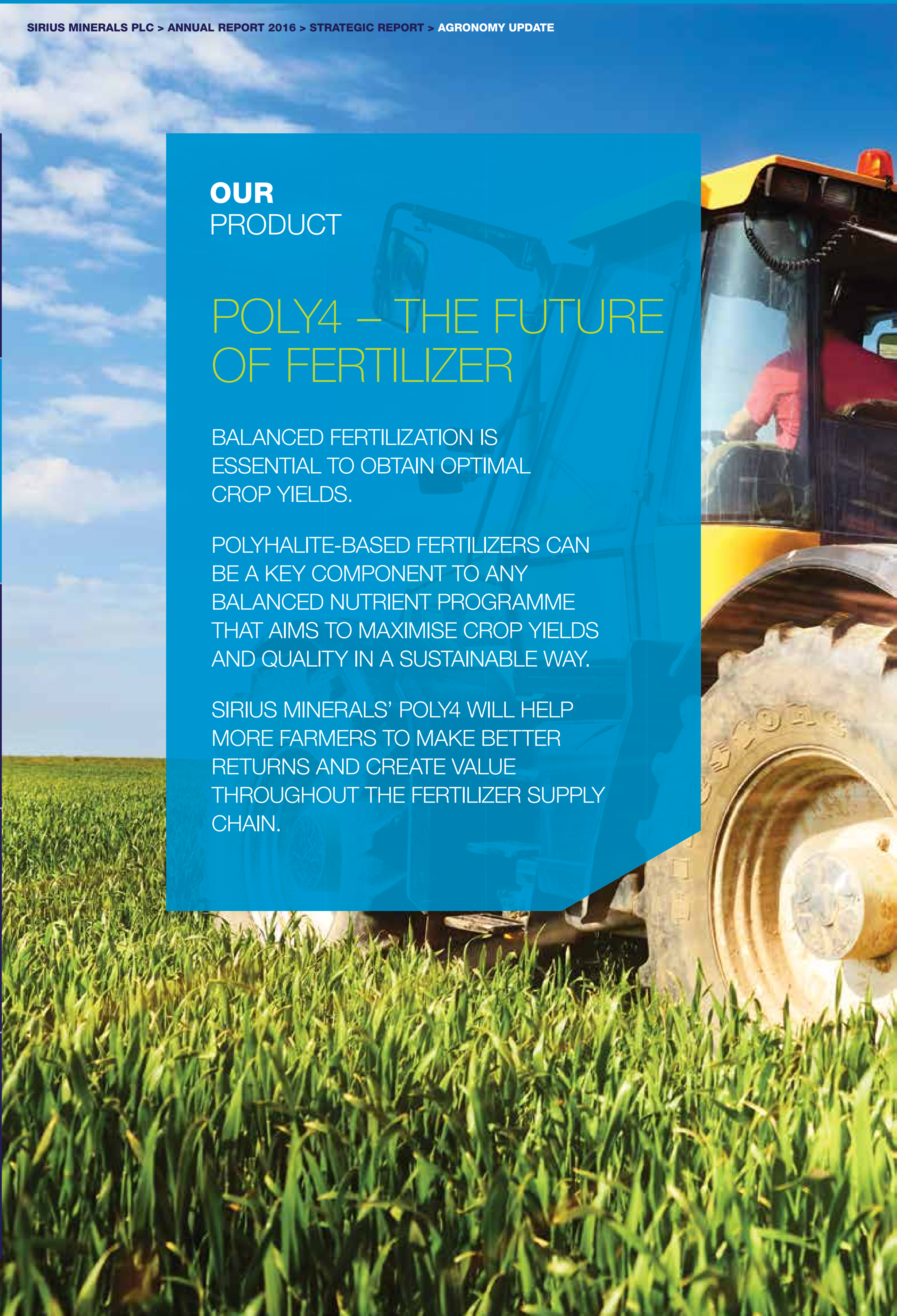
2015

- **JUNE**
  North York Moors National Park Authority approval for mine and MTS
- **AUGUST**
  Four final planning permission decision notices received
- **DECEMBER**
  All key planning approvals passed through judicial review windows

Further sales bring total commitments to 7.9 million tonnes per annum

2016

- **MARCH**
  Completion of the definitive feasibility study (DFS)
- **MAY**
  Probable reserve report
  Increase to 280 million tonnes at an average grade of 88.4%
- **SEPTEMBER**
  Stage 2 financing: mandated a group of MLAs
- **NOVEMBER**
  Stage 1 financing launch and successful completion



OUR PRODUCT

POLY4 – THE FUTURE OF FERTILIZER

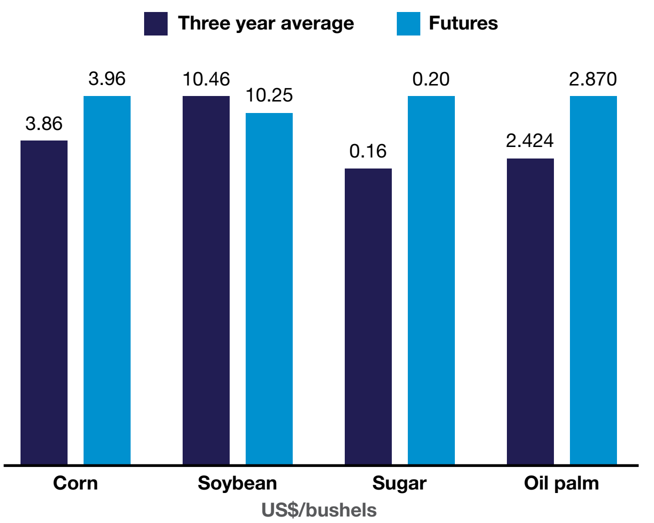
BALANCED FERTILIZATION IS ESSENTIAL TO OBTAIN OPTIMAL CROP YIELDS.

POLYHALITE-BASED FERTILIZERS CAN BE A KEY COMPONENT TO ANY BALANCED NUTRIENT PROGRAMME THAT AIMS TO MAXIMISE CROP YIELDS AND QUALITY IN A SUSTAINABLE WAY.

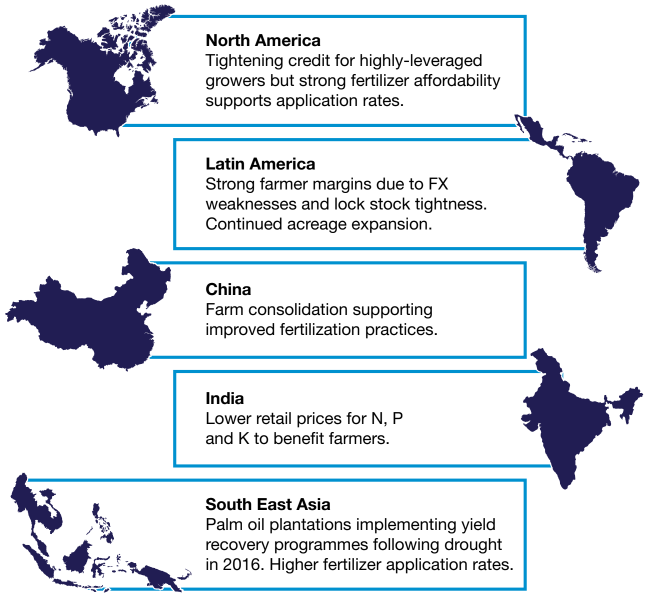
SIRIUS MINERALS' POLY4 WILL HELP MORE FARMERS TO MAKE BETTER RETURNS AND CREATE VALUE THROUGHOUT THE FERTILIZER SUPPLY CHAIN.

THE KEY AGRICULTURAL BACKGROUND

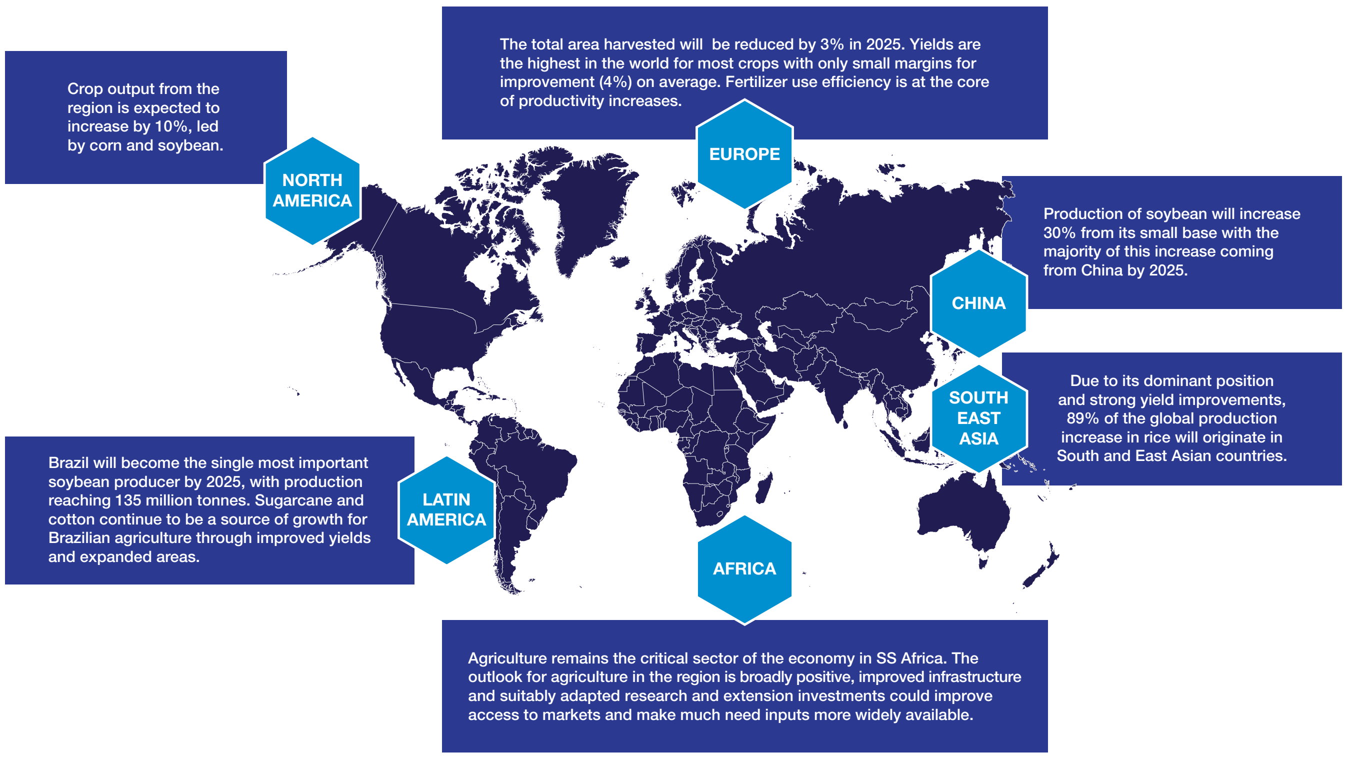
The Food and Agriculture Organisation (FAO) of the United Nations predicts that the world's population will reach 9.1 billion in 2050 and that food production will have to increase 60% to keep in pace with demand. This increase could be achieved by devoting more land to agriculture. However, the land is not readily available: the negative impact on the environment and biodiversity of converting the planet's natural forests and wild areas further is well documented. Changes in land-use account for some 12% of the greenhouse gas emissions that lead to global warming.



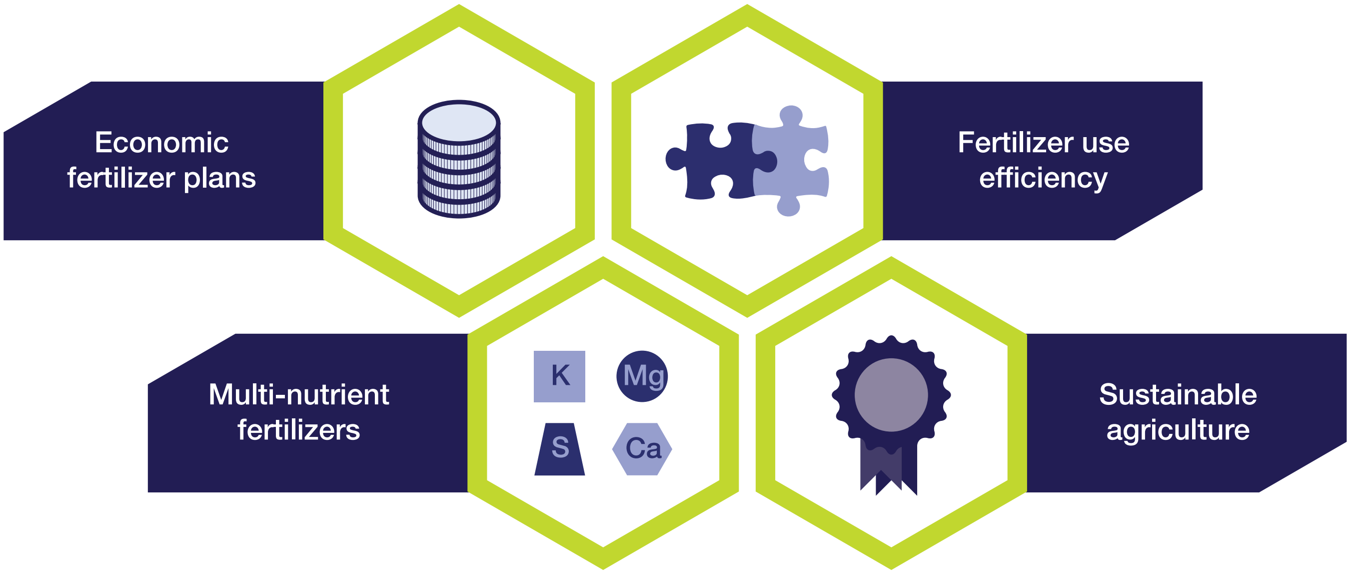
Crop price indications



The more sustainable option is to make better use of already available agricultural land. Yet this faces challenges of its own due to the increasing urbanisation, soil erosion and nutrient exhaustion as well as increasing water scarcity. Since the green revolution of the mid 20th century, growth in agricultural productivity has slowed down in many regions. Global food security rests on reversing this trend through better agricultural efficiency, including more effective crop nutrition (Fertilizers Europe 2016).



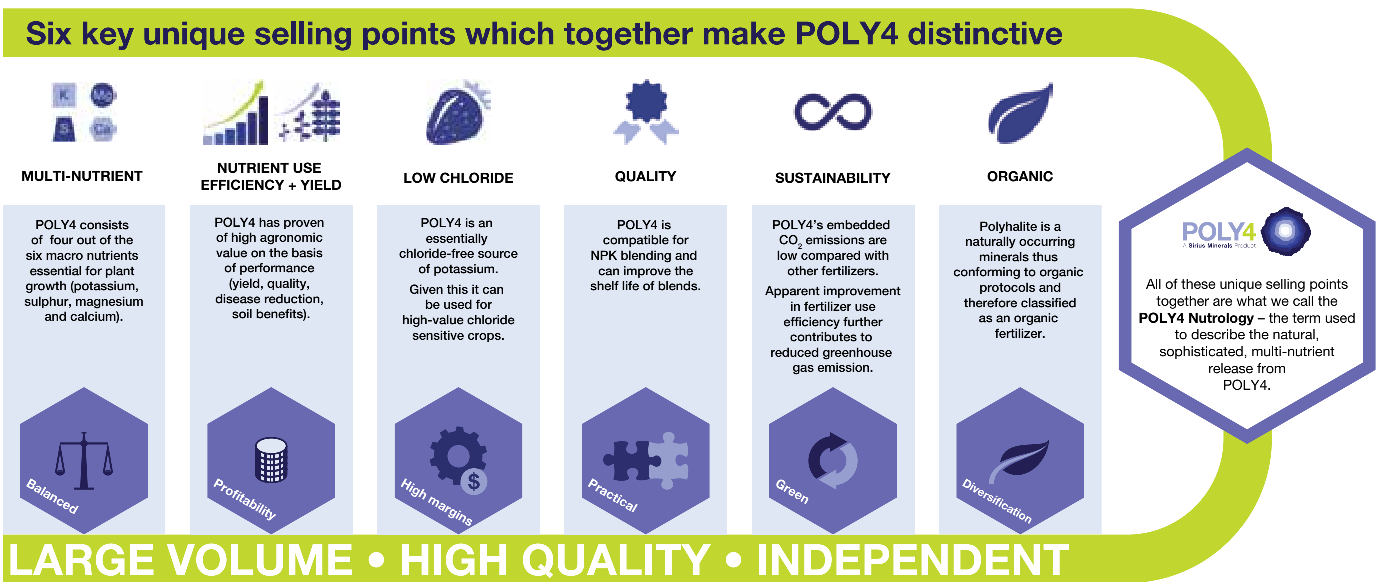
MARKET DRIVERS



THE UNIQUE POLY4 PRODUCT

The Company's focus is on developing the multi-nutrient product, POLY4, to be used as a direct-application fertilizer and as a component in NPK blending. The Company has developed a patented granulation process, which enables polyhalite to be processed without the use of chemicals, into a form beneficial for plant nutrient uptake. Polyhalite is an evaporite mineral comprising a natural combination of potassium (14% K_2O), sulphur (19% S), magnesium (6% MgO) and calcium (17%. CaO), with the chemical formula: $K_2SO_4.MgSO_4.2CaSO_4.2H_2O$.

	Nitrogen (N)		Phosphorus (P)	
POLYHALITE	Potassium (14% K_2O)		Sulphur (19% S)	
	Magnesium (6% MgO)		Calcium (17% CaO)	
	Boron	Zinc	Manganese	Molybdenum
	Selenium	Iron	Copper	Strontium



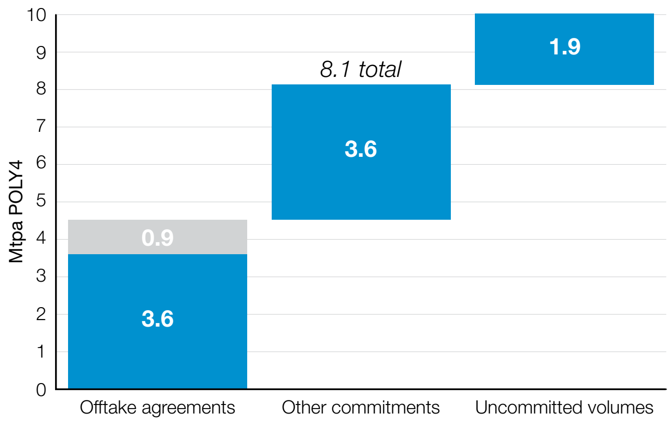
POLY4 provides nutrients in a way which is harmonious to plants requirements whilst being effective, preserving the environment and ensuring that the nutrients applied are the nutrients supplied.

OF&G ORGANIC

POLY4 OFFTAKE AGREEMENTS

The Company has secured offtake agreements totalling 3.6 million tonnes per annum (Mtpa) at their respective full volumes. Certain customers have options to take an additional 0.9 Mtpa in aggregate, bringing the total under these agreements to 4.5 Mtpa.

There are other sales agreements in the form of memorandums of understanding (MoUs), framework sales agreements (FSAs) and letters of intent (LoIs) amounting to a further 3.6 Mtpa. The following graph sets out the Company's current volume commitments based on the initial planned production capacity of 10 Mtpa. Detailed information about all Company's sales agreements can be found on Sirius Minerals website (http://siriusminerals.com/polyhalite/sales-agreements/).



Customer agreements to date in million tonnes per annum (Mtpa)

RESEARCH AND DEVELOPMENT

Sirius Minerals' research and development programme was initially driven by the work which characterised the product, its nutrient release profile, salt index, balance nutrient delivery, low-chloride and low soil electrical conductivity (EC) impact.

The programme is now entering its sixth year of studies. The extent of the programme's reach now covers over 200 field trials on 26 crops in 14 countries.

The characteristics of the product are supportive of research to demonstrate the value of POLY4 in a range of agro-ecological zones, on a range of crops across the world. Results showed yield and crop quality improvements delivering economic benefits to farmers.

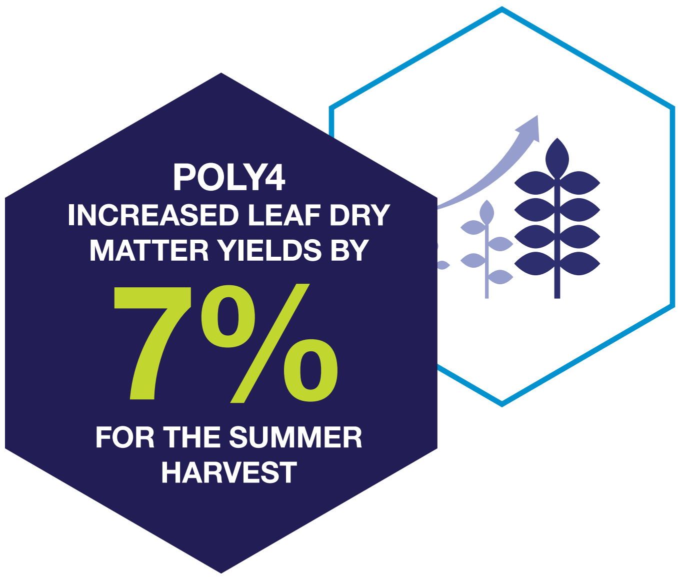
QUALITY DRIVEN BY FERTILIZER

The low-chloride content of POLY4 coupled with a moderated dissolution rate of nutrients is highly suitable for a high-value crop such as tea and the intense rainfall environments of tea gardens.

Sirius Minerals has completed studies evaluating POLY4 as a source of potassium in tea, which led to NPK nutrient balanced trials in Yunnan and Sichuan provinces, China, during 2014/15. The programme continues today in its final year of the trials.

Results showed that POLY4, as a potassium (K) fertilizer, enhanced the summer season tea yield. Compared to the conventional K source, namely sulphate of potash (SOP), POLY4 significantly enhanced leaf magnesium (Mg) content during spring, in old leaves and both newer and old leaves during summer harvest. Bud length was improved in all seasons. Water extractable compounds, polyphenol and amino acid content were generally enhanced by potassium application. The combined effect of yield and quality resulted in a higher economic output.

In 2016 the Company further expanded the tea research into Africa. Tea in Tanzania offered a unique opportunity to evaluate a POLY4 fertilizer plan. In Africa, muriate of potash (MOP) is not an uncommon recommendation due to the cost and availability of SOP. Calcium is also known locally to be a yield and quality driver. The POLY4 option enhanced the calcium delivered as well as additional Mg and S nutrients. Demanding quality standards driven by buyers from the developed world support the need of POLY4 use for this crop. The POLY4 offer is sustainable, has a reduced environmental impact and enhances quality. Currently, in the first year of trials, the Company is working with the Tea Research Institute of Tanzania supporting the fertilizer development plan of the Tanzanian Government.



MULTI-NUTRIENT (K, S, Mg AND Ca) CROP FERTILIZATION

One of the major values of POLY4 are sources of potassium (K) and sulphur (S), but it also contributes significantly to magnesium (Mg) and calcium (Ca) offtake. Additional benefits on soil structure can be confirmed on certain soils from the calcium content of POLY4.

Sulphur (S) is an essential plant nutrient being a component of protein and chlorophyll. Without an adequate supply of S, crops will not reach their full potential in terms of yield or protein content. In North America 42 of the 52 US states grow corn. Nine of these states are now also recognising a crop need for sulphur with agronomic recommendations ranging from 10 to 30kg S/ha^{-1}. The industry struggles with the practicalities of handling and storing ammonium sulphate and therefore would appreciate an alternative source of sulphur. Recent Sirius sponsored studies at University of Minnesota, where a 25% K source substitution from POLY4 (which also provided the crop need for S), indicated a 6–9% kernel weight improvement at two sites in Minnesota. Corn quality was maintained and farmer income elevated by up to 16%.

After a robust series of trials, we have demonstrated how to use POLY4 to the most economic and agronomic benefit in a fertilizer programme for broad-acre cereal cropping.

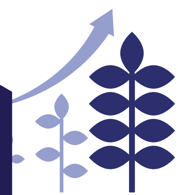
Although generally, in advanced agricultural systems, soil K status analysis is acceptable, industry and the research community are increasingly expressing concerns that K replacement is not being met. For example, the K replacement index of offtake in the USA has fallen from 0.7 to 0.3, although yield has increased from 61 bu/ac to 160 bu/ac since 1999 (Rahm, 2017). A similar situation is reported in Australia, China and Africa. Under these circumstances we see POLY4 as a potentially significant player satisfying sulphur and supporting K demand.

K REPLACEMENT INDEX OF OFFTAKE IN THE USA HAS FALLEN FROM 0.7 TO 0.3

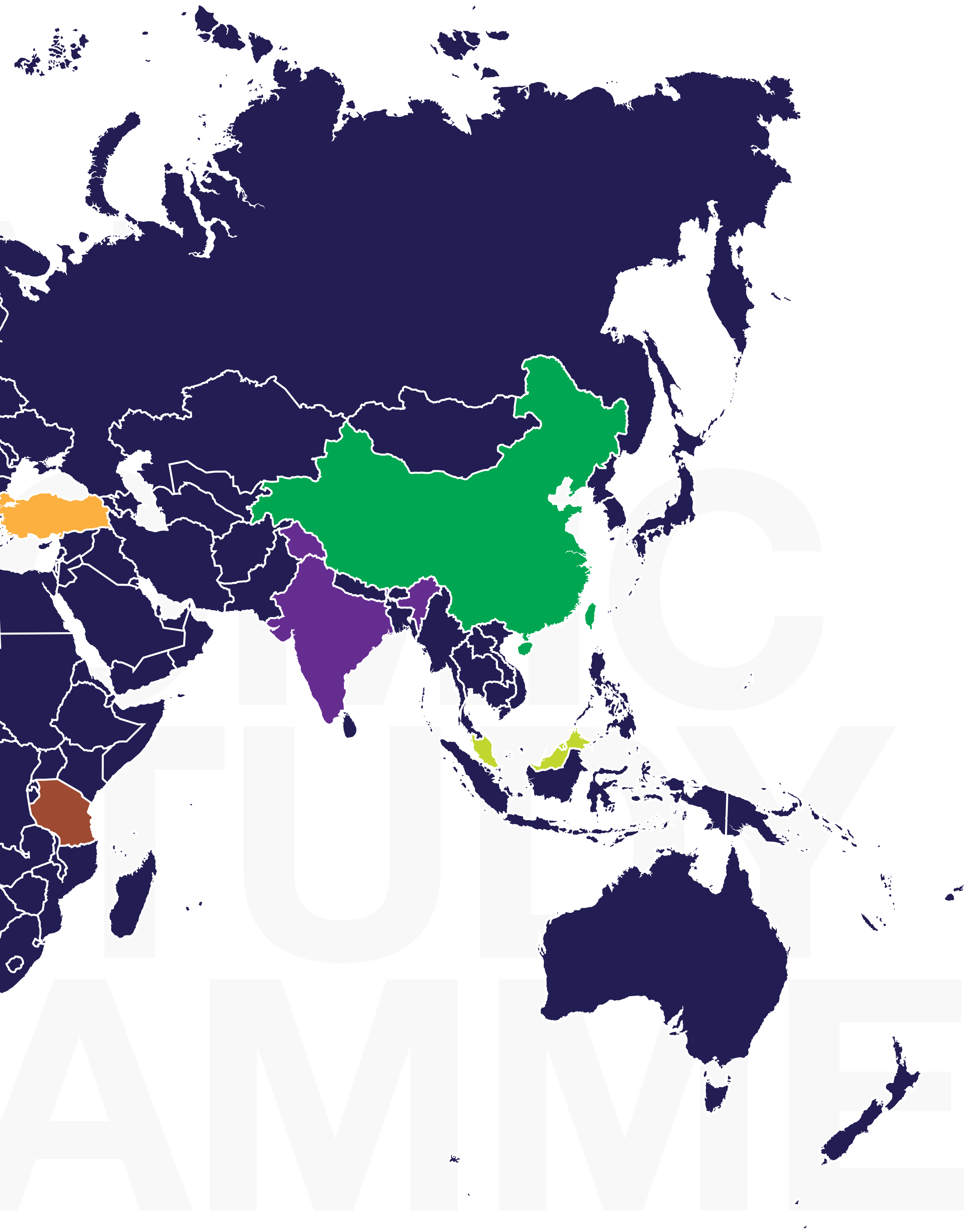
In the Southern Highlands region of Tanzania, six corn trials were conducted in 2015 to evaluate POLY4 versus the recommended nitrogen and phosphorus practice, MOP and MOP + kieserite. Application of MOP alone did not increase corn grain yield at any of the tested six locations but significantly depressed yield at one location. MOP treatments recorded numerically lower yields than NP treatments in four out of six instances. Such reduced yields were not observed after the use of our product and in fact POLY4 treatments enhanced yield at five out of six sites. It indicates the value of sulphur and low-chloride potassium to corn yields at these locations since soil magnesium levels were high and MOP does not elicit the same response.

Sirius Minerals has sponsored work, co-authored science papers and submitted journal entries all of which quantify and substantiate the value of low-chloride potassium to cereal crops.

CONTRIBUTING 25% OF K_2O AND 100% SULPHUR, POLY4 IMPROVED CORN KERNEL WEIGHT BY 6–9% AND FARMER INCOME BY 16%



SIRIUS MINERALS' AGRONOMIC PROGRAMME EXPANSION



BRAZIL
- Carrots
- Coffee
- Corn
- Potato
- Soybean
- Sugarcane
- Tomato

CANADA
- Corn
- Soybean

CHINA
- Chilli peppers
- Corn
- Cotton
- Oilseed rape
- Peanuts
- Rice
- Tea
- Wheat

COLOMBIA
- Coffee

ECUADOR
- Potato
- Rice

FRANCE
- Wheat

INDIA
- Corn
- Cotton
- Mustard
- Onion
- Peanut
- Potato
- Tomato

MALAYSIA
- Oil palm

NIGERIA
- Oil palm

POLAND
- Wheat

TANZANIA
- Corn
- Rice
- Tea
- Tomato

TURKEY
- Oilseed rape
- Wheat

UK
- Barley
- Celery
- Corn
- Cotton
- Forestry
- Grass
- Oilseed rape
- Potato

US
- Cabbage
- Canola
- Chilli peppers
- Corn
- Cotton
- Grapes
- Onion
- Peanut
- Peppers
- Potato
- Sorghum
- Soybean
- Sugarcane
- Tomato
- Wheat

PERFORMANCE CROPS – TOMATOES AND POTATOES

Present blends are mixtures of currently available fertilizer resources. A new resource, such as POLY4, provides an opportunity to modify, recalibrate and potentially advocate more appropriate blends. Sirius Minerals' new trial established in Tanzania towards the end of 2016 investigates the opportunity to replace the calcium ammonium nitrate (CAN) top-dressing with urea (nitrogen fertilizer). This offers an opportunity to transport less fertilizer material, supply sufficient calcium from the POLY4 blend and support interaction with local fertilizer businesses.

Tomatoes and potatoes both demand high potassium (K) delivery and both prefer low-chloride options. There are also implications for plant health, yield and quality. Potato quality is particularly influenced by chloride content of the chosen fertilizer products. For fruit, K supply is a key nutrient for water uptake, vitamin C content and fruit total acidity. For all crops K is the key nutrient for control of transpiration (or loss of water from the plant) and photosynthesis.

The studies on potatoes at the University of Minnesota, USA, continued from 2014 to 2016. In 2015 results indicated that with POLY4 the crop yield has improved by substituting 75% of the K from MOP. Making an artificial equivalent of POLY4 from conventional sources did not yield the same results. POLY4 had no effect on soil pH but residual soil Mg was up to 65 mg kg^{-1} following 100% POLY4 applications.

Potato studies in the UK (2015) on a low fertility soil showed that when POLY4 supplied 100% of the K need, an 11% yield increment was found over an MOP + kieserite control. In another location, on-farm trials also supported yield increases and quality maintenance whereas MOP source K drove a reduction in dry matter content, which is detrimental for fry quality. Further, tuber macro-nutrient uptake was improved by up to 32% with POLY4 compared to MOP + kieserite.

A Brazilian (University of São Paulo, 2015) study where equivalent POLY4 - NPK blends were compared to a current commercial blends resulted in the POLY4 blends outperforming for total yield by an average of 12% across the trial K_2O rates of 75–300 kg ha^{-1}. The POLY4 blend was also seen to generate the highest tuber quality (hardness, starch, lowest brix, dry matter) further. The crop leaf potassium, calcium and magnesium content was greater than the MOP commercial option by 12, 5 and 10% at 63 days post planting.

Following the first year's trials on tomatoes in Brazil, which demonstrated improved yield from POLY4, compared to any other potassium sources and also from POLY4 blends over the commercial NPK, S and Ca products, we added a second season. Commercial fruit yield results duplicated the first year's findings. Studies showed that each additional nutrient from POLY4 contributes and incrementally elevates yield. Leaf content, particularly of potassium, calcium and magnesium, were also elevated and so were the soil residual levels post cropping. NPK blends with a POLY4 component also exceeded conventional MOP and SOP blends. Such evidence contributes to an underpinning of the POLY4's value as fertilizer nutrient source.

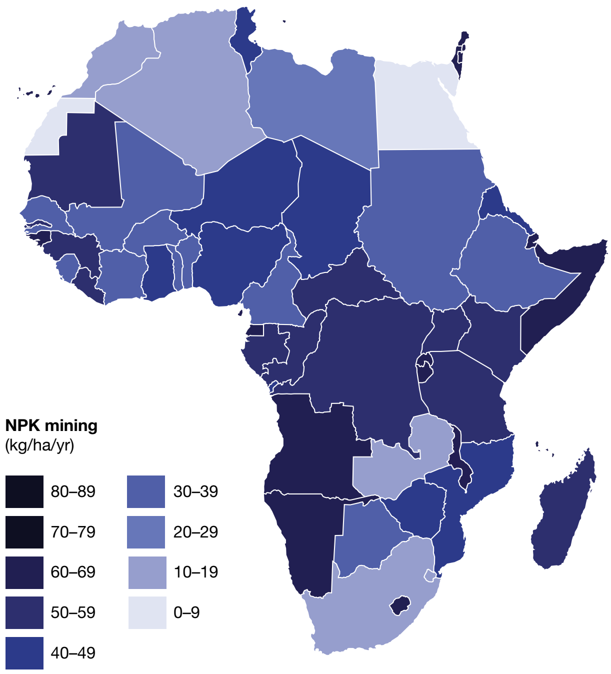
Following earlier reports of disease reduction with the use of POLY4 in fertilizer plans, two successive trials were established to verify those observations. Bacterial Spot on tomatoes is one of the most destructive diseases of the Florida tomato crop, damaging leaves and fruits with small dark brown spots, causing a yield reduction of up to 40%. The POLY4-fed crop had significantly greater biomass and the lowest disease infection.

Scottish Agricultural Collage pots 2015, 100% POLY4- K

University of Florida (2015), after inoculation

SUSTAINABLE CROP FERTILIZATION – AFRICA AND THE ENVIRONMENT

Soil nutrient degradation is among the major problems hindering high and sustainable productivity in Africa. The nutrient mining, that is where fertilizer use does not compensate for nutrient exported in yield, is a concept well-understood by the Food and Agriculture Organisation (FAO), Gates Foundation, WHO, World Bank and IFDC, all of who are raising awareness of the topic.



Nutrient offtake (mining)

The result is potentially a declining soil productive capacity due to deficiencies in crop nutrients. Sirius is working in Tanzania where the frequency of low soil fertility for nitrogen, phosphorus, calcium and sulphur contents on land for agricultural production is 77%, 78%, 56% and 52% respectively (Malley et al, 2010; Mguu & Msolla, 2007 and Msaky et al, 1998).

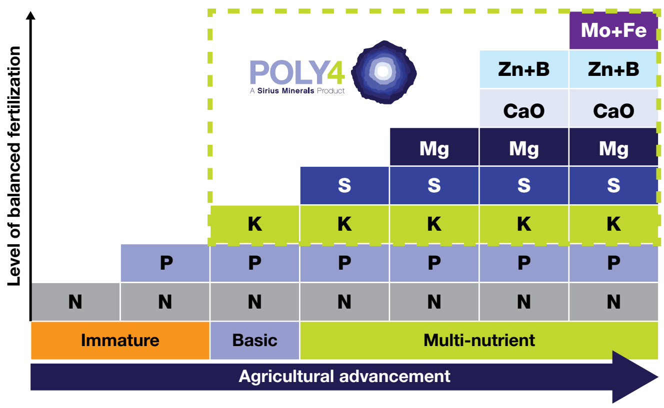
While deficiencies observed are important, balancing nutrient availability for primary crop nutrients is critical for sustained productivity and nutrient-use efficiency, which will be completely governed by the most limiting nutrient supply. Therefore, application of N + P as per current practise in many African countries will lead to imbalanced crop nutrition with ultimate consequences on crop productivity and quality. Potassium is one of the critical primary nutrients in crop growth and productivity due to its contribution to enhanced yield and crop quality.

Yield gap analysis recognises that African corn yield can potentially rise from a current average 2.1 t/ha (FAO, 2014) to 14 t/ha and that nutrient supply accounts for 50% of this potential (Majumdar, 2017).

Sirius Minerals' trial results indicate that overall fertilizer efficiency is enhanced when POLY4 is a fertilizer plan component and the use of our product contributes to sustainable agricultural practices. However, traditional fertilizer plans can be a significant pollutant directly, for example through water pollution, and indirectly, through greenhouse gas emissions.

Retaining a good balance of nutrients in the soil, provided by POLY4, is required for enhanced, long-term sustainable agriculture. Additionally, the potassium found in our product is important in drought stress environments for mitigating the impact on crops.

The Sirius Minerals research and development programme has recognised the unique value of POLY4 in cropping systems. Capitalising on these assets, the product supports the new mind-set in global crop fertilization policies, successfully demonstrating the range of significant markets, which benefit from the product, and supports the drive towards the reduction in environmental foot print of farming, both directly and indirectly.



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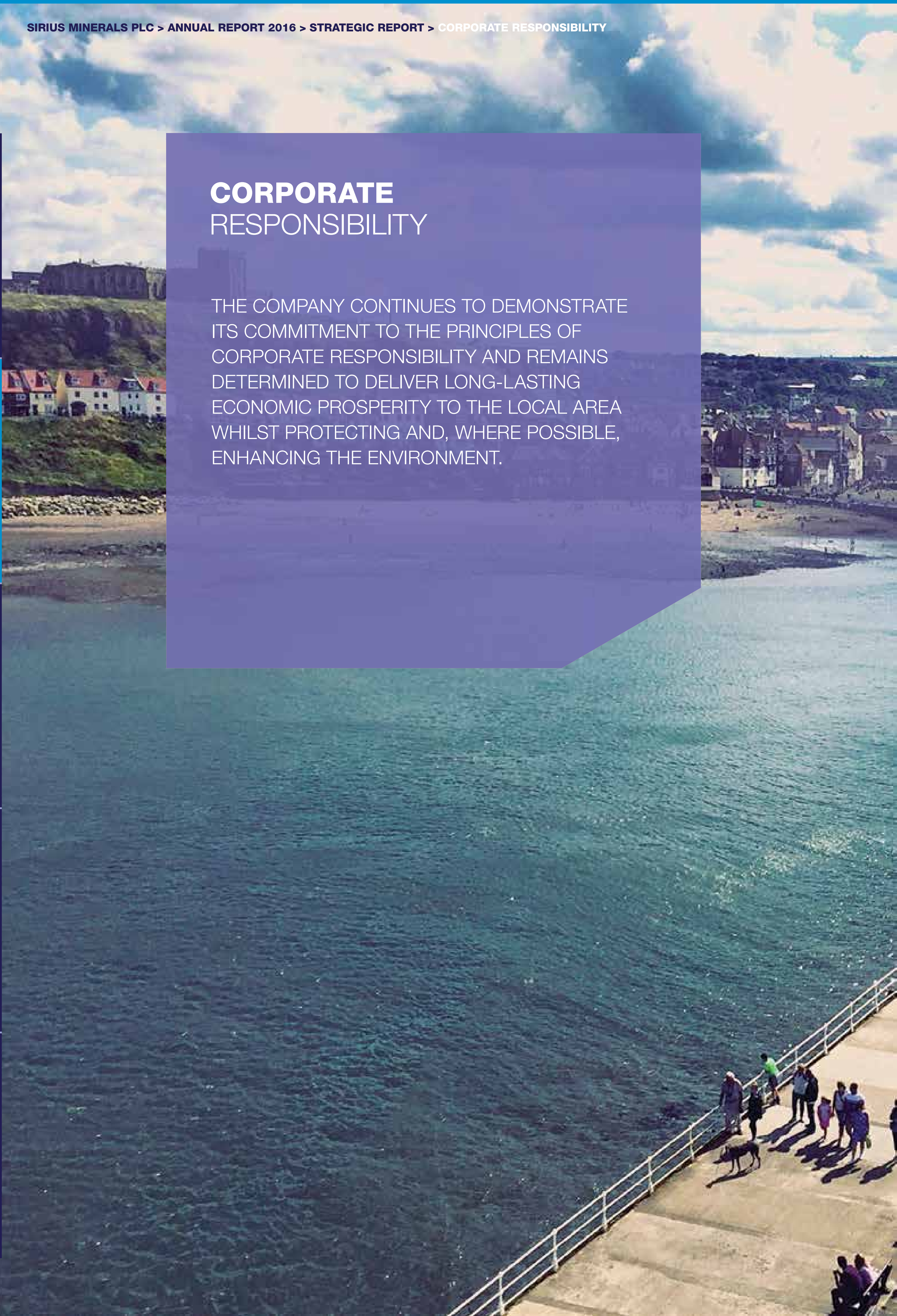
CORPORATE RESPONSIBILITY

THE COMPANY CONTINUES TO DEMONSTRATE ITS COMMITMENT TO THE PRINCIPLES OF CORPORATE RESPONSIBILITY AND REMAINS DETERMINED TO DELIVER LONG-LASTING ECONOMIC PROSPERITY TO THE LOCAL AREA WHILST PROTECTING AND, WHERE POSSIBLE, ENHANCING THE ENVIRONMENT.



CORPORATE RESPONSIBILITY

Artist impression of Woodsmith Mine post construction

The start of construction is an exciting new stage for the Project, and an added responsibility, which the Company takes very seriously. Corporate responsibility has always been at the heart of the Company's approach.

Above all, this means operating in a manner that ensures the safety of staff, contractors and the wider community. In addition, the Company is extremely mindful of its responsibility for minimising the Project's impact on the environment, becoming a positive part of the local community, and also ensuring the local area benefits from the Project as much as possible.

The Company has produced its first Corporate Responsibility Report this year. This section provides a summary of this and an overview of the Company's corporate responsibility activities in 2016.

PROTECTING AND ENHANCING THE ENVIRONMENT

Sustainable design and mitigating construction impacts

The launch of the definitive feasibility study in March 2016, together with further detailed work with the Company's preferred construction contractors, set out a detailed strategy for environmental mitigation and how each part of the Project's infrastructure can be delivered while minimising impacts.

The Company has continued to work closely with the relevant authorities and statutory bodies throughout the year to ensure that the stringent planning conditions are met to facilitate the start of construction.

In 2016, Sirius Minerals developed a construction environmental management framework as the overarching framework to ensure that all environmental impacts during construction are managed effectively. The Company has worked with its contractors to develop a construction environmental management plan (CEMP), aligned to the framework, prior to highways works commencing in January 2017.

The CEMP is supplemented by additional, topic-specific plans and procedures, such as the noise and vibration management plan and traffic management plan. A CEMP is being produced for each specific phase of construction as the Project progresses.

As part of the Section 106 agreement that is part of the Project's planning permission, the Company will provide funding of £130 million over the lifetime of the Project to safeguard and enhance the local landscape and offset carbon emissions. This will include a tree planting programme of over 7,000 hectares that will have a positive effect on the character and landscape of the National Park and create more diverse wildlife habitats.

Promoting sustainable agricultural practices

Large-scale agricultural systems are commonly associated with environmental impacts such as climate change, pollution, soil degradation, deforestation and habitat loss. There is a global need to adopt sustainable farming practices that boost crop yields while reducing environmental impact.

Sirius can make a significant and sustainable contribution to global food security through the large-scale production of polyhalite. The Company's global agronomy programme continues to demonstrate that polyhalite improves crop yields and provides environmental benefits. POLY4 helps to:

- Improve crop yield and quality –benefitting the farmer and the environment by delivering better results from fewer inputs;
- Sustain and regenerate agricultural soils – delivering a positive soil legacy by improving agricultural soil structure and its long-term fertility;
- Support balanced fertilization:
  - Increasing plant nutrient uptake by up to 95% to reduce the risk of wastage that can contaminate groundwater, streams and oceans;
  - Enhancing disease resilience, reducing the need for pesticide use;
  - Improving nutritional plant health and increasing the shelf-life of agricultural produce.

The Company has continued to promote sustainable practices in 2016 by working closely with research institutions, customers, food manufacturers and governments to raise the global awareness of POLY4.

SUPPORTING LOCAL COMMUNITIES

Sirius Minerals has a longstanding commitment to support initiatives that boost local employment and provide opportunities for local businesses in North Yorkshire and Teesside.

Education and skills development

During the year the Company maintained its commitment to help local young people to learn and gain the qualifications they need, whilst progressing in their roles. During the year, two of our apprentices successfully completed their apprenticeships and have been taken on in permanent roles. Apprenticeships will be created in all areas of the business over the next five years, including 50 engineering apprentices in preparation for the technical roles involved in operations.

In 2016, the Company's General Manager External Affairs took on the chairmanship of the York, North Yorkshire and East Riding Local Enterprise Partnership's (LEP) Apprenticeship Strategy Group and Sirius continues to play an active role on the Local Enterprise Partnership's Skills and Employability Board.

Ryedale School's year 10 student's work experience

We continued with our education outreach programme and delivered across the local area 16 workshops, seminars and careers events in 2016. This included sponsoring Scarborough Engineering Week for the fifth successive year. The aim of the programme is to support the enrichment of the science, technology, engineering and mathematics (STEM) curriculum and to increase awareness of STEM career opportunities.

In July Sirius hosted a Year 10 student from Ryedale School in North Yorkshire for a work experience placement. During her time with us she successfully developed and designed an interactive education activity to highlight the role that minerals play in everyday life. This was first used at Scarborough Engineering Week and has become a regular part of the Company's education outreach activities.

Sirius Minerals' stand at Scarborough Engineering Week

Community and stakeholder engagement

The scope and scale of the Project has to date resulted in a large amount of interest locally, regionally and nationally. Sirius Minerals has continued to communicate with the local community and other stakeholders in an open and transparent way.

The Company's community and stakeholder engagement framework was developed in 2016. This clearly sets out our approach to provide stakeholders with:

- Clear information before works commence at each site detailing what construction will involve, when it will take place and the measures to limit impacts;
- Ongoing updates about construction progress and establish mechanisms that enable concerns to be raised and acted upon.

After stage 1 financing the Company held briefings with site neighbours, landowners, community representatives. We visited 40 individual households located closest to the mine site to provide a construction schedule overview and post-financing update.

The Project's first liaison group forum meeting with local elected representatives was held in December 2016. The purpose of the forum is to provide Project updates and receive community feedback. They will be held quarterly as a minimum and are open to members of the public to attend.

In addition, a traffic management liaison group was set up in 2016 to facilitate liaison between local authorities and other interested stakeholders in regards to the management and monitoring of the Project's construction traffic. The first meeting of the group, which also considers community questions and concerns about traffic issues, was held in December.

The Company's website has been upgraded this year, incorporating more community news content, while information was frequently posted on the Project's dedicated social media pages.

Funding community initiatives

In addition to our direct community benefit activities, Section 106 funding will be made available to support initiatives that benefit local people and businesses, including:

- £2 million for local schools and for training to prepare local residents and businesses for new opportunities;
- A minimum of £17 million to promote the National Park and surrounding areas;
- Up to £6.8 million to increase train services on the Esk Valley Line between Whitby and Middlesbrough.

York Potash Foundation

The York Potash Foundation is an independent charity led by a board of trustees that will have significant resources available to support positive local initiatives. Its aim is to provide a lasting legacy for those who work and live in the Boroughs of Scarborough and Redcar and Cleveland and within the boundaries of the North York Moors National Park.

2016 was a significant year for the Foundation as it reached the important milestone of officially being granted charitable status.

An initial start-up fund of £2 million will be contributed by the Company during construction. Sirius has made a long-term commitment to the Foundation by pledging to contribute an annual royalty of 0.5% of sales from the Project, which is currently anticipated to be approximately £14 million per annum at full production.

YORKPOTASH foundation

York Potash Foundation board trustees at work

PRINCIPAL RISKS AND UNCERTAINTIES

PRINCIPAL RISKS AND UNCERTAINTIES

KEY PERFORMANCE INDICATORS

The Board has a clear framework to identify and manage risks both at an operational and strategic level. There is ongoing review of the risks, and controls are in place to mitigate them. The Board monitors spending against the budget through monthly reporting and meetings usually at least every eight weeks. Progress towards the development of the Project is tracked against a project schedule, engineering and environmental studies, a global research and development programme, product supply agreements as well as planning consents, commencement of different stages of construction, further funding to take the Project to completion and ultimately production. The Company's risk management processes will continue to evolve to fit best practice for the relevant stage of the Company's development.

IDENTIFYING AND MANAGING OUR RISKS

The Company is focused on maintaining and strengthening our position to become a world-class polyhalite producer and fertilizer business and on developing our business for the long term. The Board's objective is to ensure sustainable returns for shareholders and, in doing so, providing an economic contribution to community and local, regional and national economies in the UK.

Our principal business risks fall within four broad categories: strategic risks, financial risks, external risks and operational risks.

PRINCIPAL RISKS	MITIGATION	TREND	
			▲ Increasing ► No change ▼ Decreasing
STRATEGIC RISKS			
EXPLORATION AND DEVELOPMENT These risks are inherent in the mining industry. It is impossible to remove all those risks or to establish for certain the true extent of the size and grade of an ore body.	We have established methods for assessing, evaluating and reducing the risks. With the assistance of experts, we apply these methods to the geological, mining, processing, infrastructure, environmental, construction and other aspects of the Project.	►	The Company monitors assessment and evaluation of the risks. In 2016 there was no change in the trend as no construction or operation had taken place.
RESERVES AND RESOURCES ESTIMATES The ore reserve has been reported in accordance with the 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as published by the Joint Ore Reserves Committee (JORC) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Our reserves and resources estimates may not be representative of the broader ore body.	Independent consultants SRK consider that there is a good likelihood that a proportion of the currently reported Inferred Mineral Resource will be upgraded to the Indicated Mineral Resource and Ore Reserve status once the mine has been established and the polyhalite horizons have been accessed and that additional mineral resources and ore reserves will be generated following ongoing exploration and assessment during the mine life.	►	As part of the Competent Person's Report SRK reported in 2016 that the Project's probable ore reserve has increased to 280 million tonnes at an average grade of 88.4% of polyhalite from the previous level of 250 million tonnes of polyhalite at a grade of 87.8%. This adds further confirmation of the outstanding quantity and quality of the reserve.

MINERAL TITLE RISK

In the UK, mineral rights and surface rights do not always go together and the land registry system is focused on surface rights rather than mineral rights. This introduces an additional level of uncertainty and the Company makes considerable efforts to confirm mineral rights ownership before entering into option and exploration agreements and leases with the mineral rights owners.

Between 2012 and 2016 we entered into option agreements with many minerals rights owners under which the Company has the right to acquire a lease of the mineral rights and conduct exploration and mining activities. During 2016 the Company exercised 436 of its 444 options with small mineral rights owners and eight options with large mineral rights owners, entering into a total of 444 leases, which are in the process of being registered at the Land Registry.

There are eight options still in place in relation to small mineral rights owners, which are yet to be converted into leasehold interests and which the Company continues to progress. The initial term of each lease is for 70 years to extract the minerals. As part of the process of entering into option agreements and their subsequent conversion into leasehold interests, extensive searches of land registers and documents available are undertaken to establish the correct owner of the mineral rights.

The initial term of each lease is for 70 years to extract the minerals. As part of the process of entering into option agreements and their subsequent conversion into leasehold interests, extensive searches of land registers and documents available are undertaken to establish the correct owner of the mineral rights.

Though the due diligence process has taken place, applications are held with the Land Registry Office and we are awaiting registration.

FINANCIAL RISKS

LIQUIDITY RISKS

The Company's current activities do not generate revenues and there is a risk that, despite raising the initial funds to commence construction, we will have insufficient funds to finalise development and construction of the Project to a point of production where the Company generates positive operating cash flows, which will affect our ability to manage operating costs and capital expenditure. There is no assurance that adequate funds will be available when they are required.

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 and signing a non-binding mandate letter with financial institutions in relation to a potential 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.

In 2016 the company secured funding of US$1.2 billion required to begin the construction of the project. We have a robust cash flow planning and review process in place and so the risk exposure in this area will decrease.

COMMODITY PRICE RISKS

There is a risk that fertilizer prices, including potash and polyhalite, could fall to levels at which it would not be economically viable to develop the Project.

Such conditions would materially and adversely affect production, earnings and the financial position and could result in the cessation of mining activities that become uneconomic or could result in the economics of the Project not being sufficient to enable to Company to raise the next stage of funding to take the Project to production, halt or delay the development of new areas to mine, and reduce funds available for proving reserves, resulting in the depletion of reserves. There is no assurance that, even as commercial quantities of polyhalite ore are produced, a profitable market will exist for it.

Our research team continues to analyse various fertilizer markets, including NPK, potash and polyhalite. Current studies support the continued growth in world demand and a positive price outlook over the medium term.

As at the period end, the Company had secured offtake agreements including options to increase volumes, memorandums of understanding (MoUs) and letters of intent for up to 8.1 million tonnes of polyhalite per annum, which would potentially account for 80% of the 10 Mtpa initial capacity production target. These agreements represent large-volume, long-term commitment from a growing customer base.

The Company monitors demand in the fertilizer markets and promotes its unique product, POLY4, as a product that outperforms traditional fertilizers. The findings are supported by Sirius Minerals' research and development programme, which is now entering its sixth year of studies covering 2300 field trials on 26 crops in 14 countries.

OVERVIEW
STRATEGIC REPORT
GOVERNANCE
FINANCIALS
OTHER

CURRENCY RISK Sirius Minerals will have currency exposures arising from both its capital expenditure and operating costs and the sale of polyhalite ore. The Company has attempted to mitigate the currency risk in the medium to long term, by planning a capital structure where it has raised funds in Pounds Sterling and US Dollars, to broadly match the anticipated currency split of its expected capital expenditure and operating cost needs. Revenue from polyhalite sales and the majority of future financings for the Project are expected to be denominated in US Dollars, providing a natural exchange rate hedge. However, a significant portion of the construction, development and operating expenses for the Project will be incurred in non-US Dollar currencies, in particular Pounds Sterling. Accordingly, appreciation of such non-US Dollar currencies, without offsetting improvement in US Dollar denominated polyhalite prices, could adversely affect the Project's profitability and financial position.	The Company continues to monitor its exposure to currency risk based on its stage of development and will implement suitable treasury policies as required to address the financial risks arising from currency exposure including potentially the use of hedging instruments.	The Company has mitigated the currency risk in the medium to long term, by planning a capital structure where it has raised funds in Pounds Sterling and US Dollars, to broadly match the anticipated currency split of its expected capital expenditure and operating cost needs.

EXTERNAL RISKS

PERMITS AND LICENCES The Project requires a range of permits and licences to operate. There is no guarantee that these will be forthcoming.	The Company has received the approvals to commence 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. Sirius Minerals has broad range of consultant advisers that specialise in obtaining the remaining permits, licences and secondary approvals and licences needed for the Project to operate.	The receipt of all key major planning approvals reduced a severity of this risk.
COMMUNITY RELATIONS Failure to engage or manage relations with local communities and stakeholders affects our social licence to operate and can have a direct impact on construction and operations.	We have received a significant level of local, regional and national support for the Project and will continue ongoing engagement to ensure a full understanding of the Project's benefits, particularly as the Project moves into construction.	We believe the Company has strong relationship with local community. We proactively and regularly improve our communication lines updating community on the Project's developments and construction schedule through face-to-face meetings, community newsletters, press releases, presentations and website.
COMPETITORS There are high barriers for potential new entrants into the market. The major competitors all have substantial existing infrastructure, less leverage and substantially greater financial resources. There can be no assurance that Sirius Minerals or its Project will be able to successfully respond to such competitive pressures or the competitive activities of the other major suppliers in its markets.	Our polyhalite product contains four of the six macro nutrients (potassium, sulphur, magnesium and calcium) required for plant growth. Polyhalite is an effective, direct application, multi-nutrient fertilizer and can also be combined with nitrogen and phosphorous to create high-value NPK fertilizer products that contain all six macro nutrients. As such, we are less exposed to the existing potash supply structure with respect to product supply and demand dynamics. The Company continues to develop its marketing and sales strategy to utilise the unique characteristics of polyhalite.	The Company continues to develop its marketing and sales strategy to utilise the unique characteristics of polyhalite.

BREXIT The referendum vote in June 2016 pursuant to which the United Kingdom has indicated its intent to withdraw from the European Union might present risks for companies, including uncertainty about the process, timings and consequences of the final withdrawal.	The Company does not currently trade with Europe. It is also not in receipt of EU foreign direct investment (FDI). The majority of the Company's future sales are likely to be in US Dollars.	The Company continues monitoring political, regulatory and legislative aspects of the withdrawal from the European Union and is aware of the aspects of this potential risks.

OPERATIONAL RISKS

CONSTRUCTION RISK Development and construction risk is continuously assessed by the Company's management team and engineering consultants, including its preferred tenderers during detailed engineering. The risk is also included in the DFS and a wide range of other studies that cover all aspects of the Project including resources and reserves, environment, infrastructure, planning, mining, processing and markets. While the Company is seeking to understand the levels of potential construction risks that may exist which aren't fully known and understood, these could have an impact on the Company's proposed development and construction strategy.	Detailed planning and further more detailed engineering will be carried out continuously by the management team and external consultants as part of the Project's continued development to mitigate and de-risk the Project before and during construction. The material findings of the DFS were released during the financial period on 17 March 2016. A Competent Persons Report was also included in the Prospectus and AIM Admission Document dated 3 November 2016.	As the Company starts construction, the risk exposure it will face in this area will increase. We continuously assess the risk an ensure that we have the right people in the right place. The project leadership are also actively involved in promoting a robust safety culture. Nonetheless, the Company is cognisant of the increasing risk profile.
DELAYS The Project may experience construction and schedule delays due to unforeseen technical issues. The success of the Project depends in significant part upon Company's ability to complete construction and commence production within the planned time frame and in accordance with the cost estimates that will be contained in the DFS, and as altered by ongoing cost estimates and work with the preferred tenderers for key project infrastructure.	We continue to pursue all acceleration options available to reduce the time required to reach first production. The Company will also engage leading contractors, consultants and implement best practice to manage any such delays as efficiently as possible.	We are investing in and evolving ways of working to manage this risk effectively and feel there is no increase in the risk overall at present.
EMPLOYER AND CONTRACTOR RELATIONS Our business depends on attracting and retaining skilled employees and contractors. A loss of skilled employees and/or a breakdown in relations and communication could result in disruptions to operations.	We continue supporting our employees and contractors ensuring safe working environment and encouraging a positive work-life balance. Regular communication is maintained and all employees and contractors are updated on the Project's progress and news through weekly meetings, in-house newsletters, and senior management team emails.	There is no change to the risk profile – the Company continues to ensure that there are clear lines of communication and regular updates. This risk might increase in the future as the project develops and the workforce and contractor involvement increases.
PRODUCT The Project is subject to product risks and the risks of developing a relatively new market. While there has been geological and seismic testing of the Project's polyhalite ore from samples taken across the drilling programme, by its very nature mineralisation is not homogenous and there is a risk that the samples may not be representative of the broader ore body. To date polyhalite has only been mined in small volumes, well below the proposed initial development production rate. Production of the scale proposed for the Project will require significant expansion of the current polyhalite market, which entails substantial market acceptance and price risk.	The geological test work conducted to date has been on samples which have been determined by the Company to be representative of the ore body, and the ore reserve has been prepared by independent specialist consultants, SRK. Polyhalite is a mineral comprised of well-understood and traded nutrients used in the fertilizer industry. Sirius Minerals' internal market research and strategy team have developed a comprehensive global crop study programme to underpin the value of polyhalite as a fertilizer. Ongoing studies have provided results which validate polyhalite to be an effective, valuable fertilizer that outperforms the traditional potash product, potassium chloride (or MOP), on both yield and quality. This has led to the securing of offtake agreements, letters of intent and MoUs as referred to under Commodity price risk.	The Company continues to consolidate its knowledge of polyhalite utilising a range of geological and survey techniques. Ongoing studies have provided results which validate polyhalite to be an effective, valuable fertilizer that outperforms the traditional potash product, potassium chloride (or MOP), on both yield and quality. This has led to the securing of offtake agreements, letters of intent and MoUs as referred to under Commodity price risk.

GOVERNANCE

BOARD OF DIRECTORS

RUSSELL SCRIMSHAW

NON-EXECUTIVE CHAIRMAN

Age: 67

Appointed: 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 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. He is an associate member of the Australian Society of Certified Practicing Accountants and an Adjunct Professor of Mining Economics at China Central South University in Changsha, China.

Other roles:

Non-executive director of Genome. one Pty Ltd and the Garvan Institute for Medical Research and Waterford Retirement Village Pty Ltd and executive chairman of Torrus Capital Pty Limited.

Board committees:

Remuneration committee and nominations committee.

CHRIS FRASER

MANAGING DIRECTOR & CEO

Age: 42

Appointed: 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 prior to founding York Potash in 2010 and subsequently joining Sirius Minerals in 2011.

Memberships:

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

KEITH CLARKE CBE

NON-EXECUTIVE DIRECTOR

Age: 64

Appointed: December 2013

Skills and experience:

Keith was chief executive officer of WS Atkins plc, the UK's largest design and engineering consultancy for eight years to July 2011 and previously held CEO 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.

Other roles:

Chair of Tidal Lagoon Power plc and Tidal Lagoon (Swansea Bay) plc, chair of Forum for the Future, vice chair of Future Cities Catapult, vice president of the Institute of Civil Engineers, Visiting Professor for Sustainable Design at Aston University.

Board committees:

Nominations committee and audit committee.

JANE LODGE

NON-EXECUTIVE DIRECTOR

Age: 62

Appointed: July 2015

Skills and experience:

After an academic background in geology, Jane's executive career was primarily in accountancy, where she became an audit 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, property and house building sectors. Since leaving Deloitte Jane is a non-executive director of a number of listed and private companies including being a chair and member of various committees.

Other roles:

Non-executive director and chair of the audit committee, Devro PLC; non-executive director and chair of the audit committee, DCC PLC; non-executive director and chair of the audit committees, Costain Group Plc; non-executive director of Bromsgrove School Foundation.

Board committees:

Audit committee and remuneration committee.

JOHN HUTTON, BARON HUTTON OF FURNESS

NON-EXECUTIVE DIRECTOR

Age: 61

Appointed: January 2012

Skills and experience:

Lord Hutton was a member of the government for 13 years including 11 years as a minister and four years serving on 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 MP for Barrow and Furness for 18 years. 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.

Other roles:

Non-executive director of Arix Bioscience Limited, Circle Holdings (UK) Plc, Simple Space Limited, Bihyras Group Limited and Arthurian Life Sciences Limited. In 2010 he was created a life peer as Baron Hutton of Furness and now sits in the House of Lords.

Board committees:

Remuneration committee.

NOEL HARWERTH

NON-EXECUTIVE DIRECTOR

Age: 69

Appointed: July 2015

Skills and experience:

Noel, whose executive background was in international banking was formerly COO of Citibank International and chief tax officer of Citigroup.

Noel is also 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 and brings a wealth of background and understanding in mining, finance and governance issues.

Other roles:

Chair of GE Capital Bank Ltd; non-executive director, Standard Life Plc; non-executive director, the London Metal Exchange; non-executive director, British Horseracing Authority Limited.

Board committees:

Audit committee and nominations committee.

LOUISE HARDY

NON-EXECUTIVE DIRECTOR

Age: 50

Appointed: May 2016

Skills and experience:

Louise has over 25 years' experience in the engineering sector. Her prior roles have included European project excellence director at Aecom and a part time executive role at Skanska UK as well as being a director at Laing O'Rourke Limited working as infrastructure director at CLM, which was the consortium delivery partner for the Olympic Delivery Authority for the London 2012 Olympics. Louise is a Fellow of the Institution of Engineers and a Fellow of the Chartered Management Institute.

Louise is a Fellow of the Institution of Engineers and a Fellow of the Chartered Management Institute.

Other roles:

Non-executive director Ebbslfeet Development Corporation and Defence Infrastructure Organisation, Ministry of Defence.

CORPORATE GOVERNANCE STATEMENT

The maintenance of effective corporate governance remains a key priority for the Board. The Board recognises the importance of sound corporate governance and has adopted policies and procedures which reflect the principles of the UK Corporate Governance Code, that are consistent with the Corporate Governance Guidelines for Smaller Quoted Companies published by the Quoted Companies Alliance in May 2013, of which the Company is a member.

BOARD AND COMMITTEE STRUCTURE

Non-executive Chairman
Russell Scrimshaw

Key objectives:
- Leadership of the Board

Executive Director
Chris Fraser

Key objectives:
- Overall performance of the Company

The Board of Sirius Minerals
Seven directors: Six non-executive directors (including five independent directors) and one executive director.

Key objectives:
- Responsible for the overall conduct of the Group
- Responsible for the effectiveness of the Group's internal controls in safeguarding the assets of the Group
- Setting the Company's strategy
- Review of operational and financial performance

Audit committee:
Jane Lodge *(Committee Chair)*
Keith Clarke CBE
Noel Harwerth

Three independent non-executive directors.

Key objectives:
- Review of internal controls' effectiveness
- Risk management review
- Annual and interim reporting review
- Overseeing the relationship with external auditor

Remuneration committee:
Lord Hutton *(Committee Chair)*
Jane Lodge
Russell Scrimshaw

Three non-executive directors including Lord Hutton and Jane Lodge as independent directors.

Key objectives:
- Review remuneration and service contracts of executive directors
- Review of all share incentive plans

Nominations committee:
Keith Clarke CBE *(Committee Chair)*
Russell Scrimshaw
Noel Harwerth

Three non-executive directors including Keith Clarke and Noel Harwerth as independent directors.

Key objectives:
- Ensuring the Board comprises of individuals with the necessary skills, knowledge and experience

The Board comprises one executive director and six non-executive directors. Louise Hardy replaced Stephen Pycroft as a non-executive director during May 2016. The directors have a broad range of relevant strategic, industry, financial, governance and other experience to enable the Company to fulfil its objective of becoming a world-class fertilizer business. The particular experience and skills of each director can be found in their biographies in the Board of directors section on page 38–39.

The Board considers Lord Hutton, Keith Clarke CBE, Jane Lodge, Noel Harwerth and Louise Hardy to be independent in character and independent in judgement and are therefore independent directors. Russell Scrimshaw is viewed by the Board as independent in judgement prior to his appointment as Chairman of the Board. Although not all directors fully satisfy the guidelines set out in the UK Corporate Governance Code, the Board has considered the situation of each director and the relevance of the differences with the guidelines in the context of the Company being listed on AIM, and has concluded on each director's independence.

If a potential conflict of interest exists or arises for any director, he or she is required to declare such conflicts, which will be recorded, and the Board will exercise its authority under the Company's Articles of Association as appropriate in considering such conflict.

The Board meets regularly during the year, at least every eight weeks, to discuss significant matters including long-term strategy, short-term operational and development activities and financial performance. The latest management reports and financial statements, including variances to budget, are presented at each Board meeting.

The Company's Articles of Association require one-third of the directors to retire from office by rotation at every annual general meeting. Details of the directors who will be retiring by rotation at the forthcoming annual general meeting will be contained in the Notice of Annual General Meeting.

The Company had an audit committee, remuneration committee and nominations committee in place for the year. All committees have formally delegated responsibilities by way of terms of reference.

The performance of the Board, committees and individual directors are evaluated on a regular basis. Individual director evaluation includes whether each director continues to contribute effectively and demonstrates commitment to their role by attending board meetings.

MEETINGS ATTENDANCE

Attendance at Board and committee meetings during the year was as follows:

	Scheduled Board meetings	Audit committee meetings	Remuneration committee meetings	Nominations committee meetings
RJ Scrimshaw	12/12	3/4	2/2	2/2
CN Fraser	12/12	1/4		
Lord Hutton	12/12		2/2	
KEF Clarke CBE	12/12	4/4		2/2
JA Lodge	12/12	4/4	2/2	
NE Harwerth	12/12	4/4		2/2
LJ Hardy*	6/6			
SG Pycroft**	6/6			

*Louise Hardy joined the company on 12 May 2016
**Stephen Pycroft left the business on 12 May 2016

INTERNAL CONTROLS

The Board has overall responsibility for the effectiveness of the Group's internal controls in safeguarding the assets of the Group. The internal control systems are designed to identify and manage risks to ensure that the possibilities of material misstatements or loss are kept to a minimum.

The processes used by the Board to review the effectiveness of the internal controls are through the audit committee and regular executive management reports to the Board where business plans, budgets and authorisation limits for the approval of significant expenditure including investment are appraised and agreed. The Board also seeks to ensure that there is a proper organisational and management structure with clear responsibilities and accountability.

The Company has adopted and applies a share dealing code on the dealing in securities of the Company by directors and employees, to ensure compliance with Rule 21 of the AIM Rules and the Market Abuse Regulations adopted by the UK in July 2016.

The Company has undertaken a risk assessment to determine its exposure to bribery and corruption risk in the countries, sectors and markets in which it operates. Following this assessment, the Board has considered the Company's risk exposure, and implemented certain policies and procedures to ensure compliance with the requirements of the Bribery Act 2010 and that the Company's employees were suitably briefed on these policies and procedures. The Company will continue to monitor risk regularly and to determine the adequacy of the briefing of employees to ensure compliance.

Due to the small size of the Group, an internal audit function has not been established. The Board receives sufficient assurance on risk, control and governance from other activities within the Group including regular management information and the external auditors, this position will continue to be monitored.

GOING CONCERN

The directors have reviewed the financial performance of the Group since 31 December 2016 and have considered the Group's cash projections for the 12 months from the date of approval of these financial statements. Based on these projections, the directors have determined that the Group has sufficient cash resources for the next 12 months and consider it appropriate to draw up the accounts on a going-concern basis.

KEY PERFORMANCE INDICATORS

The Group's approach to key performance indicators is set out in the *Principal risks and uncertainties* report on page 32.

PRINCIPAL RISKS AND UNCERTAINTIES

A review of the Group's principal risks and uncertainties is set out in the *Principal risks and uncertainties* report on pages 31 to 35.

COMMUNICATION WITH SHAREHOLDERS

The Board places importance on effective communication with shareholders and maintains regular dialogue with and gives briefings to analysts and institutional investors. Presentations are generally given by the executive director or members of his executive management team and on occasion by the chairman. In particular, a presentation is made at the annual general meeting. Care is taken to ensure that any price-sensitive information or inside information (in accordance with the Market Abuse Regulations) is released promptly to all shareholders through the regulated news service, the circulation of such releases to all shareholders who have registered for inclusion on the Company's circulation list and through placing the release on the Company's website. The Notice of Annual General Meeting, annual report and audited financial statements and interim financial statements in particular are issued in this manner.

Rule 26 of the AIM Rules requires companies to maintain a website on which certain information should be available, free of charge. This information is available on the Company's website at www.siriusminerals.com.

POST-BALANCE SHEET APPOINTMENTS

On 2 February 2017 Thomas Jay Staley, 36, was appointed to the Board as finance director. Thomas has been the Company's chief financial officer since December 2014. He has over ten years of experience developing and financing energy, resource and infrastructure projects across a range of international markets. Thomas brought to the Board additional extensive experience in structuring commercial arrangements and financing projects using a wide range of capital including project and export credit backed debt, mezzanine debt and equity.

Approved by the board of directors and signed on behalf of the Board.

NA King
Company Secretary
24 March 2017

DIRECTORS' REPORT

The directors present their annual report and audited consolidated financial statements for the year ended 31 December 2016.

DIRECTORS

THE DIRECTORS OF THE COMPANY DURING THE YEAR WERE:		
RJ Scrimshaw	Non-executive Chairman	
CN Fraser	Managing Director & CEO	
Lord Hutton	Non-executive Director	
KEF Clarke CBE	Non-executive Director	
SG Pycroft	Non-executive Director	Resigned as a director 12 May 2016
JA Lodge	Non-executive Director	
NE Harwerth	Non-executive Director	
LJ Hardy	Non-executive Director	Appointed as a director 12 May 2016

POST-BALANCE SHEET APPOINTMENTS

Thomas Jay Staley, Sirius Minerals chief financial officer, was appointed to the Board in February 2017 as finance director.

RESULTS AND DIVIDENDS

The loss of the Group for the financial year ended 31 December 2016 was £23 million (9 months to 31 December 2015: £7.0 million). The loss of the Company for the year ended was £107.5 million (9 months to 31 December 2015: £3.6 million).

The loss of the Company for the year ended 31 December 2016 was £107.6 million (9 months to 31 December 2015: £3.6 million).

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

DIRECTORS' INTERESTS

As at 31 December 2016, the directors had the following interests either directly or through related parties or entities in which the directors had a beneficial interest in the ordinary shares of the Company:

	Number of shares held	Percentage of the company held
CN Fraser	123,747,368	2.97
RJ Scrimshaw	43,523,979	1.04
KEF Clarke CBE	852,207	0.02
JA Lodge	386,953	0.01
Lord Hutton	30,856	0.00
NE Harwerth	79,109	0.00
	168,620,472	**4.04**

SUBSTANTIAL SHAREHOLDINGS

Shareholdings as at 6 March 2017 of 3% or more are as follows:

	Percentage of the company held
Hargreaves Lansdown (Nominees)	12.72
State Street Nominees Limited	8.22
Nortrust Nominees Limited	7.46
Pershing Nominees Limited	7.03
Barclayshare Nominees Limited	5.58
DB London Nominee Limited	3.93
Chase Nominees Limited	3.60
TD Direct Investing Nominees (Europe) Limited	3.37
HSDL Nominees Limited	3.36

DIRECTORS' INDEMNITIES

The Company has made qualifying indemnity provisions for the benefit of directors under the letters of appointment of each director. In addition, the Company has purchased directors' and officers' liability insurance.

FINANCIAL RISKS MANAGEMENT

Details of the Group's financial instruments and its policies regarding financial risk management are given in note 22 to the consolidated financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES AND KEY PERFORMANCE INDICATORS

Details of the principal risks and uncertainties and key performance indicators relative to the Group are set out in the *Principal risks and uncertainties* report on pages 32 to 35.

Details on non-adjusting post-balance sheet events are set out in note 24 to these financial statements.

STATEMENT REGARDING DISCLOSURE OF INFORMATION TO THE AUDITORS

In accordance with Section 418 of the Companies Act 2006 directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

"So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information."

The directors approve the above statement.

INDEPENDENT AUDITORS

The directors have appointed PricewaterhouseCoopers LLP as auditors to the Company.

A resolution in respect of the reappointment of PricewaterhouseCoopers LLP as the Group's auditors will be proposed at the forthcoming annual general meeting.

OTHER

During the year the Group made donations of £10,850 to local and national charities and community organisations.

Approved by the board of directors and signed on behalf of the Board.

NA King
Company Secretary
24 March 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group's and the Company's financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). 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 the Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the company and the Group will continue in business.

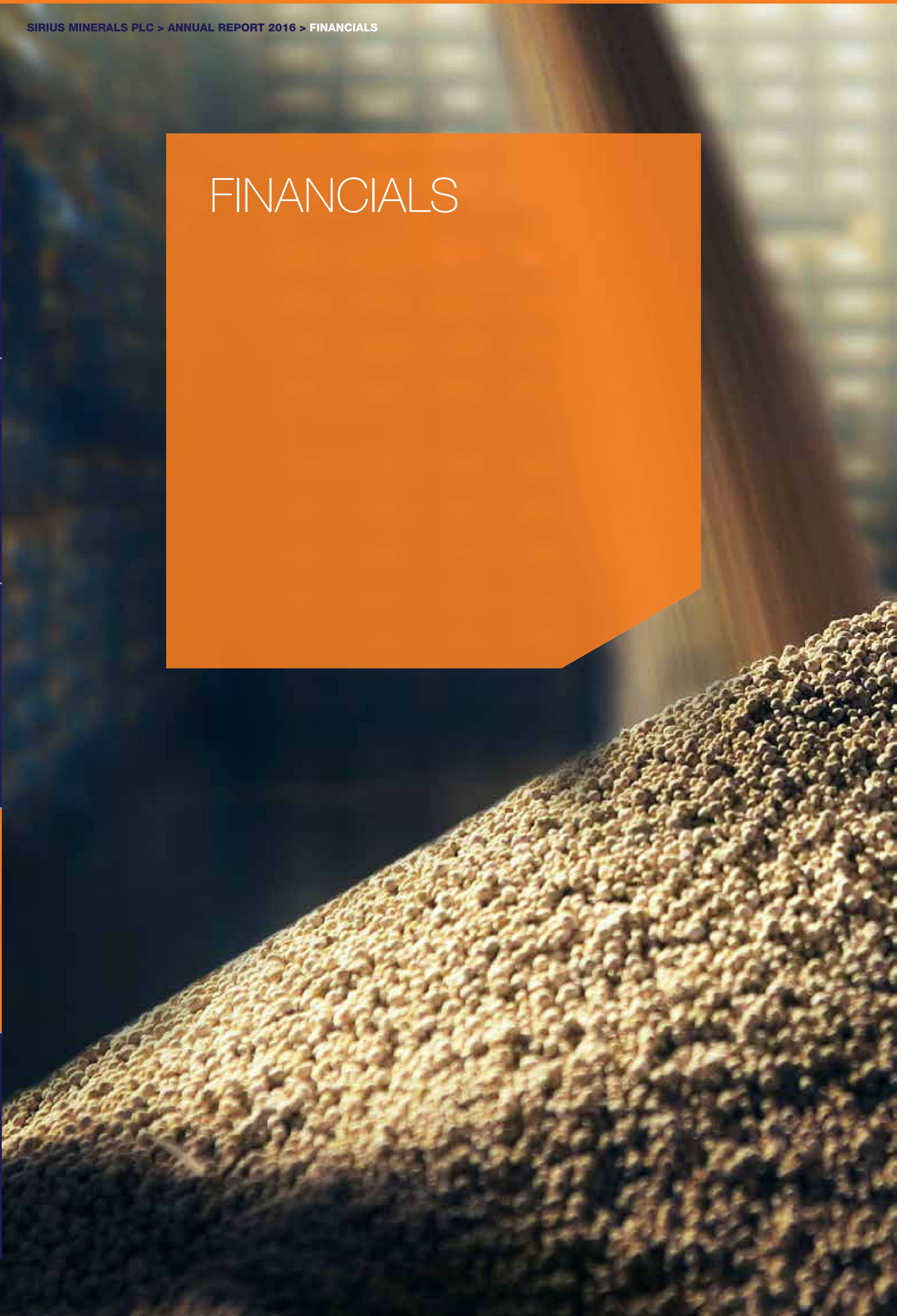
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

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 a company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the board of directors section confirm that, to the best of their knowledge:

- The Group's financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- The directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.



FINANCIALS

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIRIUS MINERALS PLC

REPORT ON THE FINANCIAL STATEMENTS

Our 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 2016 and of the Group's loss and the Group's and the Company's 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 IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the annual report, comprise:

- The consolidated and Company statements of financial position as at 31 December 2016;
- The consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- The consolidated and Company statements of cash flows for the year then ended;
- The consolidated and Company statements of changes in equity for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and applicable law and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the *Strategic report* and *Directors' report*, we consider whether those reports include the disclosures required by applicable legal requirements.

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

24 March 2017

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2016

	Notes	**31 December 2016 £000s**	Nine-month period to 31 December 2015 £000s
Revenue		**-**	-
Administrative expenses	4	**(11,872)**	(7,422)
Operating loss		**(11,872)**	(7,422)
Finance income	5	**1,489**	99
Finance costs	6	**(13,039)**	(186)
Loss before taxation		**(23,422)**	(7,509)
Taxation	8	**468**	550
Loss for the financial year		**(22,954)**	(6,959)
Loss per share:			
Basic and diluted	9	**(0.9)p**	(0.3)p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	31 December 2016 £000s	Nine-month period to 31 December 2015 £000s
Loss for the financial year attributable to owners of the parent	**(22,954)**	(6,959)
Other comprehensive income/(loss) for the year		
Exchange differences on translating foreign operations	**18**	(135)
Other comprehensive income/(loss) for the year	**18**	(135)
Total comprehensive loss for the year	**(22,936)**	(7,094)

Total comprehensive loss shown above is fully attributable to equity shareholders of the parent in both years.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

ASSETS	Notes	**As at 31 December 2016 £000s**	As at 31 December 2015 restated £000s
Non-current assets			
Property, plant and equipment	10	**6,138**	1,849
Intangible assets	11	**150,204**	137,970
Restricted cash	16	**55,283**	-
Total non-current assets		**211,625**	139,819
Current assets			
Derivative financial instrument	23	**1,041**	-
Restricted cash	16	**27,641**	-
Other receivables	13	**840**	1,184
Bank deposits	25	**322,188**	-
Cash and cash equivalents	15	**260,157**	29,093
Total current assets		**611,867**	30,277
TOTAL ASSETS		**823,492**	170,096
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**10,412**	5,737
Share premium account		**590,723**	240,874
Share-based payment reserve	17	**6,114**	7,624
Accumulated losses		**(112,261)**	(90,339)
Foreign exchange reserve		**1,284**	1,266
Total equity		**496,272**	165,162
Current liabilities			
Convertible loan	16	**321,366**	-
Loan from third parties	16	**-**	748
Trade and other payables	19	**5,854**	4,186
Total liabilities		**327,220**	4,934
TOTAL EQUITY AND LIABILITIES		**823,492**	170,096

The financial statements on pages 50–90 were issued and approved by the board of directors on 24 March 2017 and were signed on its behalf by:

TJ Staley
Finance Director

Company registration number: 04948435

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

	Notes	Share capital £000s	Share premium account £000s	Share-based payments reserve £000s	Accumulated losses £000s	Foreign exchange reserve £000s	Equity shareholders' funds £000s
At 1 April 2015		**5,362**	**216,586**	**13,290**	**(95,630)**	**7,028**	**146,636**
Foreign exchange reserve prior period adjustment		-	-	-	5,627	(5,627)	-
At 1 April 2015 – restated		**5,362**	**216,586**	**13,290**	**(90,003)**	**1,401**	**146,636**
Loss for the period		-	-	-	(6,959)	-	(6,959)
Foreign exchange differences on translation of foreign operations		-	-	-	-	(135)	(135)
Total comprehensive loss for the period		-	-	-	(6,959)	(135)	(7,094)
Convertible loan		43	1,103	-	258	-	1,404
Share issue costs	18	-	(121)	-	-	-	(121)
Share-based payments	17	-	-	(5,666)	6,365	-	699
Exercised options	18	332	23,306	-	-	-	23,638
At 31 December 2015 – restated		**5,737**	**240,874**	**7,624**	**(90,339)**	**1,266**	**165,162**
Loss for the financial period		-	-	-	(22,954)	-	(22,954)
Foreign exchange differences on translation of foreign operations		-	-	-	-	18	18
Total comprehensive loss for the period		-	-	-	(22,954)	18	(22,936)
Share issue	18	4,629	347,281	-	-	-	351,910
Share-based payments	17	32	1,418	(1,510)	1,032	-	972
Exercised options	18	14	1,150	-	-	-	1,164
At 31 December 2016		**10,412**	**590,723**	**6,114**	**(112,261)**	**1,284**	**496,272**

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

The share-based payment reserve is used to record the share-based payments made by the Group.

Foreign exchange reserve records exchange differences which arise on translation of foreign operations with a functional currency other than Sterling.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Notes	31 December 2016 £000s	Nine-month period to 31 December 2015 £000s
Cash outflow from operating activities	20	**(15,896)**	(5,307)
Cash flow from investing activities			
Purchase of intangible assets		**(12,108)**	(15,533)
Purchase of property, plant and equipment		**(4,346)**	(1)
Purchases of bank deposits		**(320,187)**	-
Interest received		**441**	99
Net cash used in investing activities		**(336,200)**	(15,435)
Cash flow from financing activities			
Repayment of borrowings		**(748)**	-
Proceeds from convertible loan		**319,923**	-
Purchases of restricted cash		**(81,580)**	-
Proceeds from issue of shares		**371,445**	23,637
Share issue costs		**(18,370)**	(121)
Convertible loan issue costs		**(9,158)**	-
Interest paid		**(19)**	(186)
Net cash generated from financing activities		**581,493**	23,330
Net (decrease)/increase in cash and cash equivalents		**229,397**	2,588
Cash and cash equivalents at the beginning of the year		**29,093**	26,640
Gain/(loss) from foreign exchange		**1,667**	(135)
Cash and cash equivalents at end of the year		**260,157**	29,093

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

ASSETS	Notes	**As at 31 December 2016 £000s**	As at 31 December 2015 £000s
Non-current assets			
Property, plant and equipment	10	**2**	-
Intangible assets	11	**-**	-
Investments in subsidiaries	12	**81,803**	81,612
Restricted cash	16	**55,283**	-
Total non-current assets		**137,088**	81,612
Current assets			
Derivative financial instrument	23	**1,041**	-
Restricted cash	16	**27,641**	-
Other receivables	13	**330**	152
Loans to subsidiaries	14	**90,078**	67,975
Bank deposits	25	**322,188**	-
Cash and cash equivalents	15	**258,493**	25,665
Total current assets		**699,771**	93,792
TOTAL ASSETS		**836,859**	175,404
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**10,412**	5,737
Share premium account		**590,723**	240,874
Share-based payment reserve	17	**6,114**	7,624
Accumulated losses		**(186,601)**	(80,037)
Total equity		**420,648**	174,198
Current liabilities			
Convertible loan	16	**42,433**	-
Loans from subsidiaries	14	**370,252**	-
Trade and other payables	19	**3,526**	1,206
Total liabilities		**416,211**	1,206
TOTAL EQUITY AND LIABILITIES		**836,859**	175,404

The financial statements on pages 50–90 were issued and approved by the board of directors on 24 March 2017 and were signed on its behalf by:

TJ Staley
Finance Director

Company registration number: 04948435

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Notes	Share capital £000s	Share premium account £000s	Share-based payments reserve £000s	Accumulated losses £000s	Equity shareholders' funds £000s
At 1 April 2015		**5,362**	**216,586**	**13,290**	**(83,055)**	**152,183**
Loss for the period		-	-	-	(3,604)	(3,604)
Convertible loan		44	1,103	-	257	1,404
Share issue		-	-	-	-	-
Share issue costs	18	-	(121)	-	-	(121)
Share-based payments	17	-	-	(5,666)	6,365	699
Exercised options	18	331	23,306	-	-	23,637
At 31 December 2015		**5,737**	**240,874**	**7,624**	**(80,037)**	**174,198**
Loss for the financial period		-	-	-	(107,596)	(107,596)
Share issue	18	4,629	347,281	-	-	351,910
Share-based payments	17	32	1,418	(1,510)	1,032	972
Exercised options	18	14	1,510	-	-	1,164
At 31 December 2016		**10,412**	**590,723**	**6,114**	**(186,601)**	**420,648**

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

The share-based payment reserve is used to record the share-based payments made by the Company.

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Notes	**31 December 2016 £000s**	Nine-month period to 31 December 2015 £000s
Cash outflow from operating activities	20	**(9,200)**	(1,742)
Cash flow from investing activities			
Purchase of intangible assets		**-**	-
Purchase of property, plant and equipment		**(2)**	-
Investments in subsidiary companies		**-**	(517)
Loans to subsidiary companies		**(22,103)**	(6,298)
Purchases of bank deposits		**(320,212)**	-
Interest received		**439**	-
Net cash used in investing activities		**(341,878)**	(6,815)
Cash flow from financing activities			
Proceeds from issue of shares		**371,445**	23,637
Share issue costs		**(18,370)**	(121)
Convertible loan issue costs		**(9,158)**	-
Loans from subsidiary companies		**319,923**	-
Purchase of restricted cash		**(81,580)**	-
Interest paid		**-**	(116)
Net cash generated from financing activities		**582,260**	23,400
Net increase in cash and cash equivalents		**231,182**	14,843
Cash and cash equivalents at the beginning of the year		**25,665**	10,822
Gain from foreign exchange		**1,646**	-
Cash and cash equivalents at end of the year		**258,493**	25,665

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of Sirius Minerals Plc (the Company) and its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS IC Interpretations as adopted by the European Union (EU) and the Companies Act 2006 applicable to companies reporting under IFRS.

IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretations Committee (IFRS IC) and there is an ongoing process of review and endorsement by the European Commission. The financial statements have been prepared on the basis of the recognition and measurement principles of IFRS that were applicable at 31 December 2016.

The consolidated financial statements for the period ended 31 December 2015 have been restated to reflect a prior year adjustment in respect of the recycling of foreign exchange reserves through accumulated losses. See page 59 for further details.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivatives) stated at fair value through profit or loss. The principal accounting policies set out below have been consistently applied to all periods presented.

The Company is a public limited company which is incorporated and domiciled in the UK. The address of its registered office is shown on page 95.

GOING CONCERN

During the year the Group recognised a total comprehensive loss of £22,936,000 compared to a loss of £7,094,000 for the nine-month period to 31 December 2015.

Cash and cash equivalents and bank deposits, which include cash held on deposit, as at 31 December 2016 were £582,345,000 compared to £29,093,000 as at 31 December 2015. Restricted cash, which is held to cover interest payments, as at 31 December 2016 was £82,924,000 compared to £nil as at 31 December 2015. Net assets have increased by £331,110,000 to £496,272,000. The increase in cash and cash equivalents and net assets is principally due to the successful completion of the Group's stage 1 financing in late November 2016. As a result of this fundraising, the Group is now able to commence significant development work on its polyhalite project in North Yorkshire (the 'Project') with latest cash flow forecasts indicating that the Group has sufficient assets to meet its planned liabilities as they fall due until 2019.

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

Having assessed the principal risks and having regard for the above, the directors consider it appropriate to adopt the going concern basis of accounting in preparing its consolidated financial statements.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

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

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

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

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

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

PRIOR YEAR ADJUSTMENT

A prior year adjustment has been made to foreign exchange reserves totalling £5,627,000, which have been recycled through accumulated losses. These relate to overseas subsidiaries that had been liquidated during the year ended 31 March 2015. The comparative period reserves have been restated to show this adjustment. See the *Consolidated statement of changes in equity* for this restatement.

BASIS OF CONSOLIDATION

The Group's consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) for the year ended 31 December 2016. Control is achieved where the Company has power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

As a consolidated income statement is published, a separate income statement for the parent Company is omitted from the Group financial statements by virtue of section 408 of the Companies Act 2006. The loss for the Company for the year was £107,596,000 (December 2015: £3,604,000).

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 acquisition costs are expensed as incurred. Any excess of cost of acquisition over the fair value of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and allocated to cash generating units for the purpose of impairment testing, and the allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. 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.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker as required by IFRS 8 “Operating Segments”. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

The accounting policies of the reportable segments are consistent with the accounting policies of the Group as a whole. Segment loss represents the loss incurred by each segment without allocation of foreign exchange gains or losses, interest payable and tax. This is the measure of loss that is reported to the board of directors for the purpose of resource allocation and the assessment of segment performance.

When assessing segment performance and considering the allocation of resources, the board of directors review information about segment assets and liabilities. For this purpose, all assets and liabilities are allocated to reportable segments with the exception of the assets and liabilities in relation to the Group’s head offices.

FOREIGN CURRENCIES

The presentation and functional currency of the Group is Sterling. Transactions denominated in a foreign currency are translated into Sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are dealt with in the income statement.

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 ruling at the balance sheet date. The revenues and expenses of these subsidiary undertakings are translated at average rates applicable in the period. All resulting exchange differences are recognised as a separate component of equity.

The foreign exchange rates at the balance sheet date and the average rates for the period that were used in preparing the consolidated financial statements were:

	Balance sheet date	**Average rate**
Australian Dollars to Sterling	1.70 (December 2015: 2.03)	1.81 (December 2015: 2.07)
US Dollars to Sterling	1.23 (December 2015: 1.48)	1.35 (December 2015: 1.53)
Canadian Dollars to Sterling	1.66 (December 2015: 2.05)	1.79 (December 2015: 1.99)

INVESTMENTS

Investments by the Company in respect of its subsidiaries are held at cost less any provision for impairment when required.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less depreciation less any recognised impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of these items. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the 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. Depreciation is provided on all plant and equipment, and is calculated on a straight-line basis to allocate cost over the estimated useful lives, as follows:

Computer equipment	3 years
Fixtures and furniture	3 years
Plant and machinery	3 years
Motor vehicles	5 years
Leasehold improvements	Over the period of the lease

Freehold land is not depreciated.

Residual value and remaining useful life of assets are reviewed and adjusted as appropriate at each balance sheet date. Gains or losses arising on disposals are determined by comparing the proceeds with the carrying asset amount and are recognised within the appropriate area in the income statement.

SOFTWARE

Computer software is carried at cost less accumulated amortisation and impairments, and is amortised on a straight-line basis over three years. Amortisation of software is included within administrative expenses in the consolidated income statement.

EXPLORATION AND EVALUATION ASSETS

Costs arising from exploration and evaluation activities are accumulated separately for each area of interest and only capitalised where such costs are expected to be recouped through successful development, or through sale, or where exploration and evaluation activities have not, at the reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Expenditure capitalised comprises direct costs that have a specific connection with a particular area of interest.

Capitalised expenditure in respect of areas of interest is written off in the income statement when the above criteria do not apply or when the directors assess that the carrying value may exceed the recoverable amount.

Capitalised costs in respect of an area of interest that is abandoned are written off in the period in which the decision to abandon is made.

Once production commences, capitalised expenditure in respect of an area of interest is amortised on a unit of production basis by reference to the reserves of that area of interest. Amortisation of all classes of intangible assets is included within administrative expenses in the consolidated income statement.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group recognises derivative financial instruments in relation to its financing instruments when they meet the recognition criteria in IAS 39 "Financial Instruments: Recognition and Measurement" either on a standalone basis or when embedded within non-derivative transactions. The Group does not use derivative financial instruments for speculative purposes.

Derivatives are measured at fair value at each reporting date with all changes in fair value being recognised within finance income or finance costs within the income statement.

RESTRICTED CASH

Amounts held by the Group in bank accounts over which are disclosed as restricted cash are amounts in bank accounts which are not available for general use by the Group. Amounts are reclassified from restricted cash to cash and cash equivalents when the contractual restrictions expire.

LOANS AND OTHER RECEIVABLES

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

BANK DEPOSITS

Amounts reported as bank deposits represent short-term investments held by the Group which it 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.

CASH AND CASH EQUIVALENTS

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

TRADE AND OTHER PAYABLES

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

CONVERTIBLE DEBT INSTRUMENT

Convertible debt is assessed according to the substance of the contractual arrangements. The conversion element of each agreement is split out of the host loan (which is recognised as a liability held at amortised cost) and is bifurcated into liability or equity element on the basis of the contractual characteristics of the conversion terms in comparison to the requirements of IAS 32 "Financial Instruments: Presentation". 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. The Group has made a policy election for transaction costs that are directly attributable to the issuance of the convertible debt instrument to be measured at fair value and deducted from the initial carrying value of the host loan. These transaction costs are amortised in line with the host loan and recognised in the income statement.

At inception each element of the instrument is assigned a fair value based on appropriate valuation techniques with the aggregate fair value over the whole instrument being equal to the funds raised.

At inception the conversion element is separated from the host loan and is assigned a fair value based on an appropriate 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.

Debt elements that are derivative instruments are fair valued at each measurement date with any movement in fair value being recorded in the income statement. Debt elements that are held at amortised cost are measured using the effective interest rate method at each measurement date with any movements being recorded in the income statement.

On conversion, the fair value of the host debt contract is re-measured. The portion being converted is extinguished in liabilities and recorded in equity as share capital and the share premium account.

LOAN COMMITMENTS

Loan commitments are a financial instrument, to be accounted for in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". IAS 39 specifically excludes loan commitments from recognition and measurement prior to drawdown. Once drawdown of the loan commitment occurs, the loan will be initially recognised at fair value plus directly attributable transaction costs and is subsequently re-measured at amortised cost using the effective interest rate method per IAS 39. See note 23 for further details of the loan commitment.

EQUITY INSTRUMENTS

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 issued by the Group are recorded at the proceeds received, net of any direct issue costs.

SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS 2 “Share-based Payments”.

The Group issues equity settled share-based payments to certain directors, senior managers, employees and consultants. Equity settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group’s estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

The grant by the Group 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 equity.

At each reporting date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

EMPLOYEE BENEFITS

Provision is made in the financial statements for all employee benefits. Liabilities for wages and salaries including non-monetary benefits and annual leave obliged to be settled within twelve months of the balance sheet date, are recognised within accruals.

The Group pays into a defined contribution plan on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

LEASES

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.

RESEARCH AND DEVELOPMENT EXPENDITURE

Research expenditure is expensed to the Income Statement and development costs, the recognition criteria of IAS 38, are capitalised in the Statement of Financial Position.

FINANCE INCOME/FINANCE COSTS

Finance income is recognised in the income statement over the period in which it falls due. Finance expenses are recognised in the income statement as they become payable.

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.

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. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates and laws that have been enacted (or 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 to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The critical accounting estimates and judgements made by the Group regarding the future or other key sources of estimation, uncertainty and judgement that may have a significant risk of giving rise to a material adjustment to the carrying values of assets and liabilities within the next financial year are:

IMPAIRMENT OF INTANGIBLE ASSETS

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 Goodwill), 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.

GOODWILL

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generated units will be determined based on value-in-use calculations. These calculations will require the use of estimates (see note 11).

SHARE-BASED PAYMENTS

In determining the fair value of equity settled share-based payments and the related charge to the income statement, the Group makes assumptions about future events and market conditions. In particular, judgement must be made as to the likely number of shares that will vest and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on future estimates, including the Group's future dividend policy, the timing with which options will be exercised and the future volatility in the price of similar fertilizer companies. Such assumptions are based on publicly available information and reflect market expectations. Different assumptions about these factors to those made by the Group could materially affect the reported value of share-based payments.

ACCOUNTING FOR ROYALTY CONTRACT

As explained more fully in note 23 the Group entered into a royalty purchase agreement during the year. Significant judgment is required in determining how the agreement should be accounted for. Based on the precise contractual terms of the agreement, the Group has concluded that the agreement should be accounted for as a financial instrument, to be accounted for in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" rather than being treated as the permanent disposal of an interest in the Project. Furthermore, the Group has concluded that prior to drawdown occurring, the agreement is in substance a loan commitment, and therefore no recognition of it is necessary in the financial statements until drawdown occurs.

FAIR VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group is required to exercise judgment in appropriately estimating the fair value of derivative financial instruments. Derivative financial instruments held by the Group do not have observable market prices and so management are required to apply appropriate valuation models in calculating these fair values. In making its estimates, management give priority to inputs based on actual market data and transactions, although these valuations nevertheless require some level of subjective assessment for unobservable inputs and the use of different valuation assumptions could have a significant impact upon the Group's financial results.

3. SEGMENTAL ANALYSIS

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 its North Yorkshire polyhalite 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 operations are predominantly in the United Kingdom. However, the Group has a number of non-UK based entities which are either dormant or whose operations are insignificant in the context of the Group.

As a result of the disclosure requirements required under IFRS 8 "Operating Segments", the disclosures are already included in the primary statements.

4. OPERATING LOSS IS STATED AFTER CHARGING:

	31 December 2016 £000s	Nine-month period to 31 December 2015 £000s
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of the Company and consolidated financial statements (including £73,000 in respect of the Company (December 2015: £61,000))	**88**	73
Fees payable to the Company's auditors and their associates for other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation	**37**	-
– Tax compliance	**-**	13
– Other tax services	**69**	90
– Other assurance services	**320**	-
Depreciation of property, plant and equipment	**57**	84
Amortisation of intangible assets	**-**	5
Operating lease charges	**240**	177
Foreign exchange gains	**(4,158)**	(31)

5. FINANCE INCOME

	31 December 2016 £000s	Nine-month period to 31 December 2015 £000s
Bank interest received	**448**	99
Fair value gain on derivative financial instrument (see note 22)	**1,041**	-
	1,489	99

6. FINANCE COSTS

	31 December 2016 £000s	Nine-month period to 31 December 2015 £000s
Bank interest paid	**1**	-
Foreign exchange rate translation loss on convertible loan	**4,437**	-
Fair value loss on embedded derivative	**5,744**	-
Interest on convertible loan	**2,839**	172
Loan interest on loan from third parties (see note 16)	**18**	14
	13,039	186

7. STAFF NUMBERS AND COSTS (INCLUDING DIRECTORS)

Group	**31 December 2016 Number**	Nine-month period to 31 December 2015 Number
Average monthly number of staff (including directors)	**65**	62

Company	**31 December 2016 Number**	Nine-month period to 31 December 2015 Number
Average monthly number of staff (including directors)	**15**	18

Group	**31 December 2016 £000s**	Nine-month period to 31 December 2015 £000s
Wages and salaries	**6,304**	3,526
Social security	**973**	450
Pension	**31**	-
Other benefits	**88**	91
Compensation for loss of office	**373**	73
Relocation	**69**	11
	7,838	4,151

At the year end, £3,541,000 (December 2015: £1,831,000) was capitalised as intangible exploration costs.

Company	31 December 2016 £000s	Nine-month period to 31 December 2015 £000s
Wages and salaries	**1,506**	910
Social security	**285**	111
Pension	**13**	-
Other benefits	**20**	16
Compensation for loss of office	**-**	-
Relocation	**5**	1
	1,829	1,038

Directors emoluments during the year were:

	Wages and Salaries £000s	Other benefits £000s	**Total £000s**
Year ended 31 December 2016			
RJ Scrimshaw	50	-	**50**
CN Fraser	360	12	**372**
J Lodge	33	-	**33**
L Hardy	16	-	**16**
Lord Hutton	25	-	**25**
N Harwerth	31	-	**31**
SG Pycroft	9	-	**9**
KEF Clarke CBE	25	-	**25**
	549	**12**	**561**

	Wages and Salaries £000s	Gain/loss on warrant exercise £000s	Other benefits £000s	**Total £000s**
Period ended 31 December 2015				
RJ Scrimshaw	37	(4)	-	**33**
CN Fraser	270	-	9	**279**
CJ Catlow	8	-	-	**8**
Lord Hutton	19	-	-	**19**
PJE Woods	8	-	-	**8**
KEF Clarke CBE	19	1	-	**20**
SG Pycroft	19	3	-	**22**
J Lodge	14	-	-	**14**
N Harwerth	14	-	-	**14**
	408	**-**	**19**	**417**

During the year, there were pension contributions of £3,000 to pension schemes for the directors (December 2015: nil). Details of the share options granted to the directors during the period are given in note 18. Other benefits include health insurance and tax due on benefits.

Highest paid director:

	31 December 2016 £000s	Nine-month period to 31 December 2015 £000s
Total emoluments and amounts (excluding shares receivable under long-term incentive schemes)	**372**	279

Share options held by the directors at the period end were:

	Grant date	**Number of options (000s)**	**Exercise price £**	**Vesting date**	**Expiry date**
CN Fraser	26 September 2012*	10,000	0.3000	26 September 2014	26 September 2017
	26 September 2012*	10,000	0.4500	26 September 2015	26 September 2018
Lord Hutton	30 January 2012	1,800	0.3000	30 January 2015	29 January 2022
KEF Clarke CBE	23 December 2013	1,800	0.3000	23 December 2016	23 December 2023

*These share options are held by related parties to the directors.

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. The directors are considered to be the key management personnel of the Group.

Key management personnel received the following compensation during the year:

	31 December 2016 £000s	Nine-month period to 31 December 2015 £000s
Short-term employee benefits	**561**	417
	561	417

8. TAXATION

	31 December 2016 £000s	Nine-month period to 31 December 2015 £000s
Loss on ordinary activities before taxation	**(23,422)**	(7,509)
Loss on ordinary activities multiplied by the standard rate of corporation taxation in the UK of 20% (2015: 21%)	**(4,684)**	(1,502)
Taxation effects of:		
Expenses not deductible for tax purposes	**15**	20
Trading losses utilised	**-**	(26)
Trading losses not utilised	**4,669**	1,508
Research & development tax credit	**(468)**	(550)
Tax credit for the year	**(468)**	(550)

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

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

Taxation in the Consolidated Comprehensive Income Statement includes a tax credit of £468,000 in relation to a Research and Development claim.

The Group has a deferred tax liability of £4,344,000 (2015: £4,599,000) in relation to the intangible asset created on acquisition of York Potash. The Group also recognises a deferred tax asset of £4,344,000 (2015: £4,599,000) in relation to taxable losses.

The Group has unused tax losses of £69,597,000 (December 2015: £50,596,000).

9. LOSS PER SHARE

	31 December 2016 £000s	Nine-month period ended to 31 December 2015 £000s
Loss for the purposes of basic earnings per share being net loss attributable to equity shareholders of the parent	**(22,954)**	(6,959)
Loss for the purpose of diluted earnings per share	**(22,954)**	(6,959)

	2016 Number 000s	2015 Number 000s
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**2,472,762**	2,230,602

	2016 Number 000s	2015 Number 000s
Number of shares		
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**2,480,858**	2,231,795
Basic and diluted loss per share	**(0.9)p**	(0.3)p

Diluted loss per share are calculated by dividing the loss attributable to ordinary shareholders by 2,480,858,000 (2015: 2,231,795,000) ordinary shares, being the average number of ordinary shares in issue during the year adjusted by the dilutive effect of employee share schemes and convertible loan options.

For the year ended 31 December 2016, options over 1,343,090,000 shares (2015: 45,450,000) were excluded from this calculation because their effect was anti-dilutive for continuing operations.

10. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold property £000s	Computer equipment £000s	Furniture & fixtures £000s	Plant & machinery £000s	Motor vehicles £000s	Leasehold improvements £000s	Total £000s
Cost							
At 1 April 2015	1,765	221	196	90	110	130	2,512
Additions	-	1	-	-	-	-	1
At 31 December 2015	1,765	222	196	90	110	130	2,513
Additions	4,328	12	6	-	-	-	4,346
At 31 December 2016	**6,093**	**234**	**202**	**90**	**110**	**130**	**6,859**
Accumulated depreciation							
At 1 April 2015	-	158	183	81	72	86	580
Charge expensed to income statement	-	31	13	3	16	21	84
At 31 December 2015	-	189	196	84	88	107	664
Charge expensed to income statement	-	19	3	3	17	15	57
At 31 December 2016	**-**	**208**	**199**	**87**	**105**	**122**	**721**
Net book value							
At 31 December 2016	**6,093**	**26**	**3**	**3**	**5**	**8**	**6,138**
At 31 December 2015	1,765	33	-	6	22	23	1,849
At 1 April 2015	1,765	63	13	9	38	44	1,932

Company	Computer equipment £000s	Furniture & fixtures £000s	Leasehold improvements £000s	Total £000s
Cost				
At 1 April 2015	31	28	37	96
At 31 December 2015	31	28	37	96
Additions	-	2	-	2
At 31 December 2016	**31**	**30**	**37**	**98**
Accumulated Depreciation				
At 1 April 2015	30	28	32	90
Charge expensed to income statement	1	-	5	6
At 31 December 2015	31	28	37	96
At 31 December 2016	**31**	**28**	**37**	**96**

Net book value				
At 31 December 2016	**-**	**2**	**-**	**2**
At 31 December 2015	-	-	-	-
At 1 April 2015	1	-	5	6

Operating lease expenditure of £240,000 (December 2015: £177,000) relating to the lease of property is charged to the income statement (see note 4).

11. INTANGIBLE ASSETS

Group	Exploration costs and rights £000s	Goodwill £000s	Software £000s	Total £000s
Cost				
At 1 April 2015	173,412	9,079	79	182,570
Additions	16,254	-	-	16,254
At 31 December 2015	189,666	9,079	79	198,824
Additions	12,234	-	-	12,234
As at 31 December 2016	**201,900**	**9.079**	**79**	**211,058**
Accumulated provision for permanent diminution in value				
At 1 April 2015	(58,339)	(2,436)	(74)	(60,849)
Amortisation	-	-	(5)	(5)
At 31 December 2015	(58,339)	(2,436)	(79)	(60,854)
At 31 December 2016	**(58,339)**	**(2,436)**	**(79)**	**(60,854)**
Net book value				
31 December 2016	**143,561**	**6,643**	**-**	**150,204**
31 December 2015	131,327	6,643	-	137,970
1 April 2015	115,073	6,643	5	121,721

GOODWILL

The goodwill acquired in January 2011 as part of the business combination relating to York Potash Limited has been allocated to the cash generating unit (CGU) of resource evaluation and exploitation in the geographical location of the UK, which is expected to benefit from the business combination.

Recoverable amount has been assessed using fair value less costs of disposals (FVLCD) based on discounted cash flow techniques where the resulting estimate is based on the detailed long-term production plan.

The cash flow forecasts for FVLCD purposes are based on management's best estimates of expected future revenues and costs, including the future cash costs of production, capital expenditure, closure, restoration and environmental costs in line with estimates made in the Group's published definitive feasibility study for the Sirius Minerals polyhalite project in North Yorkshire. For the purposes of determining FVLCD from a market participant's perspective, the cash flows incorporate management's price and cost assumptions in the short and medium term. In the longer term, operating margins are assumed to remain constant where appropriate, as it is considered unlikely that a market participant would prepare detailed forecasts over a longer term.

The cash flow projections are based on long-term plans covering the expected life of the operation. The mineral resource of 2.6 billion tonnes of polyhalite determines an expected mine life of more than 50 years. The valuations are particularly sensitive to changes in assumptions about selling prices, volumes of production and operating costs. Long-term average selling prices are forecast taking account of market data in respect of potash and management's current expectations. Forecasts of volumes of production and operating costs are based on management's current expectations.

Discount rates represent an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. A discount rate of 10% (December 2015: 10%) which is considered to be appropriate for a project of this nature and size, has been applied to the pre-tax cash flows.

No reasonably possible change in the key assumptions on which York Potash Limited's recoverable amount is based would cause its value to fall short of its carrying amount as at 31 December 2016.

IMPAIRMENT

There were no impairment charges in the year.

Company	Software £000s
Cost	
At 1 April 2015	10
Additions	-
At 31 December 2015	10
Additions	-
At 31 December 2016	**10**
Accumulated provision for permanent diminution in value	
At 1 April 2015	(9)
Amortisation	(1)
At 31 December 2015	(10)
Amortisation	-
At 31 December 2016	**(10)**
Net book value	
At 31 December 2016	**-**
At 31 December 2015	-
At 1 April 2015	1

12. INVESTMENTS IN SUBSIDIARIES

Company	£000s
At 1 January 2016	81,612
Additions	36,880
Impairment	(36,689)
At 31 December 2016	**81,803**

Company	£000s
At 1 April 2015	81,095
Additions	517
At 31 December 2015	**81,612**

The additions during the year consist of the derivative liability (see note 16) and share awards given to subsidiary employees.

The impairment during the year relates to the derivative liability that was initially recognised in the Company accounts.

Name	Country of incorporation	Registered address	Activity	Percentage of ordinary share capital held by the Company
York Potash Limited	UK	3rd Floor Greener House 68 Haymarket London SW1Y 4RF	Resource evaluation and exploration	100%
York Potash Processing & Ports Limited	UK	3rd Floor Greener House 68 Haymarket London SW1Y 4RF	Holds options to purchase land	100%
York Potash Holdings Limited	UK	3rd Floor Greener House 68 Haymarket London SW1Y 4RF	Corporate operations	100%
Sirius Minerals Holdings Limited	UK	3rd Floor Greener House 68 Haymarket London SW1Y 4RF	Corporate operations	100%
Sirius Minerals Finance Limited	UK	47 Esplanade St Helier JE1 0BD	Fundraising	100%
Sirius Exploration Limited	UK	3rd Floor Greener House 68 Haymarket London SW1Y 4RF	Dormant	100%
Sirius Resources Limited	UK	3rd Floor Greener House 68 Haymarket London SW1Y 4RF	Dormant	100%
Sirius Potash Limited	UK	3rd Floor Greener House 68 Haymarket London SW1Y 4RF	Dormant	100%
Auspotash Corporation Limited	Canada	102A–1075 Bay Street Suite 414 Toronto Ontario M5S 2B2	Dormant	100%
Sirius Minerals (Australia) Pty Limited	Australia	5 Infinity Court Coomera Qld 4209	Dormant	100%
Dakota Salts LLC	USA	811 East Interstate Avenue Bismarck North Dakota 58503	Resource evaluation and exploration	100%

13. OTHER RECEIVABLES

	31 December 2016 £000s	31 December 2015 £000s
Group		
Other receivables	**428**	765
Prepayments	**412**	419
	840	1,184

	31 December 2016 £000s	31 December 2015 £000s
Company		
Other receivables	**220**	10
Prepayments	**110**	142
	330	152

The directors consider that the carrying amount of other receivables approximate to their fair value.

During the period, no bad and doubtful debt charges have been recognised by the Group in the income statement (December 2015: £nil).

At the year end, no receivables were either impaired (December 2015: £nil) or past due but not impaired (December 2015: £nil).

14. LOANS BETWEEN SUBSIDIARIES

LOANS TO SUBSIDIARIES

Company	**£000s**
At 1 January 2016	**67,975**
Additions	**22,103**
At 31 December 2016	**90,078**

Company	**£000s**
At 1 April 2015	**61,677**
Additions	**6,298**
At 31 December 2015	**67,975**

Company	31 December 2016 £000s	31 December 2015 £000s
Sirius Minerals Holdings Limited	**90,078**	67,975
	90,078	67,975

The loans to subsidiaries are non-interest bearing and repayable on demand.

The directors consider that the carrying amount of the loans to subsidiaries approximate to their fair value.

LOANS FROM SUBSIDIARIES

Company	£000s
At 1 January 2016	-
Additions	**370,252**
At 31 December 2016	**370,252**

	31 December 2016	31 December 2015
Company	**£000s**	£000s
Sirius Minerals Finance Limited	**370,252**	-
	370,252	-

An intercompany loan is in place from Sirius Minerals Finance Limited to the Company for the gross proceeds of the convertible loans of US$400 million and any additional amounts, on-lent to the Company for investment and further on-lending into the Group.

The intercompany loan has a stated interest rate of 8.5% payable on the outstanding principle (reduced from time to time following conversions by the bondholders). The terms of the intercompany loan mirror the terms of the external bonds such that the liability recognised by the Company in its own financial statements, reflects a principle amount (up to the par value of any unconverted bonds and any accrued interest) which will match the external liability to bondholders (£318,135,000 as at 31 December 2016) and an amount in respect of a make-whole cash payment which would become payable to bondholders who elect to convert prior to 28 November 2018 (£52,117,000 as at 31 December 2016).

Since these amounts are payable on demand by the Company to Sirius Minerals Finance Limited, IFRS 13 requires that the maximum make-whole payment is recognised by the Company as a current liability in its own financial statements. The make-whole component of the liability will unwind through the income statement over the period to 28 November 2018, as the commitment decreases.

15. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
	£000s	£000s
Group		
Cash at bank	**260,157**	29,093
	260,157	29,093

	31 December 2015	31 December 2015
	£000s	£000s
Company		
Cash at bank	**258,493**	25,665
	258,493	25,665

16. LOANS

	31 December 2016	31 December 2015
	£000s	£000s
Group		
Convertible loan	**321,366**	-
Loan from third parties	**-**	748
	321,366	748

	31 December 2016	31 December 2015
	£000s	£000s
Company		
Convertible loan	**42,433**	-
Loan from subsidiaries	**370,252**	-
	412,685	-

On 28 November 2016 the Group issued $400 million of 7 year, 8.5% quarterly coupon USD-denominated convertible loans at par, receiving gross proceeds of £319,923,000 and incurring transaction costs of £11,577,000 which have been net off the carrying value of the loan. The key terms of the convertible loans are that at any date subsequent to 8 January 2017 up until maturity a bondholder may convert their bonds into ordinary shares in the Company at a conversion price of $0.31 per share.

If a bondholder elects to convert prior to 28 November 2018 then, as well as receiving ordinary shares in the Company, they will also receive a make-whole cash payment equal to the total value of coupon payments that they would have been owed had they held their bonds until 28 November 2018. The Group also has a call option to redeem all bonds at par should the Company's share price exceed certain thresholds from 28 November 2018 onwards. Bondholders may not request early cash-repayment of their bonds 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 and so this amount of £82,924,000 (2015: nil) has been disclosed on the Group's statement of financial position as restricted cash as the Group is not able to use the cash for any purpose other than the payment of quarterly coupons.

Due to the conversion terms of the bonds 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. The split of the convertible loan between the host loan and the embedded derivative is detailed in the table below.

	28 November 2016				31 December 2016
	Initial recognition	**Fair value change**	**Interest**	**Foreign exchange loss/(gain)**	**Total**
	£000s	£000s	£000s	£000s	£000s
Convertible loan					
Gross proceeds of convertible loan issue	319,923				
Transaction costs capitalised on host loan instrument	(11,577)				
Net proceeds of convertible loan issue	**308,346**				
Host loan liability	271,657	-	2,839	4,437	278,933
Embedded conversion derivative	36,689	5,744	-	-	42,433
Convertible loan liability	**308,346**	**5,744**	**2,839**	**4,437**	**321,366**

In the Company's own financial statements, no host loan exists since the bonds have been legally issued by a subsidiary company. However, since any conversion of these bonds will lead to issuance of ordinary shares in the Company, a derivative liability equal to the value of the embedded derivative in the convertible loan reported in the consolidated accounts has been recognised in the Company's own statement of financial position.

Upon initial recognition of the derivative liability the Company recognised an increase in the value of its investment in the subsidiary company which legally issued the bonds. The Company, Sirius Minerals Plc, have guaranteed the bonds and interest payments which have been legally issued by a subsidiary company.

FAIR VALUE ESTIMATION

In order to estimate the fair value of the embedded derivative at inception and year-end, the Group estimated the fair value of the cash flows due under the host loan at the prevailing discount rate that would likely apply to any debt issued by the Group which was not convertible. Based on the pricing terms obtained on the convertible bonds, management have estimated a discount rate that for the loan component based on bond yield data of comparable entities with similar credit profiles at the measurement dates.

The effect of using a discount rate that was one percentage point higher/(lower) at 31 December 2016 would have been an increase/(decrease) in the finance cost recognised in the income statement of £13,085,000/(£13,961,000).

In estimating the fair value at 31 December 2016, the Group incorporated the mid-price of the bonds' quoted market price of 102.9 (28 November 2016: 100.0). Therefore the fair value of the Group's convertible loan bonds as at 31 December 2016 was £334,679,000 compared to the stated carrying value of £321,366,000.

17. SHARE-BASED PAYMENTS

The total expense recognised within the income statement in relation to equity settled share-based payment transactions in the year is £884,000 (December 2015: £927,000).

At the year-end, the share-based payment reserve was made up as follows:

	31 December 2016 £000s	31 December 2015 £000s
Equity settled share-based payments – directors	**2,612**	3,368
Equity settled share-based payments – senior managers	**2,714**	3,427
Equity settled share-based payments – employees	**-**	22
Equity settled share-based payments – consultants	**-**	19
Equity settled share-based payments – previous employees and advisers	**788**	788
	6,114	7,624

Movements in the share-based payment reserve during the year and prior year are as follows:

		£000s
At 1 April 2015		**13,290**
Charge in the year	-	927
Shares issued to employees	-	(228)
Lapsed share options	-	(6,365)
At 31 December 2015	-	**7,624**
Charge in the year	-	844
Capitalised share-based payment charges	-	127
Shares issued to employees	-	(1,437)
Lapsed share options	-	(1,044)
At 31 December 2016		**6,114**

18. SHARE CAPITAL

	31 December 2016 £000s	31 December 2015 £000s
Allotted and called up		
4,164,514,405 (2015: 2,294,695,991) ordinary shares of 0.25p each	**10,412**	5,737

	Number of shares (thousands)	Ordinary shares £000s	Share premium £000s	Total £000s
At 1 April 2015	**2,145,020**	**5,362**	**216,586**	**221,948**
Issued during the year	149,676	375	24,288	24,663
At 31 December 2015	**2,294,696**	**5,737**	**240,874**	**246,611**
Issued during the year	1,869,818	4,675	349,849	354,524
At 31 December 2016	**4,164,514**	**10,412**	**590,723**	**601,135**

On 13 May 2016, the Company announced the issue of 12,649,417 ordinary shares of 0.25p each as a part of the employee incentive award. The award consists of the Short Term Incentive Scheme (STI) and Long Term Incentive Scheme (LTI).

On 19 July 2016, the Company received notices of exercise in options in respect of the financing which was announced on 12 August 2013 at the conversion price of 19.50p. As a result, the Company issued 5,975,000 ordinary shares.

On 1 September 2016, the Company announced the receipt of an exercise notice in relation to 250,000 share options granted to a former employee in August 2011. As a result, the Company issued 250,000 0.25p ordinary shares at a strike price of 16.30p.

On 28 November 2016, the Company announced the issue of 1,850,895,290 ordinary shares as a result of the firm placing and placing and open offer. The issue price of these shares was 20p. The related transaction costs amounting to £18,370,000 have been netted off the share premium account with the proceeds received.

During the period, the movement in share options over shares in the Company was as follows:

	Number of options 000s	Weighted average exercise price £	Weighted average share price at exercise £
At 31 December 2015	67,916	0.2437	-
Granted during the period	2,500	0.3400	-
Forfeited/lapsed	(5,050)	(0.2167)	-
Revaluation	1,815	-	-
Exercised during the period	(6,225)	0.0516	0.192
At 31 December 2016	**60,956**	**0.3825**	
Exercisable at 31 December 2016	55,554	0.3406	

The revaluations reflect the impact of the open offer, on 28 November 2016, on the Company's existing share options. In order to reflect the impact of the open offer on the Company's existing share options the board of directors approved certain market standard adjustments to the Company's outstanding share options. See note 21 for further details.

Details of the share options granted during the year are as follows:

	Tranche 1
Recipient	Senior Manager
Grant date	25 Oct 2016
Share price at date of grant (£)	0.2625
Exercise price (£)	0.3400
Volatility rate	90.55%
Expected life (years)	10
Risk free rate	1.79%
Dividend yield	0.00%
Vesting date	26 Oct 2019
Number of options (000s)	2,500
Fair value of options at date of grant (£000s)	£562

The fair values of the options are calculated by use of the Black Scholes model. The inputs into the model are noted in the table above. Expected volatility was determined by calculating the historical volatility of the share price of the Company over the previous 730 days.

The options generally vest if the option holders are still employed by or engaged with the Company on the vesting dates. Some of the options carry additional performance related conditions which must be satisfied in order for them to vest. The performance related conditions relate to the timing of completion of stage 1 and stage 2 financing and of the first commercial ore sale.

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 3.0 years (December 2015: 4.0 years).

The fair value of the options determined at the grant date is expensed on a straight line basis over the vesting period.

The total expense recognised within the income statement in the period in relation to share options is £210,000 (December 2015: £1,137,000).

WARRANTS

There were no warrants issued during the year.

SHARE AWARDS

During the year, the movement in share awards in relation to shares in the Company was as follows:

	Number of shares 000s	**Weighted average exercise price £**
At 31 December 2015	18,186	-
Granted during the period	11,858	-
Awarded during the period	(11,507)	-
Forfeited during the period	(8,680)	-
At 31 December 2016	**9,857**	**-**
Exercisable at 31 December 2016	-	-

The fair values of the share awards are measured by multiplying the number of shares under the award by the closing share price of the Company, on the day before the date of grant.

The shares generally vest if the holders are still employed by or engaged with the Company on the vesting dates. Some of the shares carry additional performance related conditions which must be satisfied in order for them to vest.

The fair value of the share awards determined at the grant date is expensed on a straight line basis over the vesting period.

The aggregate of the fair values of the share awards granted during the year is £2,709,000 of which £955,000 was expensed to the income statement (December 2015: £nil). The fair value of the shares that were issued during the period is £1,897,000 (December 2015: £229,000) and the fair value of the share awards that were forfeited during the period is £1,112,000 (December 2015: £38,000).

The total expense recognised within the income statement in the period in relation to share awards is £762,000 (December 2015: £271,000).

19. TRADE AND OTHER PAYABLES

Group	**31 December 2016 £000s**	31 December 2015 £000s
Trade payables	**243**	174
Taxation and social security	**170**	597
Other payables	**41**	34
Accruals	**5,400**	3,381
	5,854	4,186

Company	**31 December 2016 £000s**	31 December 2015 £000s
Trade payables	**120**	15
Taxation and social security	**89**	516
Accruals	**898**	675
Accrued convertible loan issue costs	**2,419**	-
	3,526	1,206

20. CASH OUTFLOW FROM OPERATING ACTIVITIES

Group	**31 December 2016 £000s**	Nine-month period to 31 December 2015 £000s
Loss before tax	**(23,422)**	(7,509)
Amortisation	**-**	5
Depreciation	**57**	84
Exchange differences charged to profit and loss	**(4,986)**	-
Finance expense	**11,550**	87
Loan conversion into shares	**-**	172
Share-based payments	**844**	699
Tax credit	**468**	550
Operating cash flow before changes in working capital	**(15,489)**	**(5,912)**
Decrease in receivables	**344**	229
(Decrease)/increase in payables	**(751)**	376
Net cash outflow from operating activities	**(15,896)**	**(5,307)**

Company	31 December 2016 £000s	Nine-month period to 31 December 2015 £000s
Loss before tax	**(107,596)**	(3,601)
Amortisation	**-**	1
Depreciation	**-**	6
Exchange differences charged to profit and loss	**(4,959)**	-
Finance expense	**63,744**	116
Impairment	**36,689**	-
Loan conversion into shares	**-**	172
Share-based payments	**780**	699
Operating cash flow before changes in working capital	**(11,342)**	(2,607)
(Increase)/decrease in receivables	**(178)**	18
(Decrease)/increase in payables	**(99)**	847
Increase in accrued convertible loan issue costs	**2,419**	-
Net cash outflow from operating activities	**(9,200)**	(1,742)

21. RELATED PARTY TRANSACTIONS

On 27 April 2016, Elizabeth Noel Harwerth, non-executive director, purchased 49,608 of the Company's 0.25p ordinary shares at an average price of 18.12p each.

On 28 April 2016, Jane Ann Lodge, non-executive director, purchased 100,000 of the Company's 0.25p ordinary shares at an average price of 18.35p each.

On 11 May 2016, Chris Fraser was awarded 833,340 of the Company's 0.25p ordinary shares at an average price of 18.25p each. This was part of the short term incentive (STI) award. In addition, Chris Fraser was also awarded with 1,239,006 of the Company's 0.25p ordinary shares as a part of the long term incentive (LTI) award, these shares however only vest once certain conditions have been met.

During the period, the Company loaned £22,103,000 to its subsidiaries for working capital purposes. The Company had a loan receivable balance of £90,078,000 outstanding from its subsidiaries.

On 12 August 2016 5,975,000 options over ordinary shares at an exercise price of 19.5p per share were exercised that were granted as part of the financing which was announced on 12 August 2013.

On 5 September 2016, 250,000 share options over ordinary shares granted to a former employee in August 2011 were exercised at an exercise price of 16.3p per share.

On 28 November 2016, following the admission of the firm placing and placing and open offer shares, the following directors/persons discharging managerial responsibilities (PDMRs) have acquired shares in the open offer and in the following amounts:

Name	Role	Shares acquired
Russell Scrimshaw	Non-executive chairman	2,557,142
Keith Clarke CBE	Non-executive director	227,208
Elizabeth Noel Harwerth	Non-executive director	9,644
Lord John Hutton	Non-executive director	2,285
Jane Lodge	Non-executive director	16,000
Thomas Staley	CFO (PDMR)	42,400
Nicholas King	General Counsel (PDMR)	36,282

On 28 November 2016, in order to reflect the impact of the open offer on the Company's existing share options the board of directors approved certain market standard adjustments to the Company's outstanding share options. As a result of the adjustments the number of share options outstanding in the Company increased from 59,141,234 to 60,855,229 and the average option exercise price reduced from 34 pence to 33 pence per option.

After the adjustments the following directors/PDMRs have the following options at the following exercise prices:

Name	Role	Options	Exercise price
Chris Fraser	Managing Director & CEO	10,289,814	29.2p
		10,289,814	43.7p
Keith Clarke CBE	Non-executive director	1,852,167	29.2p
Lord John Hutton	Non-executive director	1,852,167	29.2p
Thomas Staley	CFO (PDMR)	1,543,472	29.2p
		1,543,472	29.2p
Nicholas King	General Counsel (PDMR)	1,028,981	29.2p
Simon Carter	Development Director (PDMR)	2,572,453	34p

On 28 November 2016, Sirius Minerals Finance Limited (a subsidiary of the Company) loaned £319,923,000 to Sirius Minerals Plc (the Company). The value of that loan on 31 December 2016 was £370,252,000 (see note 16).

22. FINANCIAL INSTRUMENTS

CLASSIFICATION OF FINANCIAL INSTRUMENTS

IFRS 7 "Financial Instruments: Disclosures" requires financial instruments to be grouped into a fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

The three levels of the hierarchy are:

- 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 (that is, prices) or indirectly (that is, derived from prices);
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

MEASUREMENT OF FINANCIAL INSTRUMENTS

The derivatives that are a part of the Convertible Loan and Royalty Financing Agreement have both been assessed to be a level 2 financial liability.

This is because the derivatives themselves are not traded on an active market. However their fair values are determined by valuation techniques that use observable market data, e.g. bond prices, equity forwards and credit spreads.

FINANCIAL INSTRUMENTS BY CATEGORY

	Cash and cash equivalents £000s	Loans and receivables £000s	At fair value through profit and loss £000s	Financial liabilities at amortised cost £000s	Total £000s
Group					
31 December 2016					
Financial assets					
Derivative financial instrument	-	-	1,041	-	1,041
Restricted cash	-	82,924	-	-	82,924
Other receivables (excluding prepayments)	-	428	-	-	428
Bank deposits	-	322,188	-	-	322,188
Cash and cash equivalents	260,157	-	-	-	260,157
	260,157	**405,540**	**1,041**	**-**	**666,738**
Financial liabilities					
Convertible loan	-	-	(42,433)	(278,933)	(321,366)
Trade and other payables	-	-	-	(5,854)	(5,854)
	-	-	**(42,433)**	**(284,787)**	**(327,220)**
Net financial assets/(liabilities)	**260,157**	**405,540**	**(41,392)**	**(284,787)**	**339,518**

	Cash and cash equivalents £000s	Loans and receivables £000s	At fair value through profit and loss £000s	Financial liabilities at amortised cost £000s	Total £000s
Group					
31 December 2015					
Financial assets					
Other receivables (excluding prepayments)	-	765	-	-	765
Cash and cash equivalents	29,093	-	-	-	29,093
	29,093	**765**	**-**	**-**	**29,858**
Financial liabilities					
Loan from third parties	-	-		(748)	(748)
Trade and other payables	-	-	-	(4,186)	(4,186)
	-	-	-	**(4,934)**	**(4,934)**
Net financial assets/(liabilities)	**29,093**	**765**	**-**	**(4,934)**	**24,924**

	Cash and cash equivalents	Loans and receivables	At fair value through profit and loss	Financial liabilities at amortised cost	Total
	£000s	£000s	£000s	£000s	£000s
Company					
31 December 2016					
Financial assets					
Derivative financial instrument	-	-	1,041	-	1,041
Restricted cash	-	82,924	-	-	82,924
Other receivables (excluding prepayments)	-	220	-	-	220
Loans to subsidiaries	-	90,078	-	-	90,078
Bank deposits	-	322,188	-	-	322,188
Cash and cash equivalents	258,493	-	-	-	258,493
	258,493	**495,410**	**1,041**	**-**	**754,944**
Financial liabilities					
Convertible loan	-	-	(42,433)	-	(42,433)
Loan from subsidiaries	-	-	(52,117)	(318,135)	(370,252)
Trade and other payables	-	-	-	(3,526)	(3,526)
	-	-	**(94,550)**	**(321,661)**	**(416,211)**
Net financial assets/(liabilities)	**258,493**	**495,410**	**(93,509)**	**(321,661)**	**338,733**

	Cash and cash equivalents	Loans and receivables	At fair value through profit and loss	Financial liabilities at amortised cost	Total
	£000s	£000s	£000s	£000s	£000s
Company					
31 December 2015					
Financial assets					
Other receivables (excluding prepayments)	-	10	-	-	10
Loan from subsidiaries	-	67,975	-	-	67,975
Cash and cash equivalents	25,665	-	-	-	25,665
	25,665	**67,985**	**-**	**-**	**93,650**
Financial liabilities					
Trade and other payables	-	-	-	(1,206)	(1,206)
	-	-	-	**(1,206)**	**(1,206)**
Net financial assets/(liabilities)	**25,665**	**67,985**	**-**	**(1,206)**	**92,444**

CAPITAL MANAGEMENT

The Group's and Company's objectives when managing capital are to safeguard the Group's and Company's ability to continue as a going concern, to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group and Company define capital as being share capital plus reserves. The board of directors monitors the level of capital as compared to the Group's and Company's commitments and adjusts the level of capital as it is determined to be necessary, by issuing new shares. The Group and Company are not subject to any externally imposed capital requirements.

CREDIT RISK

The Group's credit risk is primarily attributable to its other receivables, cash and cash equivalents, restricted cash, bank deposits and loan to a third party. The Group has implemented policies that require appropriate credit checks. The amount of exposure to any individual counterparty is reviewed regularly by the Board.

The carrying amount of financial assets in the financial instruments by category tables above represent the maximum credit exposure to the Group and Company.

INTEREST RATE RISK

The Group's interest bearing assets comprise cash and cash equivalents earning interest at a variable rate. The Group borrowing at the year-end was £325,080,000 (December 2015: £748,000), and the Company borrowing at the year-end was £nil (December 2015: £nil).

The Group's cash and cash equivalents earned interest from various instant access, term and notice bank deposits and money market funds, predominantly in Sterling and US Dollars. Cash and cash equivalents of the Group and Company are disclosed above under credit risk. The impact of a movement of 5% in the rate of interest on the Group's and Company's cash and cash equivalents will have no material impact to the Group and Company's results and financial positions as at 31 December 2015 and 31 December 2016.

LIQUIDITY RISK

The Group actively maintains cash balances that are designed to ensure that there are sufficient available funds for operations and planned expansions. The Group monitors its levels of working capital to ensure that it can meet its payments as they fall due. The following table shows the contractual maturities of the Group and Company's financial liabilities:

	Trade and other payables £000s	Accruals £000s	Convertible loan £000s	Total £000s
Group				
31 December 2016				
Amount due within 1 year or less	454	5,400	27,632	33,486
Amount due within 1–5 years	-	-	110,527	110,527
Amount due after 5 years	-	-	380,344	380,344
Total contractual cash flows	**454**	**5,400**	**518,503**	**524,357**

	Trade and other payables £000s	Accruals £000s	Total £000s
Group			
31 December 2015			
Amount due within 1 year or less	805	3,381	4,186
Total contractual cash flows	**805**	**3,381**	**4,186**

	Trade and other payables £000s	Accruals £000s	Convertible loan £000s	Total £000s
Company				
31 December 2016				
Amount due within 1 year or less	209	3,317	27,632	31,158
Amount due within 1–5 years	-	-	110,527	110,527
Amount due after 5 years	-	-	380,344	380,344
Total contractual cash flows	**209**	**3,317**	**518,503**	**522,029**

	Trade and other payables £000s	Accruals £000s	Total £000s
Company			
31 December 2015			
Amount due within 1 year or less	531	675	1,206
Total contractual cash flows	**531**	**675**	**1,206**

FOREIGN CURRENCY EXCHANGE RATE RISK

The presentation currency of the Group and Company is Sterling. Transactions denominated in a foreign currency are translated into Sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are charged or credited to the income statement as appropriate.

The impact of a movement of 5% in foreign exchange rates when translating the Group's financial assets and liabilities into Sterling would be £720,000 (December 2015: £5,000) to the Group's results and £728,000 (December 2015: £1,457,000) to the Group's financial position as at 31 December 2016.

	Cash and cash equivalents £000s	Bank deposits £000s	Restricted cash £000s	Derivative asset £000s	Convertible loan £000s	Total £000s
Group						
31 December 2016						
Sterling	158,262	200,095	-	-	-	358,357
Euros	28	-	-	-	-	28
US Dollars	101,851	122,093	82,924	1,041	(321,366)	(13,457)
Canadian Dollars	5	-	-	-	-	5
Australian Dollars	11	-	-	-	-	11
	260,157	**322,188**	**82,924**	**1,041**	**(321,366)**	**344,944**

	Cash and cash equivalents £000s	Total £000s
Group		
31 December 2015		
Sterling	28,406	28,406
Euros	324	324
US Dollars	287	287
Canadian Dollars	48	48
Australian Dollars	24	24
South African Rand	4	4
	29,093	**29,093**

	Cash and cash equivalents £000s	Bank deposits £000s	Restricted cash £000s	Derivative asset £000s	Convertible loan £000s	Loans from subsidiaries £000s	Total £000s
Company							
31 December 2016							
Sterling	156,768	200,095	-	-	-	-	356,863
Euros	23	-	-	-	-	-	23
US Dollars	101,699	122,093	82,924	1,041	(42,433)	(370,252)	(104,928)
Australian Dollars	3	-	-	-	-	-	3
	258,493	**322,188**	**82,924**	**1,041**	**(42,433)**	**(370,252)**	**251,961**

	Cash and cash equivalents £000s	Total £000s
Company		
31 December 2015		
Sterling	25,601	25,601
Euros	39	39
US Dollars	24	24
Australian Dollars	1	1
	25,665	**25,665**

OPERATING LEASE COMMITMENTS

The Group leases various offices under operating lease agreements. The lease terms are between two and five years and the majority of agreements are renewable at the end of the lease period, at market rate. The lease expenditure charged to the income statement during the year is disclosed in note 5.

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

	31 December 2016	31 December 2015
Group	**£000s**	**£000s**
No later than 1 year	**185**	**196**
Later than 1 year and no later than 5 years	**249**	**227**
	434	**423**

	31 December 2016	31 December 2015
Company	**£000s**	**£000s**
No later than 1 year	**75**	**22**
Later than 1 year and no later than 5 years	**132**	**-**
	207	**22**

23. ROYALTY FINANCING AGREEMENT

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

Drawdown of the USD 250 million consideration is subject to certain conditions precedent being met, principally the Group giving notice to Hancock that it has expended USD 630 million of the proceeds of the Group's November 2016 stage 1 financing and that all material permits, commercial arrangements and authorisations for the project remain in place.

The royalty purchase represents a loan commitment and therefore falls outside of the scope of IAS 39 "Financial Instruments: Recognition and Measurement". As such no accounting entries are recognised in the financial statements prior to receipt of the consideration.

The agreement also commits Hancock to subscribe for 200 million new ordinary shares in the Company for a consideration of USD 50 million at the time of drawdown of the royalty consideration.

The fair value attaching to the equity subscription component of the agreement has been recognised as a financial asset, representing the expected market value of the shares Hancock will subscribe for compared to the agreed consideration in USD, and will be subject to re-measurement at each balance sheet date until settlement.

The Group had the following undrawn committed borrowing facilities at 31 December 2016:

	31 December 2016	31 December 2015
	£000s	**£000s**
Expiry:		
Between 3–4 years	203,175	**-**
	203,175	**-**

24. POST-BALANCE SHEET EVENT

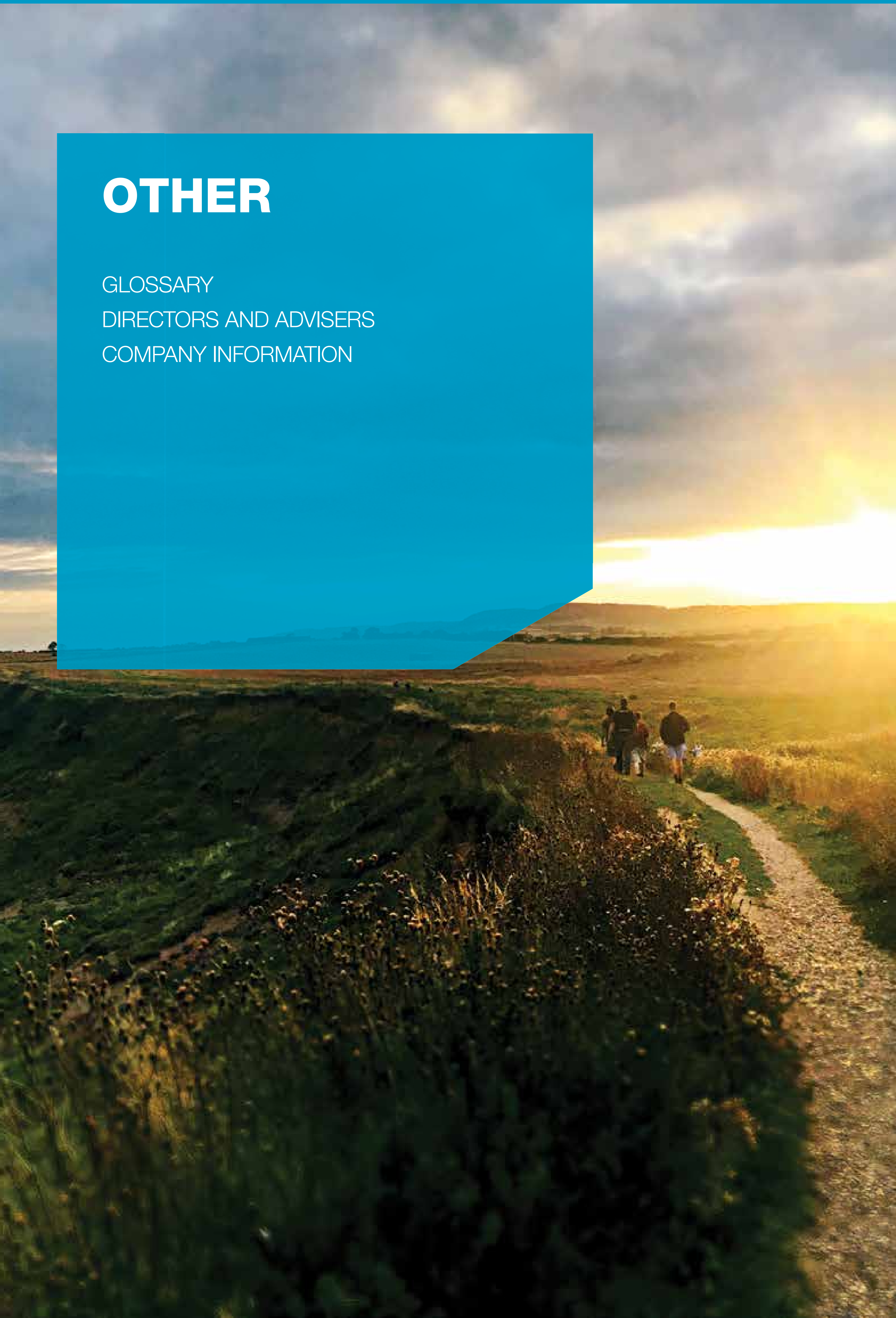
On 2 February 2017, Thomas Jay Staley was appointed as the Company's Finance Director.

25. BANK DEPOSITS

	31 December 2016	31 December 2015
Group	**£000s**	£000s
Bank deposits	**322,188**	-
	322,188	-

	As at 31 December 2016	As at 31 December 2015
Company	**£000s**	£000s
Bank deposits	**322,188**	-
	322,188	-

Bank deposits are amounts sitting in deposit accounts with notice terms exceeding three months.



OTHER

GLOSSARY

CAN	calcium ammonium nitrate (composition nitrogen (N) 27% (ammonia N (N-NH3) – 13.5%, nitrate N (N-NO3) – 13.5%), magnesium (MgO) 4.0%, calcium 6.0%) also known as nitro-limestone, is a widely-used inorganic fertilizer
CEMP	Sirius Minerals' construction environmental management plan
CRU	an internationally recognised market analysis company
DFS	definitive feasability study
FAO	the Food and Agriculture Organisation of the United Nations
FERTECON	independent experts and fertilizer industry analysts
FSA	framework sales agreement
JORC	Australian Joint Ore Reserves Committee
kieserite (KIE)	a naturally occurring mineral that is chemically known as magnesium sulphate monohydrate ($MgSO_4{\cdot}H_2O$). It is mined from geologic marine deposits and provides a soluble source of both Mg and S for plant nutrition
LoI	letter of intent
MLA	mandated lead arranger
MOP	muriate of potash – common name for potassium chloride (also see potassium chloride)
MoU	memorandum of understanding
Mtpa	million tonnes per annum
MTS	mineral transport system
NOP	potassium nitrate (chemical formula KNO_3) a chemical compound of potassium, nitrogen and oxygen used in fertilizers
NPK	fertilizers made up of a combination of nitrogen (N), phosphorus (P) and potassium (K)
NYMNPA	North York Moors National Park Authority

POLY4	Sirius Minerals's trademarked polyhalite product
polyhalite	(chemical formula $K2SO_4.MgSO_4.2CaSO_4.2H_2O$) a naturally occurring, evaporite mineral formed from the dried-up bed of an ancient sea or ocean. Chemically it is a hydrated sulphate of potassium, calcium and magnesium
potash	any of several compounds containing potassium – mainly used in fertilizers
potassium chloride	(chemical formula KCl) a metal halide salt composed of potassium and chlorine
the Project	Sirius Minerals's polyhalite project in North Yorkshire
SOP	sulphate of potash (chemical formula K_2SO_4) – a crystalline salt compound of potassium, sulphur and oxygen. It is potash fertiliser, other than MOP, and is used in crops that are sensitive to chloride or fertiliser burn or where sulphur is deficient.
SRK	independent consultants that provide professional technical consultancy services to the mining and metals sector, encompassing multi-disciplinary technical studies and due diligence for mineral assets including exploration through to development, operation and mine closure
The Sulphur Institute	The Sulphur Institute, or TSI, is an international non-profit organisation which acts as a global advocate for sulphur and sulphur producers
tpa	tonnes per annum
Woodsmith Mine	the name of Sirius Minerals' mine near Whitby, North Yorkshire

DIRECTORS AND ADVISERS

DIRECTORS

RJ Scrimshaw (Non-executive Chairman)

CN Fraser (Managing Director and CEO)

TJ Staley (Finance Director) appointed 2 February 2017

Lord Hutton (Non-executive Director)

KEF Clarke CBE (Non-executive Director)

JA Lodge (Non-executive Director)

EN Harwerth (Non-executive Director)

LJ Hardy (Non-executive Director) appointed 12 May 2016

SG Pycroft (Non-executive Director) resigned 12 May 2016

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N King

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