Sirius Minerals Plc Annual Report & Accounts 2017

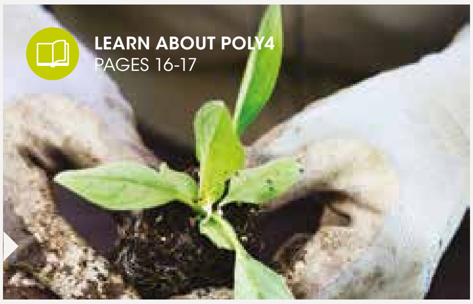
SUSTAINING THE FUTURE

WE'RE ABOUT DELIVERY

OUR VISION IS TO BE A WORLD-CLASS FERTILIZER BUSINESS

READ ABOUT CONSTRUCTION
PAGES 10-13

LEARN ABOUT POLY4
PAGES 16-17



HEAR FROM OUR CEO
PAGES 18-20

2017 was the year when construction of our world-class fertilizer mine in the UK commenced.

CHRIS FRASER. CHIEF EXECUTIVE OFFICER

PLEASE VISIT OUR WEBSITE
SIRIUSMINERALS.COM

PLEASE VISIT OUR PRODUCT WEBSITE
POLY4.COM

Highlights

STRONG PERFORMANCE

PROJECT HIGHLIGHTS

World-class resource
- Defined the world's largest high-grade deposit of polyhalite.
- 2.66 billion tonnes of high-grade polyhalite from only 7% of the Project area.

Approvals in place
- Have all the approvals required to construct and operate the largest mine of its type anywhere in the world in North Yorkshire, UK.

Stage 1 financing complete
- US$1.2 billion commitment
  - Largest UK mining equity transaction since 2012.
  - Largest ever convertible note issue by an AIM listed company.
  - Largest ever UK royalty transaction.

Sales and marketing
- Global sales commitments for 4.4 Mtpa take-or-pay supply agreements.
- Extensive and ongoing global R&D programme.

Commencement of construction
- Construction officially commenced May 2017.
- Sirius has engaged world leading construction partners to deliver a world-class operation.

2.66 billion
tonne resource

US$1.2 billion
stage 1 financing complete

4.4 Mtpa
global take-or-pay supply agreements in place

PERFORMANCE AGAINST MILESTONES IN 2017

Complete site preparation works at Woodsmith Mine and Lockwood Beck

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

Substantially complete D-wall installation for production and service shafts

- Scope of D-walling activities was substantially increased with the change to wider foreshafts.
- Progress on production shaft has been deferred to allow for the SM14B drilling programme.

Progress design activities for MTS and front-end design for harbour and MHF

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

Execute incremental supply agreements

- Supply agreement signed with Wilmar International for South East Asia: seven year term, peaking at 0.75 Mtpa.
- Commercial discussions in other key regions (Europe, Brazil, China, Africa) progressing well.
- On track for stage 2 financing requirements.

Expand breadth and depth of the agronomy programme

- Over 260 trials on 32 crops in 17 countries.
- Over 80 new trials commenced during 2017.

Seek a Premium Listing and move to the Main Market

- Premium Listing obtained in Q2.
- FTSE 250 inclusion obtained at half-year index re-weighting.
- 2017 total shareholder return of 24% vs 14% for the FTSE 250.

Preparation work for stage 2 financing execution in late 2018

- Key advisors appointed and due diligence programme well advanced.

Chairman's statement

PROGRESSING TOWARDS A BRIGHT FUTURE

"The impressive construction progress over the last 12 months sits alongside several other key achievements which are all contributing towards the successful fulfilment of our ultimate vision: to become a world-class fertilizer business."

RUSSELL SCRIMSHAW. CHAIRMAN

It is with considerable pride that I share with you the notable achievements that have been key to the continued success of our polyhalite Project in 2017.

First and foremost, the commencement of construction, in a safe and secure environment, has seen us take major strides towards our goal of first production in 2021. The impressive construction progress over the last 12 months sits alongside several other key achievements which are all contributing towards the successful fulfilment of our ultimate vision: to become a world-class fertilizer business.

Local

At full production over 1,000 high-skilled jobs will be created with an additional 1,500 jobs created in the supply chain. The high-skilled jobs we will create will also be highly productive and well-paid. As the largest private sector capital investment in the North, we are sending a clear message that the region is open for business and has the necessary skills and ability to deliver major infrastructure projects.

In addition to the employment opportunities created, the Company expects that, at full production, it will make around £85 million in local payments each year and will deliver approximately £13 million in annual contributions to the Sirius Minerals Foundation, as well as being a catalyst for regeneration with the potential to create new economic clusters in the region.

National
Beyond the North East, our project will also bring major economic benefits to the UK as a whole. At full-scale production we are forecast to generate significant tax revenues to the national exchequer, strengthening the UK's fiscal position and supporting public services. The Woodsmith Mine and associated infrastructure will enable us to produce and sell up to 20 million tonnes per annum of our primary product, POLY4.

Having been associated with significant mining projects for a large part of my career, I take great comfort that this expected success of our business goes well beyond the investment proposition. The efforts of our team and supporters are already creating positive, tangible economic change in the UK and we look forward to doing so for many years to come.

Global
For me, it is very important that POLY4 can contribute to easing the challenge of global food security. Fertilizers are fundamental to improving agricultural yields and helping to address the forecasted imbalance between food supply and demand. Global population is growing at a rapid rate, and with it, the requirement for more food. Unless more effective, more efficient and sustainable practices are adopted, farmers and food producers will struggle to bridge the gap between supply and demand. Our global research and development programme is demonstrating that POLY4 delivers greater nutrient uptake and improves both yield and quality on multiple crops in varying geographic conditions across the world.

Sirius' team has already demonstrated their ability to deliver successful outcomes in the face of challenges others have considered overwhelming. In order to achieve our vision and ensure the potential benefits for all stakeholders come to fruition, the tenacity and determination which has defined our Company to date, will continue to stand us in good stead as we progress further into this current phase of developing our world-class mining operation.

2017 construction commences
After five years of exploration, preparation, obtaining planning approval and having delivered many significant project milestones, I am pleased to report that the construction of our North Yorkshire polyhalite Project is well underway.

At the Woodsmith Mine site all initial site works to enable the construction of the key infrastructure components are complete. The working platforms for the main mine shaft and MTS shaft were completed early to ensure shaft related activities could commence as soon as possible.

At Lockwood Beck, initial site works are now complete, including the upgrade and repositioning of the existing road junction. The new junction provides safe entry to the site and has also greatly improved the access to the existing road infrastructure. The shaft sinking platform and associated drainage have been installed and the site is ready for shaft sinking activities to get underway in 2018.

Supply agreements
Market acceptance of POLY4 in the form of long-term supply agreements, as evidenced through our partnership with leading agri-business Wilmar, reinforces and validates that POLY4 will earn its place in the global fertilizer market. Our partnership with Wilmar enables access to key markets with huge prospects for POLY4 across South East Asia. Wilmar is the latest addition to our existing group of industry leading customers with whom we expect to help drive further global demand for POLY4.

Our people
People are critical to the success of our business and I am particularly pleased with the expanding team of highly motivated, diverse and experienced individuals who have joined the business in 2017. The last year has seen our team more than double in size and the successful move in late 2017 to Resolution House, our new office headquarters in Scarborough, has provided the space, technology and environment to support our workforce.

Chairman's statement
continued

I am particularly pleased with the overall quality of people who have joined us from the local area. To date, the majority of our head office team in Yorkshire has been sourced from the local labour market. I also take great satisfaction from the fact that many of our younger team members, who joined us as apprentices, are now integral members of the team. Our strong values of responsibility, ownership, belief and urgency, based on the solid foundations of safety and teamwork, have propelled the team to achieve more than many people thought would ever be possible.

Move to the Main Market and Premium Listing

Following the completion of stage 1 financing, we announced our intention to apply for admission to listing on the premium listing segment of the Official List of the UK Listing Authority (Premium Listing) and admission to trading on the main market of the London Stock Exchange (the Main Market). While AIM had provided us with an excellent platform to progress the Company through the various approval phases of the Project, the Company Directors believe that a Premium Listing better supports the long-term strategy and potential of the Company by providing us with a more appropriate platform for growth, access to broader international investor audiences and deeper pools of investment capital that reflect the world-class nature of the Project and Sirius' long-term potential as a global supplier of multi-nutrient fertilizer. This important milestone was accomplished in April 2017 and Sirius finished 2017 as a FTSE 250 constituent.

Executive Director and Senior Non-Executive Director appointments

Early in 2017 we announced the appointment of Thomas Staley to the Board as Finance Director. Thomas played an instrumental role in securing the stage 1 financing and he will play a pivotal role in a successful execution of the stage 2 debt raising. Thomas' appointment adds to an already very strong complement of Board members who have the credentials and experience required to lead the Company through the next phase of development.

We also announced the elevation of one of our very experienced Non-Executive Board members, Noel Harwerth, to the role of Senior Independent Director. Noel has a wide array of Board experiences across several industries, including mining and finance. Over the last few years she has provided us with wise counsel on a regular basis and I am very pleased she has agreed to add this expanded role to her duties.

Outlook

2018 will be a pivotal year for us as we seek the remaining financing required to complete this transformational Project. The construction of the first new fertilizer mine in the UK for a generation is an opportunity to create thousands of jobs and bring significant economic benefits to both national and local economies. In order to fully realise this transformational opportunity for the UK, a partnership with the UK Government, in the form of a Treasury Guarantee under the Infrastructure Project Authority's scheme, is essential.

Securing this guarantee and our stage 2 financing will be our core focus for the year ahead and I am comforted by our excellent progress made to date. With preparations well underway to secure commitments for financing, we are confident in our ability to deliver these goals and look forward to taking on the challenges which lie ahead.

The short, medium and long-term benefits from our Project are significant and will not be diminished by Britain's decision to leave the EU. I believe that our ongoing success is a clear demonstration of the growing local and national public and political support for realising the full potential of the Woodsmith Mine.

I would like to thank all our shareholders, supporters and suppliers for their ongoing support.

Kind regards

RUSSELL SCRIMSHAW
Chairman

LOCAL NATIONAL GLOBAL

£85 million
annually in local payments to mineral rights holders and to the Sirius Minerals Foundation

£2.5 billion
of exports annually, representing a 7% reduction in the UK trade deficit

£2.3 billion
annual direct contribution to GDP

Business overview

FROM WOODSMITH TO THE WORLD

Sirius Minerals North Yorkshire Polyhalite Project

Credit: Ebor images North York Moors National Park

Situated between the River Tees and Scarborough in North Yorkshire, UK, Sirius' Project covers an area of 750km² onshore and offshore.

Sirius has secured all the required planning permissions and approvals along with the necessary mineral rights to develop its flagship North Yorkshire polyhalite Project which, when constructed, will have the capacity to deliver up to 20 Mtpa of its multi-nutrient, low chloride fertilizer product POLY4. POLY4 is derived from the naturally occurring mineral, polyhalite ($K_2SO_4MgSO_42CaSO_42H_2O$).

Polyhalite is a relatively common mineral which occurs in marine evaporite systems and is usually found in accumulations several centimetres thick. In Yorkshire, Sirius has intersected high-grade seams of polyhalite up to 70 metres thick.

Sirius has defined a JORC compliant reserve of 280 million tonnes of polyhalite with a mean grade of 88.4%, from a JORC compliant inferred and indicated resource of 2.66 billion tonnes of 85.7% polyhalite. The polyhalite formed when an ancient sea, the Zechstein Sea, evaporated some 260 million years ago. The polyhalite seams that are the focus of the Company are located approximately 1,550 metres below surface level and have a mean reserve thickness of 25 metres. The current extent of the mineral resource, which has exploration potential in all directions, is defined from an area of only 7% of the Company's total mineral rights holdings.

Polyhalite core sample

To access its world-class mineral resource, Sirius has designed its mine infrastructure to not only be sympathetic to the sensitive location of its Woodsmith Mine within the North York Moors National Park but to also allow the Company to efficiently mine and transport up to 20 Mtpa of polyhalite from the Woodsmith Mine site to the Materials Handling Facility (MHF) on Teesside causing minimal surface impact. The low impact infrastructure ensures no mineral will come to surface until after it leaves the National Park and arrives at the MHF.

The scale and quality of the mineral resource combined with the relative proximity to a deep-water port present significant economic and operational advantages and give the Project all the hallmarks of a world-class resource asset.

2.66 billion
tonne resource

280 million
tonne reserve

37 kilometres
from a deep-water harbour facility

> "The current extent of the mineral resource, which has exploration potential in all directions, is defined from an area of only 7% of the Company's total mineral rights holdings."

Sustainable development

WHAT WE ARE CONSTRUCTING

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

Shafts

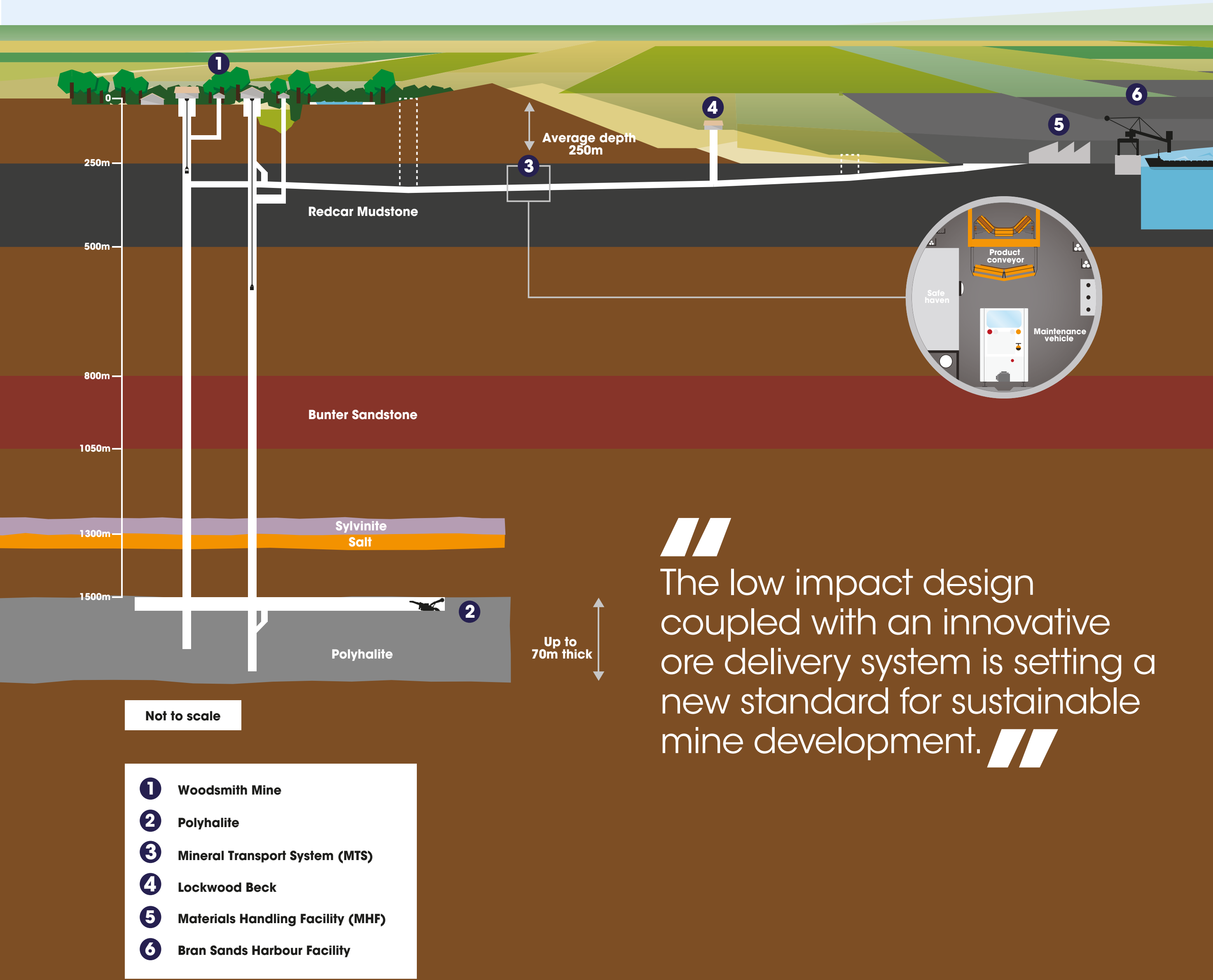
At the Woodsmith Mine site, two deep shafts are being constructed to access the polyhalite in the centre of the mineral reserve: the production shaft reaching a depth of 1,594 metres and the service shaft reaching a depth of 1,565 metres. Once constructed the production shaft will be fitted out with two Blair multi-rope winders, each capable of hoisting 6.7 Mtpa of polyhalite ore for a combined capacity of 13 Mtpa. A third shaft, the Mineral Transport System (MTS) access shaft will also be constructed. The MTS access shaft is being constructed to facilitate construction of the MTS.

Shaft construction will utilise proven shaft sinking methodologies. A detailed hydrogeological and geotechnical ground investigation has been completed at the Woodsmith Mine site to characterise the nature of the geology which will be encountered during shaft construction. The extensive ground investigation programme has also informed the design of the permanent shaft lining.

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

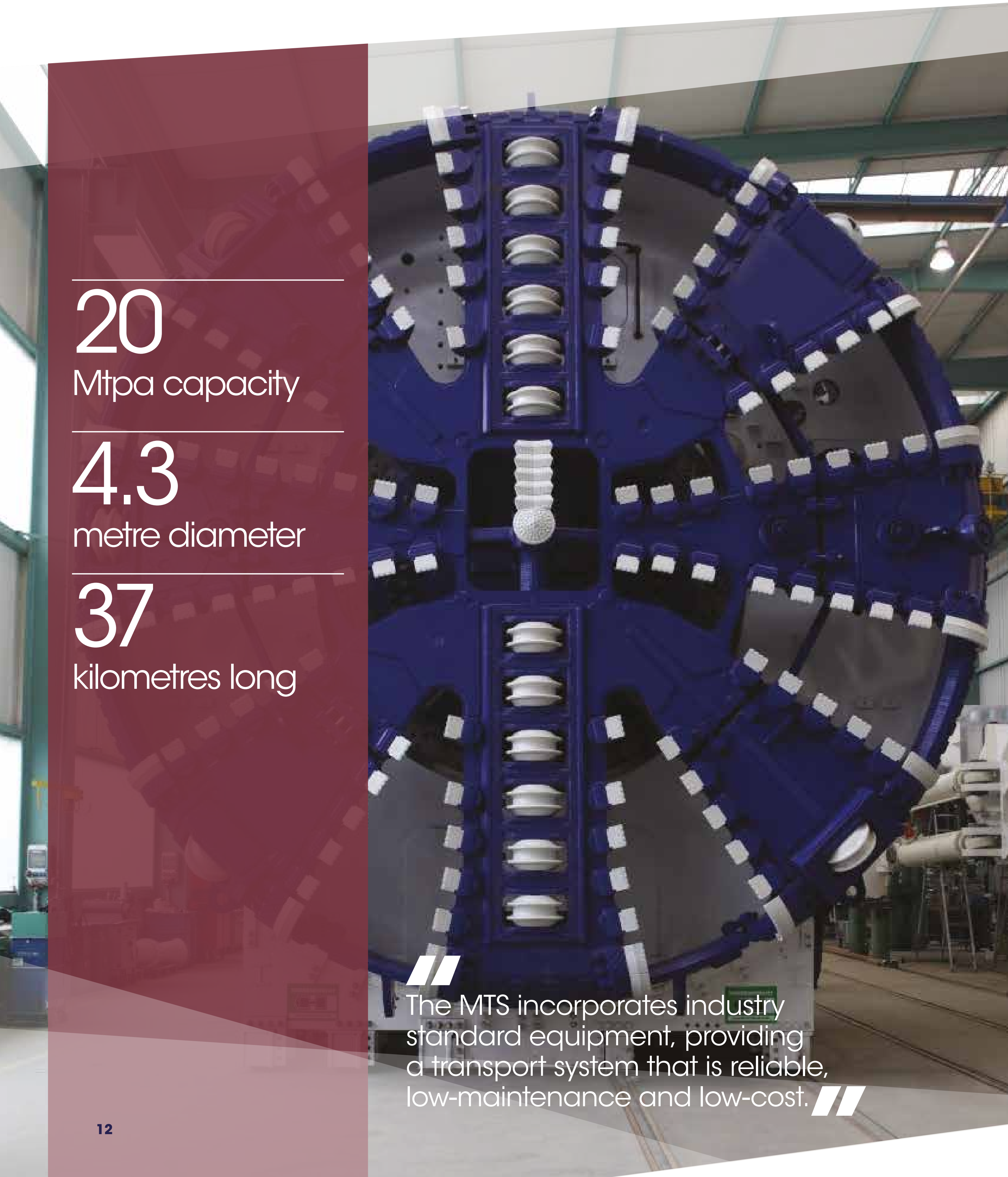
Construction underway at the Woodsmith Mine site

> "Shaft construction will utilise proven shaft sinking methodologies."



"The low impact design coupled with an innovative ore delivery system is setting a new standard for sustainable mine development."

Sustainable development
continued



20
Mtpa capacity

4.3
metre diameter

37
kilometres long

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

STATE-OF-THE-ART UNLOCKING MAXIMUM VALUE

Mineral Transport System

The MTS will carry mined polyhalite ore 37km underground from the Woodsmith Mine to the MHF at Wilton International. A high-capacity conveyor will transport mined ore within a 4.3 metre diameter, concrete-lined tunnel. The MTS incorporates industry standard equipment, providing a transport system that is reliable, low-maintenance and low-cost. The MTS is being constructed to operate at 20 Mtpa capacity.

The MTS will be constructed using three tunnel boring machines (TBMs). TBMs are a widely used tunnel construction methodology designed for safe and efficient operation. TBMs will be launched from the Woodsmith Mine site, the MHF and from an intermediate site along the route of the tunnel at Lockwood Beck. The MTS is being constructed within the Redcar Mudstone, a geological formation which can be excavated efficiently but has the structural integrity to accommodate a tunnel.

Materials Handling Facility

Located at Teesside on the Wilton International site, the MHF will consist of the plant and equipment necessary for a simple and cost-effective granulation process to produce bulk volumes of POLY4.

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

Crushing
Run of mine ore is nominally crushed to below 50mm

Grinding
Crushed ore ground to pass 0.2mm

Granulation
Binder and water added to polyhalite powder and granulated to form POLY4 granules

Screening
POLY4 granules screened. Oversize and undersize removed for reprocessing

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

The MHF will have an initial phase 1 production capacity of 10 Mtpa and a footprint that will enable an increase in capacity to 20 Mtpa. The MHF is large enough to accommodate the necessary storage requirement for up to 20 Mtpa of POLY4 and sufficient operating capacity to transfer finished product from the MHF to the harbour facility for efficient ship loading.

Harbour Facility

The Project benefits from being close to a port, relative to other fertilizer producers. The Bran Sands site on the River Tees is ideally located for the bulk export of POLY4.

Finished product will be transported approximately 3.5km from the MHF on a covered overland conveyor to a new quay which will be constructed on the River Tees. Long-travel, wide-span ship loaders will transfer finished product into a ship's hold at 5,000 tonnes per hour.

Expansion to facilitate an increase in production to 13 Mtpa and then to 20 Mtpa will require the installation of a second berth and a second ship loader. The Bran Sands site has the capacity to accommodate any future expansion.

Sirius Minerals' proposed Bran Sands harbour development

Market context

WELL POSITIONED TO MEET DEMAND

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

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

There are six macro-nutrients all plants require: nitrogen (N), phosphorus (P), potassium (K), magnesium (Mg), sulphur (S) and calcium (Ca). Each nutrient serves a different vital role in plant function, structure and development.

A balance of nutrients is necessary to maximise nutrient use efficiency, as a shortage of any single nutrient may compromise a plant's overall health. This is because most nutrients have a specific biochemical function.

According to the United Nations Department of Economic and Social Affairs, the world's population numbered nearly 7.6 billion as of mid-2017, implying the world has added approximately one billion inhabitants over the last 12 years. Population growth rates of 1.1% per year mean 83 million people are added to global population annually. This will result in a forecast global population of 9.8 billion by 2050. In response to this growth, food production will have to increase by >60% to keep pace with demand.

The increase in food demand could, in part, be achieved by devoting more land to agriculture. However, additional land is not readily available.

The more sustainable option is to make better use of the already available agricultural land and adopt more effective and efficient fertilizer practices.

Macro-nutrients necessary for effective plant growth

POLY4 A SIRIUS MINERALS PRODUCT

7 **N** Nitrogen

Increases plant yield by promoting protein formation which is essential for growth and development in plants. nitrogen determines size, vigour, colour and yield of the plant.

15 **P** Phosphorus

Vital for root development and plays a key role in the photosynthesis process.

19 **K** Potassium

Helps regulate the physiological functions of plants. Helps efficient use of water and improves durability.

12 **Mg** Magnesium

Plays a vital role in the photosynthesis process. Involved in many enzyme reactions and participates in nutrient uptake and transportation.

16 **S** Sulphur

Key component of enzymes and vitamins in plants and necessary for formation of flowers, seeds and chlorophyll. Essential for the efficient fixation of nitrogen in plants.

20 **Ca** Calcium

Essential part of cell wall formation and helps in the protection against diseases. Calcium participates in the metabolic uptake processes of other nutrients.

83 million

people added to global population annually

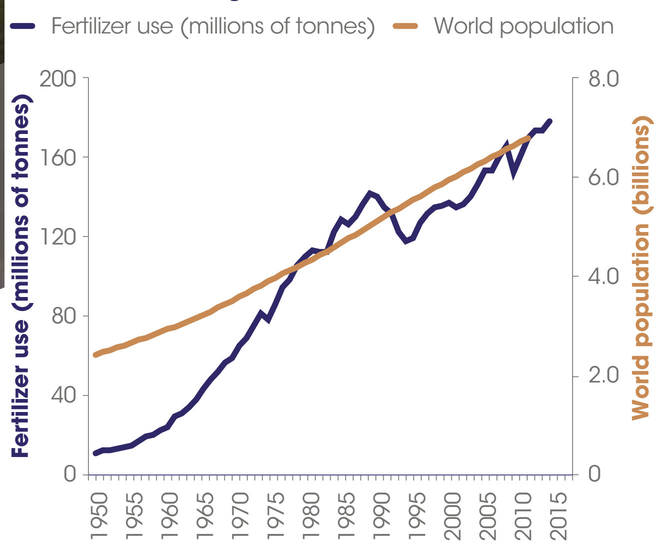
9.8 billion

forecast global population by 2050

>60%

food production will have to increase to keep pace with demand

World population growth and fertilizer use 1950-2010[1]



Notes:
1 World population CAGR 1.7%; fertilizer use CAGR 4.3%.
Source: Adapted from FAO and IFADATA data acquired by Earth Policy Institute.

POLY4 EXPLAINED

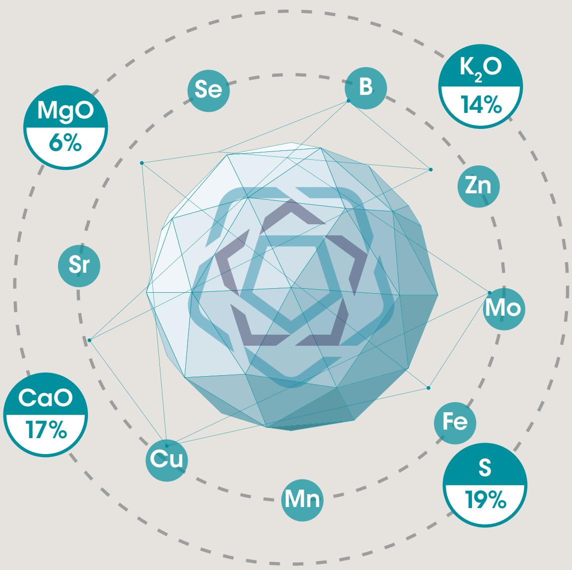
WHAT IS POLY4?

POLY4 is derived from the naturally occurring mineral, polyhalite. POLY4 is unique in that it provides a natural combination of four of the six key macro-nutrients plants require to grow effectively: potassium (K), magnesium (Mg), sulphur (S) and calcium (Ca).

In addition to its multi-nutrient content, POLY4 is certified for organic use and has a number of other positive characteristics which make it suitable for widespread commercial use, including:

- suitability for chloride sensitive crops;
- efficient nutrient release profile;
- ability to reduce agricultural impact on the environment by improving fertilizer use efficiency, reducing erosion and nutrient loss;
- availability for use as a direct application fertilizer; and
- compatibility for use with other fertilizer products.

POLY4
A SIRIUS MINERALS PRODUCT



OF&G ORGANIC

SOIL ASSOCIATION APPROVED

Notes:
POLY4 composition based on 90% polyhalite grade. Macro-nutrients based on w/w % and micro-nutrients based on mg/kg; micro-nutrients' content: B 169, Zn 1.9, Mn 3.1, Mo 0.3, Se>0.5, FE>0.5, Cu 1.1, Sr 1414. 2) POLY4 is the trademark name for polyhalite products from the Sirius Minerals polyhalite Project in North Yorkshire, *48% SO_3. B – boron, Cu – copper, Se – selenium, Zn – zinc, Fe – iron, Sr – strontium, Mo – molybdenum, Mn – manganese

ESTABLISHING THE GLOBAL MARKET FOR POLY4

A multi-channel market adoption approach has been established to achieve awareness and market penetration of POLY4 into the established fertilizer industry.

Long-term partnerships have been developed with universities, customers, governments and food manufacturers to validate the efficacy of POLY4 and to ensure the Company's comprehensive research and development programme is appropriate for the global marketplace. These partnerships, combined with a targeted regional sales strategy, have enabled Sirius to enter into a number of binding large-volume, long-term supply agreements under which customers have agreed to buy a minimum amount of POLY4 once production begins and pay a given price.

To date, the Company has entered into supply agreements totalling 4.4 Mtpa at their respective full volumes, with the majority of pricing mechanisms linked to the underlying nutrient value and competing product benchmark pricing.

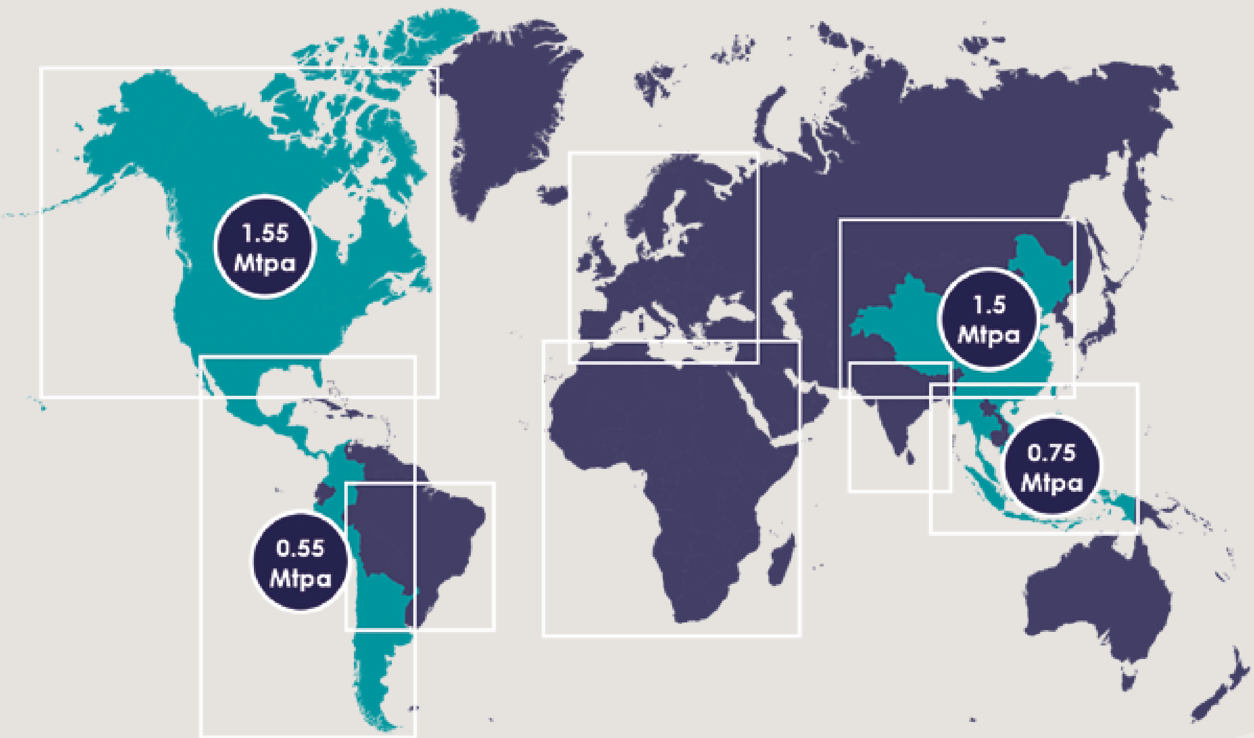
4.4 Mtpa

Volume of supply agreements entered into by the Company to date.

More information relating to supply agreements can be found on the Company website.

PLEASE VISIT OUR WEBSITE
SIRIUSMINERALS.COM

Global marketing regions and current supply agreements



Chief Executive's review

DELIVERING RESULTS A BRIGHT FUTURE

"For those who have supported us over the years I hope the commencement of construction provides further validation of our commitment to succeed."

CHRIS FRASER. CHIEF EXECUTIVE OFFICER

2017 was a milestone year for us, with commencement of construction, incremental supply agreements signed (bringing the total to 4.4 million tonnes per annum), a move to the Main Market of the London Stock Exchange and inclusion in the FTSE 250 among the highlights.

Our numerous successes along the development journey drive us to approach this next phase of development with the same ownership, belief and urgency which are some of the key values which define who we are. For those who have supported us over the years I hope the commencement of construction provides further validation of our commitment to succeed.

Safety

Safety is paramount to the success of our business. Our culture places safety at the forefront of everything we do and we are continuously engaged with our contractors and consultants to ensure they adopt our safety culture and company values. Two recordable incidents have occurred during the first year of construction and we are constantly working to improve our processes and find safer ways of working in order to ensure that we all return home to our families at the end of each day.

Our strategy

The Company has a clear and robust strategy and is focused on executing this strategy successfully.

Our strategy is to:

- build a world-class, long-life, low-cost production facility;
- develop an industry leading product;
- penetrate existing markets and drive long-term value; and
- execute a financing plan that delivers returns for shareholders.

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

Build a world-class, long-life, low-cost production facility

It has always been our intention to construct a production facility which enables us to maximise the potential of our unique polyhalite resource. The scale, thickness and quality of the deposit means highly efficient, bulk mining methods can be employed to maximise output over hundreds of years and these considerations are at the forefront of our approach to mine design and construction. We believe the asset we are constructing will be among the most cost-competitive multi-nutrient fertilizer producers globally.

For those of you who have driven past the Woodsmith Mine site over the past 12 months you will be impressed with its transformation. Formal commencement of construction started officially on 4 May 2017 and the work completed over the course of the year is the first step in executing on this part of our strategy.

Develop an industry-leading product

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

During 2017 we articulated the four cornerstones of POLY4: Effectiveness, Efficiency, Flexibility and Sustainability. The cornerstones describe POLY4's unique value proposition and are proving to be an effective marketing tool. I encourage you to visit the POLY4.com website to learn more about the product.

Penetrate existing markets and drive long-term value

We have a three-step approach to our marketing strategy:

- Substitution – utilising POLY4 as a substitute for other existing fertilizers which include one or more of the same primary nutrients contained in polyhalite. This disruptive approach will ensure POLY4 is widely available in all markets.
- Market growth – today there is an unmet demand for lower chloride potassium sources, and making POLY4 widely available at a commercial price point will unlock new sources of demand and opportunities to adopt greener and more sustainable agricultural practices.
- Performance – our successful extensive crop trial programme consistently demonstrates strong performance from POLY4 and we believe this performance will underpin premium pricing for the product over the long term.

COMPANY VALUES

Responsibility
Ownership
Belief
Urgency
Safety
Team

4 May 2017: formal commencement of construction

Expanding global research and development programme

PLEASE VISIT OUR PRODUCT WEBSITE
POLY4.COM

Chief Executive's review
continued

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

Execute a financing plan that delivers returns for shareholders

The Company has taken a rigorous, phased approach to executing the financing plan. At each stage of development, appropriate capital has been raised to deliver the next development milestone. 2016 saw the first successful completion of the stage 1 financing, which provided the equity and equity-linked capital components of the construction financing plan.

In 2017 the Company obtained a Premium Listing on the Main Market and was included in the FTSE 250. Behind the scenes, work was underway to prepare for the execution of the Company's stage 2 financing in late 2018. It is intended that this financing will be 100% debt in nature and ultimately provide all of the capital required to complete the construction component of the Company's strategy.

The year ahead

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

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

Thank you all for your ongoing support.

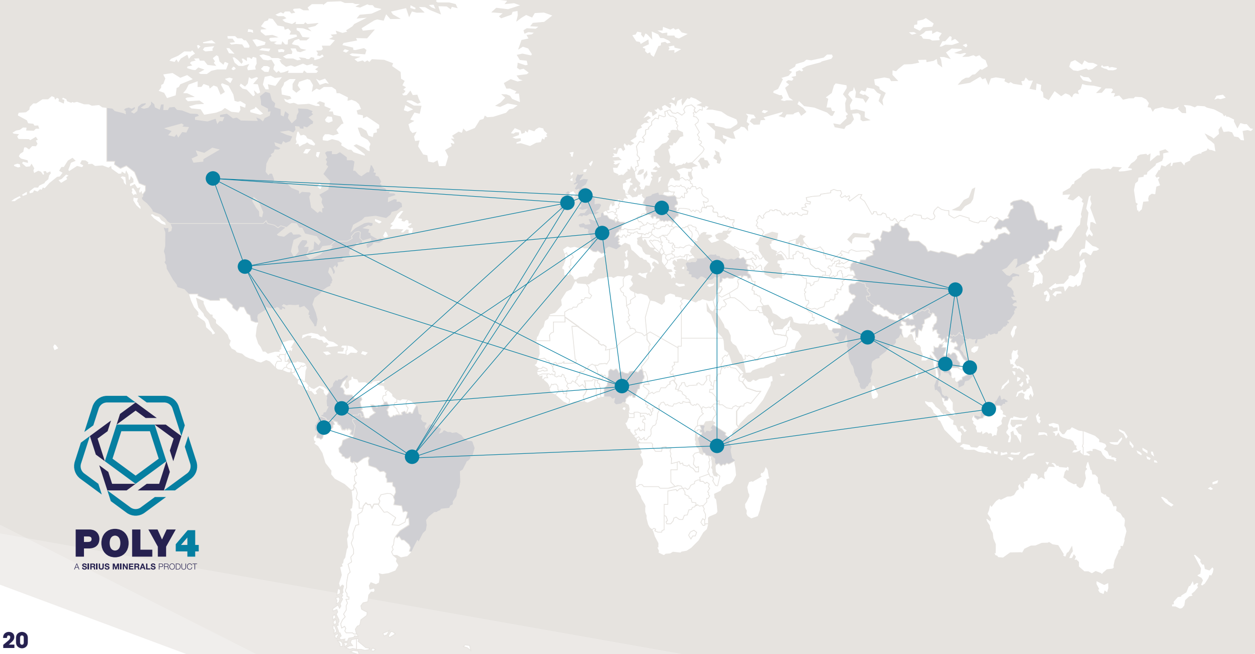
CHRIS FRASER
Managing Director and CEO

260
agronomy trials have been initiated

17
countries

32
different crops

Sirius Minerals global R&D programme



POLY4
A SIRIUS MINERALS PRODUCT

2018 DEVELOPMENT MILESTONES

Construction

- Complete main service shaft foreshaft construction and excavation.
- Complete the installation of the main production shaft foreshaft and commence foreshaft excavation.
- Commence MTS access shaft construction at the Woodsmith Mine site.
- Complete construction of the MTS portal at Wilton International.
- Commence shaft sinking at Lockwood Beck intermediate shaft site.
- Commence early works for the MHF.
- Finalise harbour facility strategy and complete procurement.

R&D, sales and marketing

- Expand global agronomic programme and establish 80 new trials.
- Execute 2 Mtpa incremental supply agreements.

Corporate and commercial

- Substantially complete Project procurement.
- Draw down the stage 1 financing royalty instrument.
- Execute stage 2 financing.

"It is our shared belief in achieving our goals and our unwavering drive to succeed that will see us successfully through the next phase of development."

Strategic priorities

DELIVERING RESULTS A CLEAR PLAN

A clear and robust strategy is important to achieve our vision of becoming a world-class fertilizer business.

We have developed a strategy which is sufficiently robust to negotiate the necessary steps to operations but also flexible enough to allow for modification and optimisation during the construction phase of our North Yorkshire polyhalite Project.

D-walling rig at the Woodsmith Mine site

STRATEGY

1 Build a world-class, long-life, low-cost production facility

FOR MORE INFORMATION
SEE PAGES 24-25

2 Develop an industry-leading product

FOR MORE INFORMATION
SEE PAGES 26-27

3 Penetrate existing markets and drive long-term value

FOR MORE INFORMATION
SEE PAGES 28-29

4 Execute a financing plan that delivers returns for shareholders

FOR MORE INFORMATION
SEE PAGES 30-31

2017 ACHIEVEMENTS	2018 MILESTONES	2021 TARGET
• Commenced construction at the Woodsmith Mine site and Lockwood Beck. • Initiated process of D-wall installation. • Progressed design activities for MTS and front-end design for MHF and harbour facility.	• Complete main service shaft foreshaft construction and excavation. • Complete the installation of the main production shaft foreshaft and commence foreshaft excavation. • Commence MTS access shaft construction at the Woodsmith Mine site. • Complete construction of the MTS portal at Wilton International. • Commence shaft sinking at Lockwood Beck intermediate shaft site. • Commence early works for the MHF. • Finalise harbour facility strategy and complete procurement.	• First polyhalite.

• Articulated POLY4 cornerstones:
  ○ Efficient
  ○ Effective
  ○ Flexible
  ○ Sustainable.
• Continuation of growing global R&D programme.
	• Expand global agronomic programme and establish 80 new trials.	• 10 years of agronomic research validating POLY4.

• Executed incremental supply agreement with Wilmar for delivery of up to 0.75 Mtpa into South East Asia. • Increased total supply agreements to 4.4 Mtpa.	• Execute 2 Mtpa incremental supply agreements.	• First customer deliveries.
• Obtained a Premium Listing on the Main Market and FTSE 250 inclusion.	• Substantially complete Project procurement. • Draw down the stage 1 financing royalty instrument. • Execute stage 2 financing.	• First revenue.

Strategy in action

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

We have engaged the services of world-class construction partners to develop our innovative mine which is being constructed to extract large volumes of polyhalite at low-cost.

Continuous mining machine

We are utilising proven, well understood construction techniques to build what will be the largest mine of its type anywhere in the world. From the outset it has been our intention to construct a low-impact, large-scale operation with a long operating life.

LOW IMPACT LARGE SCALE LONG OPERATING LIFE

The Woodsmith Mine is being constructed to handle an initial capacity of 10 Mtpa but is scalable to up to 20 Mtpa of polyhalite using largely existing infrastructure. An increase in production capacity to 20 Mtpa would be achieved through expansion following ramp up and will be funded by operating cash flow.

Mining at the Woodsmith Mine will adopt simple and conventional bulk mining methods to enable maximum extraction and low-cost operations. From the base of the shafts we can mine in all directions, maximising our ability to optimise ramp up from initial production. Using a combination of room and pillar and drill and blast mining methods we can excavate the thicker areas of the seam up to a height of 40 metres.

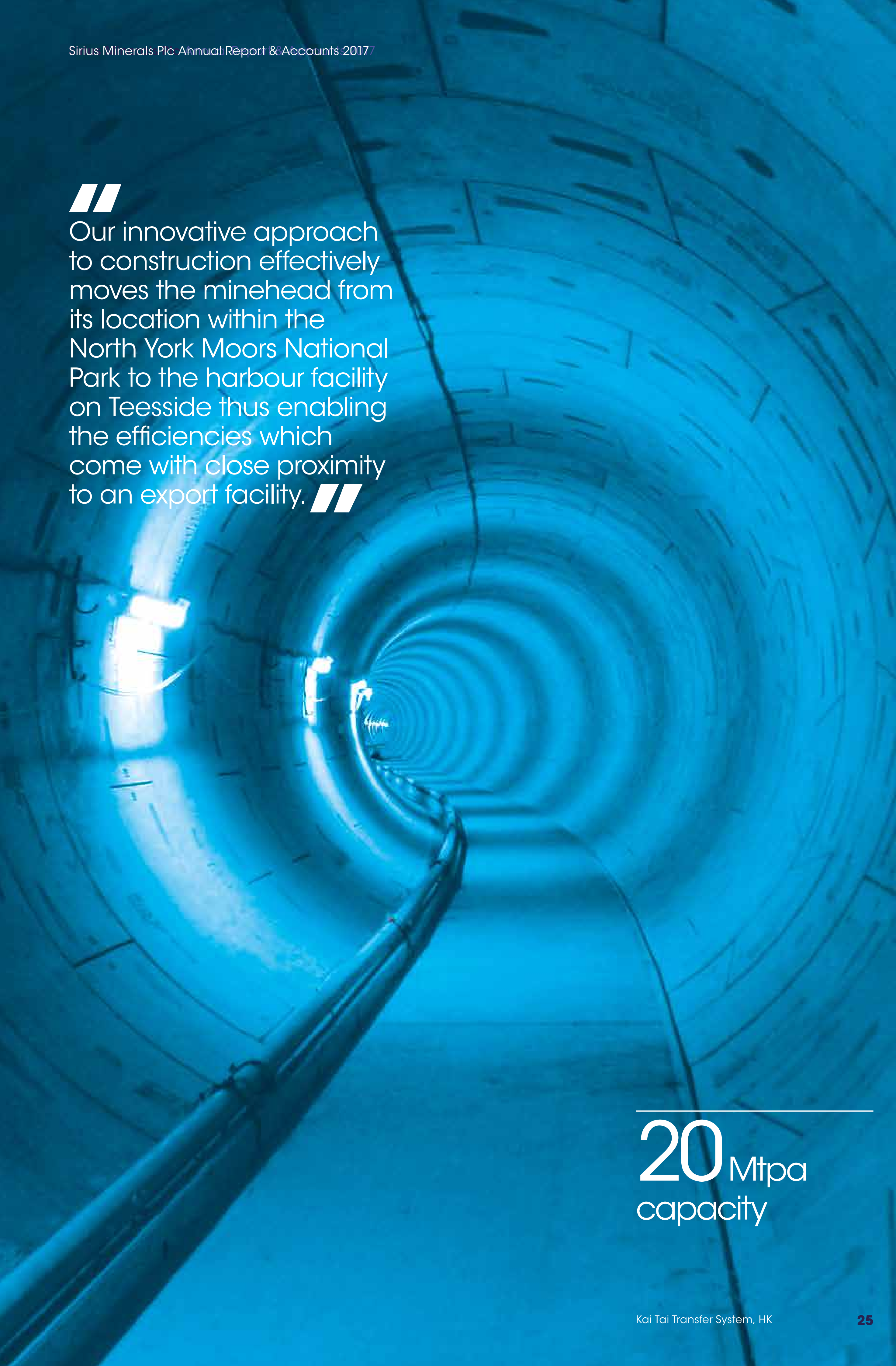
We are constructing a mine to realise the potential of our world-class deposit. The exceptional nature of our resource means that all mine development will be excavated entirely within the polyhalite seam. This will result in a 1:1 mining ratio ensuring that every tonne of ore mined becomes a tonne of POLY4.

To efficiently move large volumes of polyhalite ore from the Woodsmith Mine to the MHF at Wilton International, we are constructing a 37km long, concrete-lined subterranean MTS. The MTS construction employs proven, industry-leading tunnelling techniques to establish a high capacity transport system, capable of transporting up to 20 Mtpa of polyhalite ore. The MTS has been designed to be in place for the life of the mine with little ongoing maintenance requirement.

Our innovative approach to construction effectively moves the minehead from its location within the North York Moors National Park to the harbour facility on Teesside, thus enabling the efficiencies which come with close proximity to an export facility.

1:1

Mining ratio – every tonne of ore we mine becomes a tonne of POLY4



"Our innovative approach to construction effectively moves the minehead from its location within the North York Moors National Park to the harbour facility on Teesside thus enabling the efficiencies which come with close proximity to an export facility."

20 Mtpa capacity

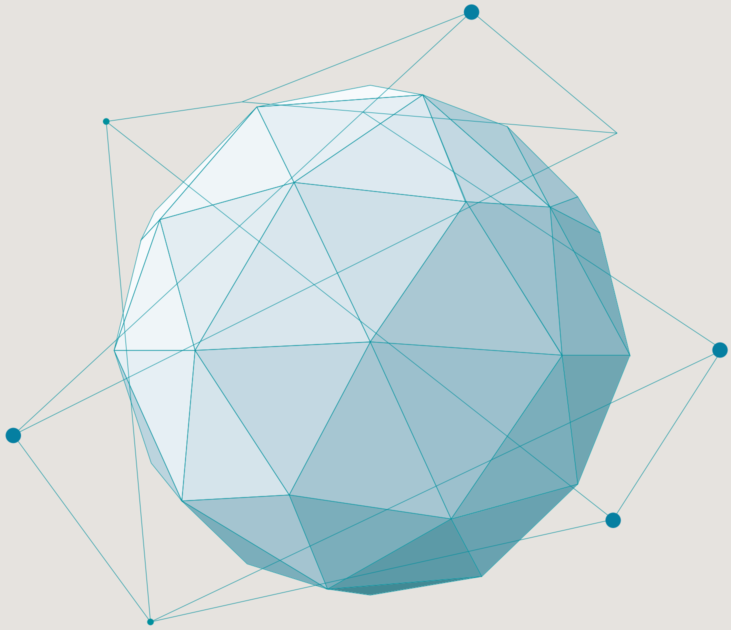
Kai Tai Transfer System, HK

Strategy in action
continued

2 DEVELOP AN INDUSTRY-LEADING PRODUCT

POLY4 is the trademark name of Sirius Minerals' flagship granular polyhalite product.

In addition to nutritional benefits brought about by the chemical composition of POLY4, our product has a range of characteristics which distinguish it from existing products and make it an attractive option for end users. POLY4 has four key attributes that benefit farmers by increasing their profits in a sustainable way through improved crop yields, reduced costs or both.



POLY4
A SIRIUS MINERALS PRODUCT

1. Efficiency

POLY4 is an efficient multi-nutrient fertilizer:

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

Trial results show that POLY4 delivers better nutrient uptake for both macro and micro-nutrients. This is a key profit driver as more nutrients are used by the crop for yield and quality improvements.

POLY4's multi-nutrient properties help farmers to control costs by decreasing fertilizer and farm inputs, while reducing nutrient waste by delivering nutrients over a time frame, which more closely aligns with the needs of a plant.

POLY4's nutrient release profile supports the crop from establishment through to harvest compared to conventional fertilizers, which tend to be applied and deliver nutrients ahead of crop demand.

2. Effectiveness

POLY4 is an effective multi-nutrient fertilizer:

- **Improves both yield and quality;**
- **Improves macro and micro nutrient uptake;**
- **Minimises crop losses through disease resilience;**
- **Has a desirable nutrient release profile;**
- **Granular product that handles, stores, blends and spreads effectively.**

By improving the availability of a broad spectrum of nutrients for plants, POLY4 promotes yield, quality and nutritional health, which can minimise crop losses through disease. These macro and micro-nutrients also become available over a longer time frame, which more closely meets the nutrient uptake pattern of the plant.

Available in granulated, powdered or standard form, POLY4 is compatible with all major input sources for NPK blending, demonstrating both chemical and physical compatibility. In a small number of cases minor caking was observed after 17 months in storage, which far exceeds the practical storage period of a blend. POLY4 also spreads effectively up to 36 metres, preventing uneven fertilizer distribution and subsequently reduction in crop yields.

3. Flexibility

POLY4 is a flexible multi-nutrient fertilizer:

- **Low chloride and pH neutral product that can be used on all plants and soils in all growing climates;**
- **Successful as a straight fertilizer or as a component of blend formulations;**
- **No negative interactions with other fertilizers;**
- **Allows a farmer to choose the timing of application.**

As a low chloride, multi-nutrient fertilizer, POLY4 avoids toxicity issues commonly associated with the application of potassium chloride (MOP) and other high chloride fertilizer sources. Many crops benefit from a reduction of chlorides in the soil. POLY4 also has no detrimental effect on a soil's electrical conductivity or pH, both of which can be harmful to crops.

POLY4 can be used directly or in an NPK blend to supply potassium, sulphur, magnesium, calcium and a range of valuable micro-nutrients. Farmers can rely on POLY4 to maintain its granular physical integrity until it reaches the field and, as there are no negative interactions with other fertilizers, POLY4 is a beneficial yet safe addition to a blend.

As a granular product, POLY4's nutrients are readily available to the plant, and its release profile gives farmers the flexibility to choose the timing of application.

4. Sustainability

POLY4 is a sustainable multi-nutrient fertilizer:

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

The calcium within POLY4 helps to increase a soil's resilience to compaction, erosion and runoff, which allows a plant to access the nutrients it needs to thrive and reduces nutrient waste into watercourses and beyond.

Application of the broad spectrum of nutrients that POLY4 delivers can make soil-bound nutrients more available to the plant and prevent nutrient mining – a common threat to sustainable crop production.

Polyhalite is a naturally-occurring mineral which results in a low carbon footprint for POLY4, offering farmers an effective, yet responsible, fertilizer solution. The organically-certified POLY4 has no requirement for chemical processing, has the lowest CO_2 emissions and is more environmentally-friendly compared to most fertilizer products. POLY4 helps to rebalance and reconstruct the soil structure supporting sustainable land management.

POLY4 granules

Strategy in action
continued

3 PENETRATE EXISTING MARKETS AND DRIVE LONG-TERM VALUE

Our strategy is to penetrate and disrupt the existing market via a three-phased approach of substitution, market growth and performance.

1. Substitution

There is a well-established market for the component nutrients contained in POLY4. This market is currently supplied by a range of fertilizer products and POLY4 has the potential to be used as a substitute for other existing fertilizers which include one or more of the same primary nutrients contained in POLY4.

Independent market analysis suggests the total market for these potentially contestable fertilizers is expected to increase from 376 Mtpa in 2018 to 440 Mtpa in 2025 in polyhalite equivalent terms (representing the amount of polyhalite which would be necessary to fulfil the current potassium, sulphur and magnesium nutrient demand). This opportunity is approximately 20 times the maximum output when the Woodsmith Mine is operating at 20 Mtpa capacity.

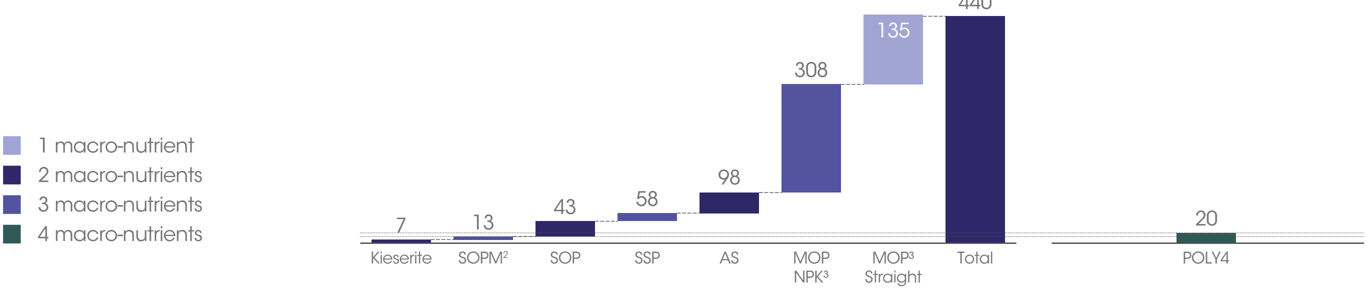
2. Market growth

Multiple growth opportunities have been identified which build on POLY4's suitability for crops that are sensitive to chloride and also POLY4's potential to address the increasingly recognised problem of vast areas of farmland becoming deficient in sulphur. These opportunities are compounded further by the growing demand for the adoption of more sustainable agricultural practices.

POLY4 is low in chlorides. Currently 32% of global potassium is used on chloride-sensitive crops. Only 9% of this supply is chloride-free. This represents an incremental opportunity of circa 70 Mtpa for chloride-free fertilizers such as POLY4. The agronomic benefits of chloride-free potassium are widely known however, due to limited supply and premium prices, the market is restricted.

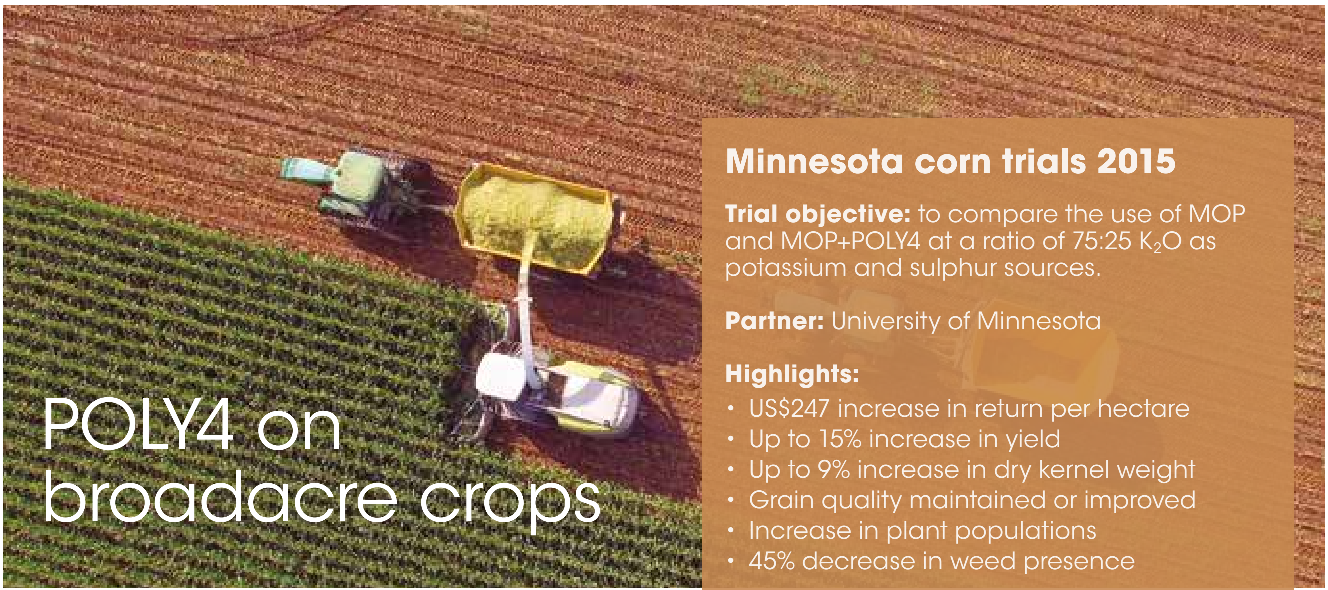
Estimated potential substitute opportunity in 2025[1]
(Mtpa of polyhalite equivalent)

Sirius capacity[4]
(Mtpa)



Multi-nutrient substitution market opportunity represents more than 10 times Sirius' core infrastructure capacity[5]

Notes:
1 Global demand forecast of primary substitute fertilizer products in 2025 by CRU expressed in polyhalite equivalent.
2 SOP-M demand calculated on MgO equivalent basis which represents 3.4 Mtpa of low chloride K_2O on a polyhalite equivalent basis.
3 Fertecon estimates that 61% of the total K_2O market ends up as part of multi-nutrient fertilizer blends.
4 Expansion phase capacity.
5 Represents the theoretical POLY4 demand by multiplying the recommended K_2O rates per crop per hectare by the global amount of hectares harvested for corn, soybean, wheat and sugarcane.
Sources: CRU; Sirius Minerals.



POLY4 on broadacre crops

Minnesota corn trials 2015

Trial objective: to compare the use of MOP and MOP+POLY4 at a ratio of 75:25 K_2O as potassium and sulphur sources.

Partner: University of Minnesota

Highlights:

- US$247 increase in return per hectare
- Up to 15% increase in yield
- Up to 9% increase in dry kernel weight
- Grain quality maintained or improved
- Increase in plant populations
- 45% decrease in weed presence

For complete trial summary:

PLEASE VISIT OUR PRODUCT WEBSITE
POLY4.COM

POLY4 has a sulphur content of 19%. The Sulphur Institute estimates that the world plant nutrient sulphur deficit could require annual application of 60 Mtpa of polyhalite equivalent sulphur to address the imbalance. Unless nutrient deficits are addressed, nutrient mining will increase year on year.

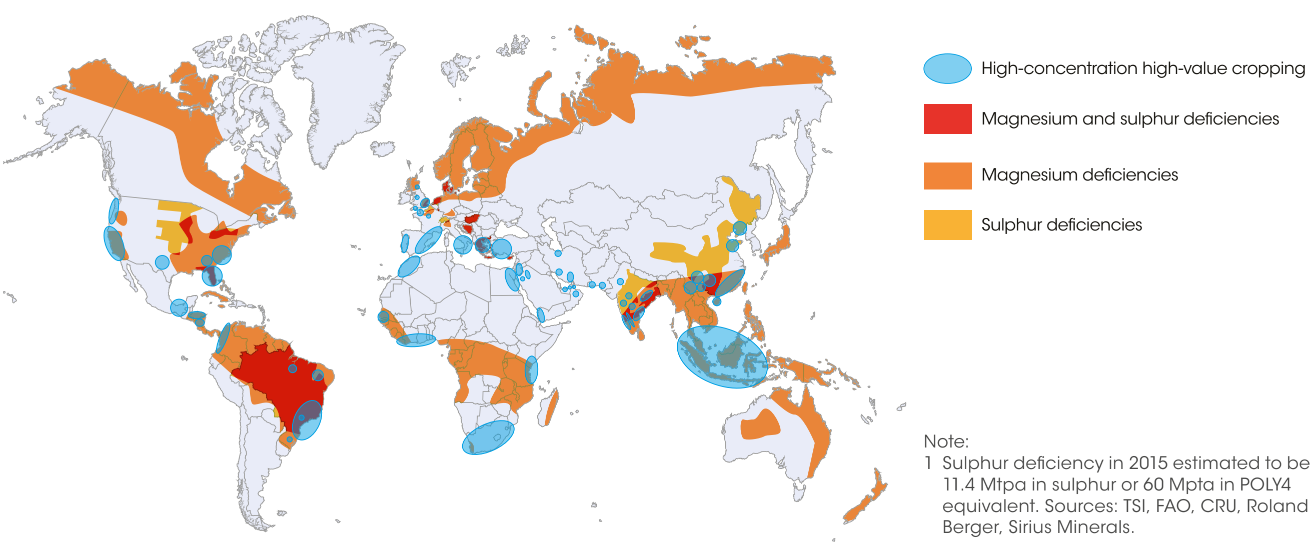
Sustainable product characteristics are becoming more attractive to customers. The world's population is predicted to hit 9.8 billion by 2050. Over the next 35 years more food needs to be produced than has been to date in human history. The pressure this places on the agricultural industry will require farmers to use balanced fertilization to increase yields. Application of fertilizers is identified as a significant source of greenhouse gases. Increased fertilizer use requires an ever-increasing need to improve fertilizer use efficiency. The estimated value of global warming potential (GWP) of POLY4 is 0.051kg CO_2e per kg of product: considerably lower than other potassium and sulphur-based fertilizers.

3. Performance

Application of low-chloride potassium fertilizers has been shown to improve crop yield, quality and taste and also improve plant resistance to drought, frost, insects and diseases. This, combined with the multi-nutrient composition of our product, means POLY4 has universal application. Our extensive R&D programme demonstrates POLY4 can be used on a multitude of crops in numerous geographies with varying climatic conditions. The way POLY4 interacts in the soil and its interplay between chemical elements means crucial nutrients are readily available when plants need them throughout the growing cycle. These benefits manifest in increased yields and stronger, healthier crops.

Independently validated crop trial results demonstrate POLY4 works effectively and outperforms traditional products such as MOP on a range of high value and broadacre crops such as tomatoes, corn, soybean and wheat. To date, over 260 trials have been initiated on 32 different crops in 17 countries.

Sulphur deficiencies around the world[1]



Note:
1 Sulphur deficiency in 2015 estimated to be 11.4 Mtpa in sulphur or 60 Mpta in POLY4 equivalent. Sources: TSI, FAO, CRU, Roland Berger, Sirius Minerals.

Strategy in action
continued

4 EXECUTE A FINANCING PLAN THAT DELIVERS RETURNS FOR SHAREHOLDERS

Sirius Minerals acquire North Yorkshire polyhalite Project

Equity capital[1]

Stage 1 financing

2010

2016

Note:
1 Five equity capital raises between 2011 and 2015

1 DEVELOPMENT

- Minerals and land acquisition
- Resource definition
- Planning and approvals
- Definitive feasibility study

2 CONSTRUCTION

- Site preparation
- Procurement
- Shafts

During the development of the Company, Sirius has strategically raised funds to enable progression between key Project milestones. From the early stages of exploration through to the stage 1 financing to fund construction, each funding package has been designed to de-risk key elements of the Project and to maximise shareholder value.

Stage 2 financing

Operational capital structure

POLY4
A SIRIUS MINERALS PRODUCT

2018

2021+

Fund raises

- MTS
- MHF
- Harbour facility
- Pit-bottom development

3 OPERATIONS

- Targeting at least US$1 billion EBITDA at 10 Mtpa
- High-margin business
- Potential for expansion

Our value proposition

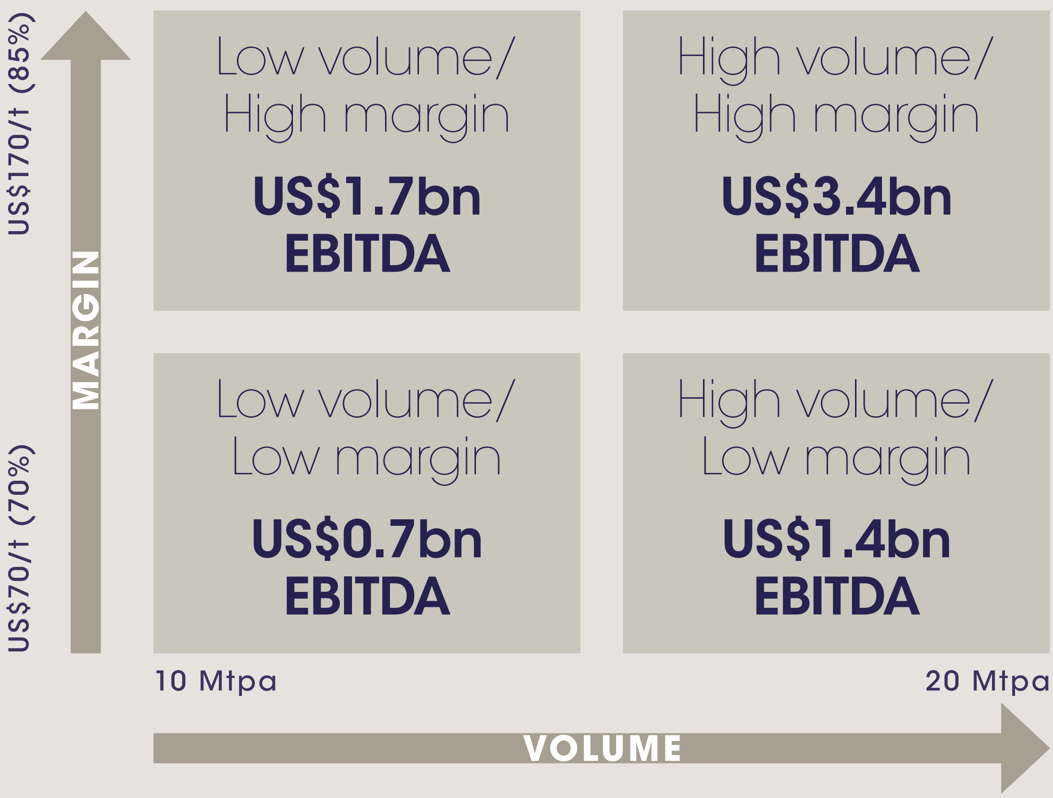
LOW-COST HIGH VALUE-IN-USE BUSINESS MODEL

Operational volume and margin

The fundamental drivers which generate value for the Company are volume and margin. In recognition of this, our business has been designed to deliver high production capacity and low operating costs.

We believe the Company can deliver industry-leading margins of between 70–85% which will generate significant value across a range of volume and price scenarios and ensure our business can be robust and responsive to changing market conditions.

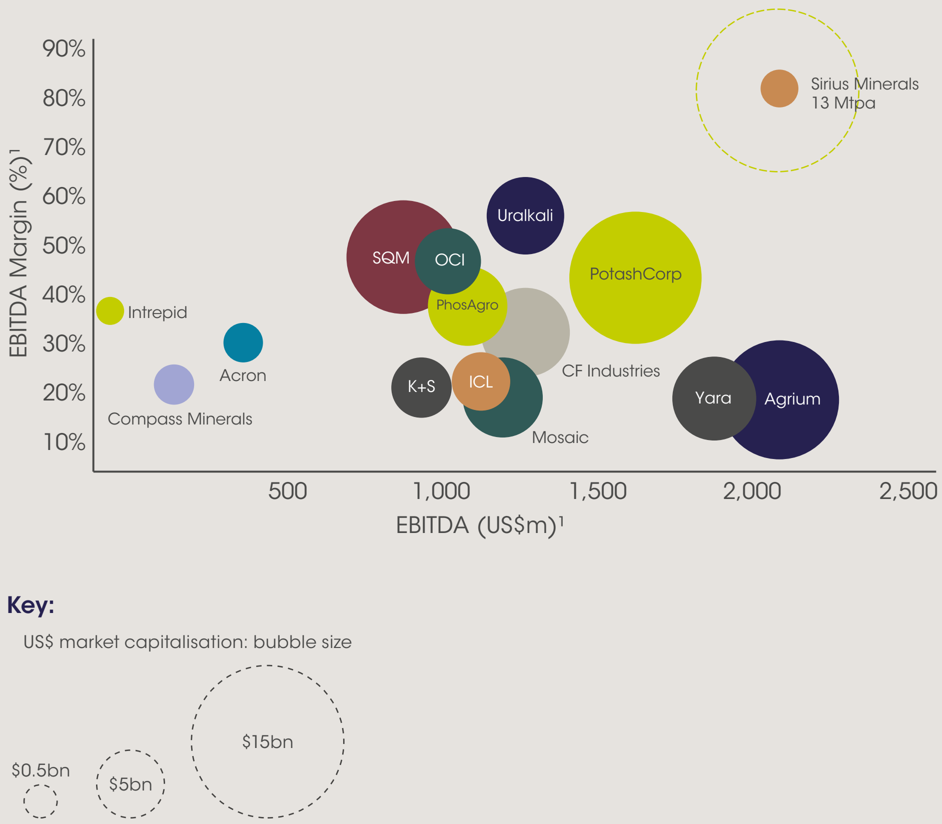
The matrix below illustrates this point and also indicates how the Company expects the business to evolve. The volume axis shows the production ramp up from 10 Mtpa to 20 Mtpa and the margin axis shows the forecasted cash margins resulting from a range of POLY4 prices.



Industry-leading business

The potential EBITDA generated through our high volume/high margin business puts Sirius in a commanding position in relation to our peers and has the potential to generate a market capitalisation well in excess of US$15 billion.

Fertilizer industry benchmarking



Notes:
1 EBITDA values are FY18 estimates with the exception of Sirius, which is projected steady-state EBITDA once construction for 13 Mtpa at Woodsmith Mine is complete.
Source: Factset.

Chief Financial Officer's review

ROBUST FINANCIAL MANAGEMENT

2018 will be another transformational year for Sirius as construction advances and the development of key infrastructure gathers momentum.

THOMAS STALEY. CHIEF FINANCIAL OFFICER

2017 has seen a step change in the level of development activity on the Project as a result of the successful completion of the stage 1 financing in 2016. This year has been the first in which the Group has not had funding constraints over its development activities and as a result the value of spend on the Project activities in 2017 has grown materially.

The Group's operating loss for 2017 was £24.0 million compared to £16.9 million in 2016, with the increased loss being driven by an increase in activity following the completion of the stage 1 financing. The Group has historically made a loss which has been largely reflective of the Group's prudent approach to expensing all indirect and overhead costs through the development phase and this practice has continued since construction commenced. Furthermore, the Group's operating costs in 2017 have contained a number of one-off corporate costs which are not reflective of the underlying level of overhead spend, with the key items being as follows:

£m	2017
Reported operating costs	**24.0**
Sirius Minerals Foundation donation	(2.0)
AIM-to-LSE and stage 2 adviser costs	(3.6)
Non-corporate labour costs	(2.4)
Underlying operating costs	**16.0**

During 2017 the Group made a total loss of £78.9 million compared to a loss of £23.0 million in 2016. The following table sets out the main drivers of the Group's loss for the period.

£m	2017	2016
Operating loss	**(24.0)**	(16.9)
Net interest expense	**(0.8)**	(2.4)
Fair value loss on derivative instruments	**(53.6)**	(4.7)
Attributable to convertible note	***(42.5)***	*(5.7)*
Attributable to royalty financing	***(11.1)***	*1.0*
Foreign exchange losses on net debt	**(0.9)**	0.5
Taxation	**0.4**	0.5
Loss for the financial period	**(78.9)**	**(23.0)**

As can be seen from the table, the main driver of the loss is the fair value re-measurement of the derivatives associated with the convertible note and, to a lesser extent, the royalty financing. These derivative liabilities increase in size as the share price of the Company increases. With the share price increasing by more than 20% over the period, the size of the loss attributable to the derivatives has increased materially. As the convertible notes are converted and the royalty financing is drawn, these derivative liabilities will be reclassified from liabilities to equity and require no cash settlement by the Group.

Chief Financial Officer's review
continued

The Company has deployed £233.7 million during 2017 for the purposes of developing the Project. The table below breaks out the key items:

£m	2017
Operating costs	24.0
Capital expenditure	118.2
Incurred but unpaid capital expenditure	19.9
Local authorities' security requirements	35.2
Financing costs	36.4
Total project use of funds	**233.7**

£m	Available cash	Restricted cash	Total funds
Opening balance	582.4	82.9	665.3
Operating costs	(24.0)	–	(24.0)
Capital expenditure (paid only)	(118.2)	–	(118.2)
Local authorities' commitments	(35.2)	35.2	–
Net financing costs	0.3	(32.9)	(32.6)
Redemption of restricted cash	4.9	(4.9)	–
Working capital and other	1.5	–	1.5
FX revaluation	(17.7)	(5.8)	(23.5)
Closing balance	**394.0**	**74.5**	**468.5**

Total capital expenditure incurred for the period was £138.1 million with a significant portion of that unpaid as at the balance sheet date. In addition to this, numerous financial commitments for items such as the permanent winders and D-walling activities have been made and these items are not reflected in the financial statements. The local authorities' security requirements reflect a combination of providing reinstatement security for construction works and the security requirements of the Section 106 agreements.

Total funds at the end of December 2017 were £468.5 million, comprising bank deposits and cash equivalents of £394.0 million and restricted cash of £74.5 million. The table opposite provides a breakdown of movements through the period in total funds, split between available cash (comprising cash and cash equivalents and bank deposits) and restricted cash.

A number of convertible bond conversion notices were received during the period resulting in 22% of the initial bonds being converted. Because of these conversions, 291 million shares were issued during the period. 1,552 bonds remain outstanding with an aggregate face value of US$310 million.

2018 will be another transformational year for Sirius as construction advances and the development of key infrastructure gathers momentum. With so many key components underway simultaneously, our disciplined approach to capital expenditure will be maintained. The successful execution of stage 2 financing will be a significant milestone as it will secure the balance of the capital funding required to complete construction and will contribute to the ongoing de-risking of our North Yorkshire polyhalite development.

Thank you for your ongoing support.

THOMAS STALEY
Chief Financial Officer

£197.3 million

Total funds deployed in developing the Project during 2017 before financing costs

£468.5 million

Cash resources at the end of December 2017, comprising bank deposits and cash equivalents of £394.0 million and restricted cash of £74.5 million compared to £665.3 million at the end of December 2016

ACTING RESPONSIBLY COMMITTED TO SUSTAINABILITY

RESPONSIBILITY PRIORITIES

Food security

FOR MORE INFORMATION
SEE PAGES 40-41

Community

FOR MORE INFORMATION
SEE PAGES 42-43

Environment

FOR MORE INFORMATION
SEE PAGES 44-45

People

FOR MORE INFORMATION
SEE PAGES 46-47

Responsible business
continued

SUSTAINABLE CONTRIBUTION TO GLOBAL FOOD SECURITY

The world's population is set to increase by a third by 2050 and the demand for food production is forecasted to increase by >60%.

Global food security

Over the next 35 years more food needs to be produced than has been to date in human history.

At the same time, the land available for farming is decreasing and soils have widespread deficiencies in the nutrients that plants need to grow. Food production rates are already struggling to keep up, yet the global agricultural system is required to produce more in the future.

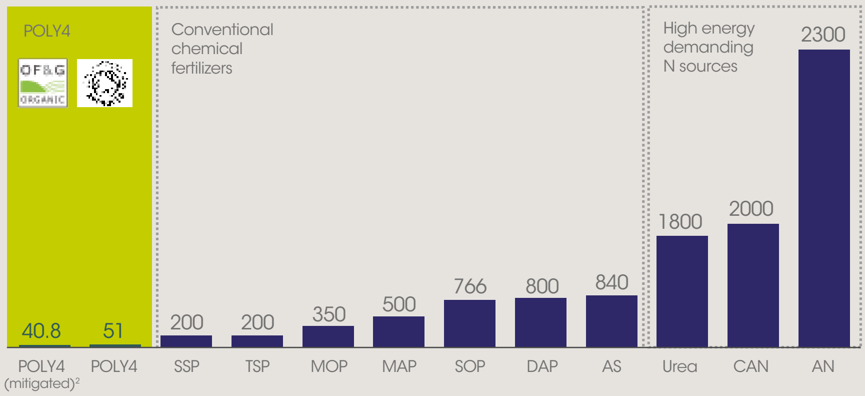
Promoting sustainable agricultural practices

The conventional wisdom that more fertilizer brings more yield has resulted in the over-application of the wrong fertilizers in many regions, resulting in soil erosion and degradation that has led to pollution, increased land conversion and habitat loss.

What is required is for farmers and food producers to use balanced fertilization to increase yields and improve soil health.

- POLY4 has the lowest CO_2e emissions compared to other fertilizer products.
- The lower CO_2e emissions associated with POLY4 are due to its environmentally friendly and sustainable method of production.

CO_2 equivalent emissions of common fertilizers[1]
(kg t-1 of fertilizer)



Notes:
1 SSP – Single Super Phosphate, TSP – Triple Super Phosphate, MOP – Muriate of Potash, SOP – Sulphate of Potash, MAP – Monoammonium Phosphate, DAP – Diammonium Phosphate, AS – Ammonium Sulphate, CAN – Calcified Ammonium Nitrate, AN – Ammonium Nitrate
2 10% mitigation from renewable energy sources and 10% from tree planting offset.
Sources: Sirius Minerals, Ricardo-AEA Ltd. 2014.

The Company is committed to supporting the best and most sustainable fertilizer application practices through its ongoing research and development programme. To date this has involved over 260 trials, on 32 crops, in 17 countries. The programme consistently demonstrates that POLY4 improves crop yield and quality and has positive environmental characteristics.

POLY4 is certified for organic use and has no requirement for chemical processing. As a result, it has a lower carbon footprint compared to other fertilizers. Furthermore, POLY4 has also been shown to improve soil strength, structure, nutrient legacy and reduce agriculture's impact by improving fertilizer use efficiency (ensuring more fertilizer is taken up by the plant and not lost into the environment).

Good nutrient stewardship – ensuring nutrients are applied at the correct rate, time and place – is a critical element of a more sustainable approach. The Company is working with a range of stakeholders to promote these more sustainable practices in key agricultural markets.

Fertilizers are identified as a significant source of greenhouse gases (GHG). The estimated value of the global warming potential (GWP) of POLY4 is 0.051 kg CO_2e per kg of product. This is low compared with other fertilizers and considerably lower than other potassium (K) source fertilizers such as MOP; (0.13-0.265 kg CO_2e/kg) and common sulphur (S) source fertilizers such as ammonium sulphate (0.58 kg CO_2e/kg).

Responsible business
continued

OUR COMMITMENT
COMMUNITY ENGAGEMENT

The Group takes its responsibility to the local area very seriously and is committed to taking an active and positive role in the local community.

£2 million
initial payment made to the Sirius Minerals Foundation

35
education events and activities that the Company took part in during 2017

Education and skills

Sirius believes in supporting young people to fulfil their potential from an early age and continues to deliver its extensive education outreach programme.

A key aspect of this is to broaden aspirations and raise awareness of science, technology, engineering and maths (STEM) related careers.

In 2017 alone the Company has taken part in 35 education events and activities with primary and secondary school students in North Yorkshire and Tees Valley. People from across the Sirius team have been encouraged to get involved, particularly younger team members, to talk to students about their role at Sirius Minerals and how they got involved.

The Company is proud to have been the headline sponsor of Scarborough Engineering Week for the last six consecutive years. Work also started on a £1 million programme in Tees Valley and North Yorkshire to support the STEM curriculum over the next ten years.

Sirius continues to provide opportunities for young people across the area, including apprenticeships, work placements and taking on new graduates.

Sirius Minerals Foundation

The Sirius Minerals Foundation has been established as an independent charity to support community projects that benefit the local area.

During operations, Sirius Minerals will contribute an annual royalty of 0.5% of revenue to the Foundation.

For the construction period, Sirius has made an initial payment of £2 million to the Foundation. Earlier this year, the first funding round was opened to support community projects, awarding grants of between £500 and £5,000. In December, 80 projects were awarded a total of around £300,000 across the local area.

The activities funded include: improving community facilities and restoration works, new equipment, supporting families and vulnerable people, environmental enhancements, and education and training.

SIRIUS MINERALS foundation

PLEASE VISIT OUR WEBSITE
SIRIUSMINERALSFOUNDATION.CO.UK

Community engagement

The Group continues to keep the community updated on the development of the Project.

Over the last year, the Company has held four public drop-in events, attended 20 Parish and town council meetings, and given presentations to a number of local interest groups.

Site visits have been held for elected representatives at the Woodsmith Mine site and the intermediate shaft location at Lockwood Beck. In addition, the Liaison Group Forum which was established to update local councillors and other local stakeholders about the Project met three times in 2017. These meetings are open for the public to attend. The Company also produces regular newsletters, social media updates and has a 24-hour community helpline.

The Sirius Minerals team building a footpath with the North York Moors National Park Volunteer Service

Responsible business
continued

ENVIRONMENTAL PRESERVATION

From the outset, the Company has been committed to limiting the environmental impact of the Project as much as possible. This is reflected in the low-impact design, operational philosophy and approach to construction.

This section summarises the Company's approach to sustainable development, which is covered in more detail in the 2017 Corporate Responsibility Report, available on our Company website.

Sustainable design

Sirius is proud of the design choices it has made throughout the Project's evolution, to ensure that it has the lowest impact possible on the surrounding area.

Woodsmith Mine is located in North York Moors National Park and the Company has set a new standard in sustainable design in recognition of this. The number and size of the buildings has been reduced to a minimum, which together with extensive landscaping and planting, will ensure the site is screened and blends with the surrounding area.

Mined ore will be transported underground, in recognition of the sensitivity of the area, to the MHF at Wilton International in Teesside. To produce POLY4 involves a simple granulation process which does not require chemical processing and has no waste products.

Carbon emissions

The Company is always looking at ways to be more energy efficient during the intensive construction period in order to minimise its carbon footprint.

In line with regulatory requirements the Company's Greenhouse Gas (GHG) performance is calculated using the latest Greenhouse Gas Protocol and set out in the table below. This includes direct GHG emissions from the combustion of fuels (Scope 1) and indirect GHG emissions from the consumption of purchased electricity, steam or other sources of energy (Scope 2). As reporting procedures mature, the Company will look to include other indirect GHG emissions (Scope 3). In 2017 emissions totalled 2,063 tonnes of CO_2e.

	tCO_2e
Scope 1 emissions	1,943
Scope 2 emissions	120
Gross carbon emissions	2,063
Intensity metric: per £10 million spend	**129**

Within the constraints of a large construction project the Company is working, together with its contractors, to proactively reduce carbon emissions. Measures include using low emission fuels for site plant, reducing the reliance on diesel generated power and implementing a travel plan to restrict the number of vehicle movements associated with the Project.

"The Company is providing significant funding, through its Section 106 agreements, to safeguard and enhance the local landscape and to offset carbon emissions."

Construction

The Company is working closely with the relevant authorities, statutory bodies and contractors to implement environmental and mitigation plans for each phase of construction.

These ensure that the stringent planning conditions are adhered to and that impacts are limited across a range of matters including lighting, noise, visual and landscape, wildlife and ecology, hydrology and air quality.

In addition, the Company is providing significant funding, through its Section 106 agreements, to safeguard and enhance the local landscape and to offset carbon emissions. This will amount to a total of £130 million over the lifetime of the Project. During 2017, first payments of £122,500 for the landscape and ecology contribution and £85,000 for tree planting were made to North York Moors National Park Authority.

PLEASE VISIT OUR WEBSITE
SIRIUSMINERALS.COM

Credit: Ebor images North York Moors National Park

Responsible business
continued

OUR PEOPLE DELIVERING

2017 was an exciting year of growth for the Sirius team, which saw us double our headcount with 116 people now directly employed by the Group, an impressive year-on-year increase of 111%.

We welcomed new members into the business, predominantly in Scarborough but also into London and further afield, strengthening our presence and key business relationships in North America, Latin America and South East Asia.

"69% of total employees have been sourced from the Yorkshire region."

Building a more diverse and inclusive workforce is critical to developing a sustainable and successful business.

Our ambition is to attract, develop and retain talented individuals who reflect the communities where we do business, supporting the local community to benefit from the opportunities that Sirius can provide.

We continue to be successful in hiring local people to join our expanding workforce; 69% of total employees have been sourced from the Yorkshire region, reinforcing our commitment to the community in which we operate.

Empowering our people

Our people are critical to the success of this project and we strive to empower, motivate and encourage everyone to contribute.

During 2017, we have been promoting the behaviours and values that have contributed to the many achievements to date.

We are one team focused on one clear goal and during the year we have introduced various development and performance management activities to encourage everyone to play their part in delivering the 2021 first production targets. Recruitment of new colleagues now looks at the 'way' people work as well as their technical capabilities. We've designed a new induction programme, established a process for clear goal setting, launched values alignment sessions and a monthly values recognition scheme.

We strive to promote an open and honest working environment, in which everyone has a voice and feels confident to share their ideas. In December, a new independent disclosure line was introduced called the 'Speak-Up Line' which allows the workforce to report matters of concern confidentially. This further reinforces our commitment to safety and invites everyone to take responsibility to ensure that we can move forward at pace by respecting the safety and security of others, ourselves and our environment.

Growing our people

In addition to ongoing professional skills development, staff regularly have the opportunity to engage in wider community events.

The Company has participated in education outreach events, local careers fairs as well as presenting at national conferences; all of which has supported the personal development of team members as well as promoting good relationships in the region and markets in which we operate. During 2017 Sirius has supported various charity activities both on an individual and group basis, raising over £9,000.

Resolution House

In September, the Company was excited to move into Resolution House, our new headquarters.

The open plan office boasts space, technology and a fresh environment transforming the way that people collaborate and integrate. Resolution House is an inspirational workplace not only for our existing staff but for those that aspire to be part of the team.

The London office also completed a refurbishment in 2017 and both locations now have the facilities and technology that represents a workplace fit for the future.

Looking forward

2018 will be another year of steady hiring to expand our workforce and introduce key talent predominantly into the construction team.

We will continue to strengthen the building blocks required to lead and develop a growing workforce and ensure that everyone can contribute to the delivery of the business priorities. Positive reinforcement of our unique culture and investment in development activities to drive our health and safety agenda is also a top priority for 2018.

Sirius team at Resolution House
Credit: Richard Ponter, Scarborough News

Risk management

IDENTIFYING AND MANAGING RISKS

The Group's strategy exposes it to various risks. The Board is responsible for determining the nature and extent of the risks that the Group is willing to take in achieving its strategic objectives.

The Board has an ongoing process for identifying, evaluating and managing the principal risks faced by the Group.

The Board has performed a robust assessment of the principal risks facing the Group, taking into account those that would threaten its business model (see page 32), future performance, solvency or liquidity, as well as the Group's strategic objectives (see page 22). In addition, the Board considered how risks evolve and potential emerging risks. The most significant risks arising from this assessment, including details of their management and mitigation, are detailed in the Strategic Report on pages 49 to 52.

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

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

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

Brexit

The Group is aware that 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 Group does not currently trade with Europe. It is also not in receipt of EU foreign direct investment (FDI). Most of the Group's future sales are likely to be in US Dollars. Therefore, the risk relating to Brexit is low for the Group and is not considered one of its principal risks. The Group continues to monitor political, regulatory and legislative aspects of the withdrawal from the European Union and is aware of the aspects of this potential risk.

Key to risk management

Risk increasing | No change | Risk decreasing

PRINCIPAL RISKS	MITIGATION	TREND	STRATEGY LINK
STRATEGIC RISKS			
Exploration and development The Group is completely dependent on the ability of the Project and engineering team to successfully deliver operational mine and infrastructure facilities.	The geological, mining, processing and infrastructure challenges of the Project are inherent in a mining and infrastructure Project of this size, and are not of an extraordinary level or nature. Site investigation work through a programme of seismic surveys and investigative boreholes continues as part of the Project. As engineering progresses this risk naturally reduces. Development risks are assessed, evaluated and reduced as far as reasonably possible as part of the Project management function performed by our experienced owner's team.	No change	1, 3, 4
FINANCIAL RISKS			
Liquidity risks The Group'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 Group 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 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.	No change	1, 3, 4
Commodity price 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 the Group 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. Feasibility study work indicates that the anticipated cost of production for polyhalite is circa US$30. At this cost, the Project would rank in the bottom quartile of potash producers and is therefore well positioned for significant price downturns.	No change	1, 2, 3, 4

Risk management
continued

PRINCIPAL RISKS	MITIGATION	TREND	STRATEGY LINK
Currency **Sirius Minerals will have currency exposures arising from both its capital expenditure and operating costs and the sale of polyhalite ore.** **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 Group 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. The Group monitors its exposure to currency risk based on the Project expenditure forecast and the stage of development. The treasury policy sets out appropriate risk tolerances for currency exposure and the treasury team implement appropriate hedges to ensure the Group is compliant with the treasury policy.	This risk is increasing as the time frame for Brexit draws closer and drives increased volatility in the foreign exchange markets. As the proceeds from the stage 1 financing are spent, the Group's exposure to sterling is also increasing because the stage 2 financing is likely to be predominantly in US Dollars.	2 4
EXTERNAL RISKS			
Permits and licences **The Project requires a range of permits and licences to operate. As the Project progresses, the details of the works will require changes to the planning permissions. There is no guarantee that these will be forthcoming.**	The Group is in possession of the planning permissions required to commence the construction of the minehead, MTS, MHF and has also received a development consent order for the construction of the harbour facility. Any changes applied for do not affect these permissions, but rather either modify or replace the existing permissions once approved. Up to this point the minor non-material changes sought have been approved. A minor material change for the Woodsmith Mine site has also been approved by the NYMNPA. Sirius Minerals has a broad range of consultant advisers that specialise in obtaining the remaining permits, licences and secondary approvals and licences needed for the Project to operate.		1 3 4

PRINCIPAL RISKS	MITIGATION	TREND	STRATEGY LINK
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 Group continues to develop its marketing and sales strategy to utilise the unique characteristics of polyhalite.		2, 4
OPERATIONAL RISKS			
Construction delays **The Project may experience construction and schedule delays due to unforeseen technical issues.**	Detailed assessment and planning 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 during construction. The Group also continues to pursue all acceleration options available to reduce the time required to reach first production. Contractors are incentivised to bring their scopes forward.		1, 2, 3, 4
Contractors and suppliers **The performance of our contractors and suppliers is critical to the success of the Project. Performance issues or a lack of alignment could introduce cost and schedule risks to the Project.**	This risk would manifest itself in cost, delay and/or quality issues. An active and experienced management team is in place with a focus on being clear about expectations, verifying performance, and doing everything possible within the contracts to ensure the success of our contractors and suppliers. Performance is actively monitored and managed, with mitigating change instigated should performance not meet expectations. In working with our contractors we are focused on ensuring that they are working within their area of specialisation, that their senior management are engaged in our Project, that regular communication and progress updates are maintained and that major construction contractors are incentivised around the success of the Project.		1, 3, 4

Risk management
continued

PRINCIPAL RISKS	MITIGATION	TREND	STRATEGY LINK
Construction cost overruns **The Project may experience construction cost overruns due to unforeseen technical issues or scope change.**	The owner's team has a strong focus on cost. Confidence in the final cost will increase as detailed engineering progresses and contracts are put in place for the works. Prices received from contractors and suppliers so far have been in line with the DFS and budget. In addition, the Project was costed with significant contingency and escalation provisions in case of cost pressures. The fall in the value of the pound also provides comfort in this area.	↔	2 4
Safety and environmental performance **A significant safety or environmental incident would affect the delivery of the Project and the Group's reputation.**	We continuously assess the risk and ensure that we have the right people in the right place. Nonetheless, the Group is not complacent about the risks in this area. The owner's team is set up to manage safety and the environment effectively. A key part of our work in this area is in ensuring that we engage contractors who have the right attitude and systems, and that we welcome expertise and improvement from employees, contractors and external parties. Ongoing focus areas include leadership activities, work with our contractors (including onboarding processes and auditing), developing the culture of the Project team, and the identification and control of major hazards.	↔	1 3 4

Viability statement

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

Time frame

The Board believes that five years is the most appropriate time frame over which the Board should assess the long-term viability of the Company. The Company's current activities do not generate any revenues or positive operating cash flow, and construction of the Project and the development necessary to commence production and generate revenues will require significant capital expenditures. The Project is not expected to generate positive net cash flow until approximately 2022, some four years from now.

Assessing viability

The main assumptions are that the stage 2 financing of up to US$3 billion is completed in the second half of 2018 and that the U$300 million royalty financing due from Hancock British Holdings Limited is paid on or around the same time. If these transactions are not concluded in this time frame the Company may not be able to ensure that the Project will become operational, nor that commercial production will commence on schedule (or at all).

Principal risks

In addition, in making their assessment, the Board has taken into account the principal risks as described in detail on pages 49 to 52 and also the scenario modelling and sensitivity analysis undertaken by the Company and various consultants which has been conducted as part of the development of the Project. The modelling demonstrates profitability over a range of negative assumptions, both individually and in aggregate. The scenarios considered took into account the impacts of:

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

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

Confirmation of viability

Taking account of these matters, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2022, assuming that the stage 2 financing referred to above is completed as described.

The Group's going concern statement is detailed in note 1 on page 114.

Governance

CORPORATE GOVERNANCE

Credit: Ebor images North York Moors National Park

Governance

BOARD OF DIRECTORS

RUSSELL SCRIMSHAW
NON-EXECUTIVE CHAIRMAN

Age: 68

Date of appointment:

November 2011

Skills and experience:

Russell was formerly an executive director and deputy CEO of Fortescue Metals Group Ltd and was a founding member of the board. He was also formerly chairman of Cleveland Mining Co Ltd, and a non-executive board member of Commonwealth Properties Ltd, EDS Australia, Mobilesoft Ltd, Telecom New Zealand Australia Pty Ltd, The Garvan Institute Foundation, Genome.One Pty Ltd and Athletics Australia.

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

Current external appointments:

Chairman of the Garvan Institute of Medical Research Foundation; Non-Executive Director of the Garvan Institute for Medical Research; Non-Executive Director of Waterford Retirement Village Pty Ltd; Executive Chairman of Torrus Capital Pty Limited; Chairman of Scrimshaw Nominees Pty Ltd; and Chairman of an Australian Philanthropic Fund, The Scrimshaw Foundation.

Committees:

R N

CHRIS FRASER
MANAGING DIRECTOR AND CEO

Age: 43

Date of appointment:

January 2011

Skills and experience:

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

During his finance career he worked for KPMG, Rothschild and Citigroup, the latter culminated in him being appointed head of metals and mining investment banking for Australia in 2006 and managing director in 2008. Upon leaving Citigroup in 2009, he founded Sigiriya Capital, a boutique advisory and investment firm. Chris founded York Potash in 2010 and subsequently joined Sirius Minerals Plc in 2011.

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

Current external appointments:

Director of Sigiriya Capital Pty Ltd and C&J Fraser Investments Pty Ltd; member of the UK-China CEO Council; Director of the Northern Powerhouse Partnership and member of the Coventry University Advisory Board.

Committees:

None

THOMAS STALEY
FINANCE DIRECTOR AND CFO

Age: 37

Date of appointment:

February 2017

Skills and experience:

Thomas has over 10 years' experience in the energy, infrastructure and resources industries with a focus on financing and financial governance for development projects. Thomas has spent a significant part of his career (January 2009-June 2012) working for the Mubadala Development Company (Mubadala) in Abu Dhabi where he was involved in several financings including a US$600 million project finance facility for a power station development project, a A$300 million government agency financing of a European development project, and a US$2,200 million leveraged buy-out financing of a US company. Prior to working at Mubadala, Thomas was working in Australia with Babcock & Brown from 2006 to 2008, where he was involved in numerous energy and infrastructure transactions.

Most recently, Thomas was the head of commercial and risk in the international development team of Origin Energy from September 2012 to September 2014. He was the interim chief executive officer of a geothermal exploration project where he was appointed by the main shareholders, Origin Energy and Tata Power, to implement a turnaround plan and put the development project back on track.

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

Current external appointments:

Alternate Director of the Northern Powerhouse Partnership.

Committees:

None

KEITH CLARKE CBE
NON-EXECUTIVE DIRECTOR

Age: 65

Date of appointment:

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 chief executive officer 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. From September 2011 to December 2015, he was Non-Executive Director of The Engineering and Technology Board (its trading name being Engineering UK), and from August 2011 to March 2014 he was Non-Executive Director of The British Standards Institution. He is a fellow of the Institute of Civil Engineering, Hon Fellow RA Eng & MRIBA.

Current external appointments:

Chair of Tidal Lagoon (Swansea Bay) Plc and Tidal Lagoon plc; Chair of the Trustees for Forum for the Future; Chair of Future Cities Catapult; Non-Executive Director of Constructionarium and Women in Property; and Director of Keith Clarke Consulting Limited.

Committees:

N A

JANE LODGE
NON-EXECUTIVE DIRECTOR

Age: 62

Date of appointment:

July 2015

Skills and experience:

After an academic background in geology, Jane's executive career was primarily in accountancy, where she became a partner at Deloitte. Her roles included Deloitte's Midlands Practice senior partner and lead partner for the National Manufacturing Industry. As Manufacturing Industry Leader, she represented the UK on the Deloitte Global Manufacturing Industry Executive and was a member of the CBI Manufacturing Council. During her 35-year career with the firm, she advised multinational businesses in the construction, financial services, manufacturing and property sectors.

Current external appointments:

Non-Executive Director and Chair of the Audit Committee, Devro PLC; Non-Executive Director and Chair of the Audit Committee of DCC PLC; Non-Executive Director and Chair of the Audit Committee of Costain Group Plc; Non-Executive Director of the Bromsgrove School Foundation; Non-Executive Director of Ives Ventures Limited; and Non-Executive Director of Ives Estates Limited.

Committees:

A R

JOHN HUTTON,
BARON HUTTON OF FURNESS
NON-EXECUTIVE DIRECTOR

Age: 62

Date of appointment:

January 2012

Skills and experience:

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

In 2005 Lord Hutton was made Secretary of State for Work and Pensions. In 2007 he was appointed Secretary of State for Business, Enterprise and Regulatory Reform. In 2008 he became Secretary of State for Defence until he stepped down from the Cabinet in 2009. In 2010 he was created a life peer as Baron Hutton of Furness and now sits in the House of Lords.

Current external appointments:

Non-Executive Director of ARIX Bioscience Limited; Circle Holdings (UK) plc; Simple Space Limited; Byhiras Group Limited; Chairman and Director of Apartments for London Ltd; Chairman of Energy UK;. Director of Arthurian Life Sciences Limited; Chairman of the Nuclear Industries Association; and a partner of Cartesius Advisory Network.

Committees:

R

NOEL HARWERTH
SENIOR INDEPENDENT DIRECTOR

Age: 70

Date of appointment:

July 2015

Skills and experience:

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

Current external appointments:

Chair of the UK Export Finance Agency; Non-Executive Director of Charter Court Financial Services; Non-Executive Director of Standard Life Assurance Ltd; Non-Executive Director of The London Metal Exchange; and Non-Executive Director of the British Horseracing Authority Limited.

Committees:

A N

LOUISE HARDY
NON-EXECUTIVE DIRECTOR

Age: 51

Date of appointment:

May 2016

Skills and experience:

Louise has over 25 years' experience in the engineering sector. Previously, she was European project excellence director at Aecom and had a part-time executive role at Skanska UK from September 2015 to June 2016, as well as being a director at Laing O'Rourke, working as infrastructure director within CLM, which was the consortium delivery partner for the Olympic Delivery Authority for the London 2012 Olympics and a non-executive director at the Defence Infrastructure Organisation, Ministry of Defence from May 2015 to June 2017. Louise is a fellow of the Institution of Civil Engineers and a fellow of the Chartered Management Institute.

Current external appointments:

Non-Executive Director of Ebbsfleet Development Corporation; Non-Executive Director of the Department for Communities and Local Government; Non-Executive Director of North West Cambridge Developments; Non-Executive Director and member of the Nomination, Remuneration and Technical Committees of Crest Nicholson plc.

Committees:

R

R Remuneration Committee
N Nominations Committee
A Audit Committee
Chair of Committee

Governance

CHAIRMAN'S INTRODUCTION

> The Board is committed to the highest standards of corporate governance.

RUSSELL SCRIMSHAW. CHAIRMAN

Dear Shareholder

I am pleased to present the corporate governance report for the year ended 31 December 2017.

Last year was a year of many significant achievements for Sirius. One of our key achievements occurred on 28 April 2017, when the Company's ordinary share capital was admitted to trading on the Main Market.

As the Company is now on the Main Market, we are subject to the UK Corporate Governance Code (the Code). The Code encourages me, as Chairman, to report personally on how the principles relating to the Board's role, and effectiveness of them, have been applied, and I am pleased to do so.

This section of the Annual Report sets out our approach to corporate governance using the five main principles of the Code and explains how the Board and its Committees are structured and their areas of focus during 2017. The Board is committed to the highest standards of corporate governance and the Board supports the principles of the Code. The Directors believe that the Company has complied during the year with the principles and provisions of the 2016 UK Corporate Governance Code with the exception of provision D.2.1 of the Code with respect to the composition of the Remuneration Committee, as described on page 86.

The Sirius Board recognises the importance of sound corporate governance. Its role is to provide leadership of the Company and its executives with myself, as Chairman, being responsible for leading the Board and ensuring its effectiveness. It is therefore important that the Board has the correct balance of skills and experience and that its members work together effectively in pursuit of our corporate goals and objectives.

During the year, Thomas Staley was appointed to the Board as Finance Director, further strengthening the Board's set of critical skills, especially with regard to financing. Additionally, Noel Harwerth, a very experienced and long-standing Non-Executive Director of several major companies was appointed as our Senior Independent Director. The Board now comprises two Executive Directors, six Non-Executive Directors, one of whom is the Senior Independent Director, providing, I believe, an appropriate balance of executive and non-executive positions on the Board. The Directors have a broad range of relevant capabilities including strategic, construction, mining, financial, governance and other experience to support the Company in pursuit of our key objective of becoming one of the world's most important producers of multi-nutrient fertilizer.

In 2017 a review of the performance of the Board and its Committees was carried out internally via a questionnaire circulated to all Directors. The review confirmed that the Board and all of its Committees are operating effectively. More details can be found on page 62 and in each of the Board Committee reports in this section on pages 66 to 98.

With our move to the Main Market during 2017 we are now pleased to provide an increased level of detailed reporting in our Annual Report. Included in this increased reporting you will find the Remuneration Report on pages 73 to 98 which details our three-year Remuneration Policy that will be put to a binding shareholder vote at our Annual General Meeting (AGM) in May 2018. The Annual Report on Remuneration 2017 also sets out the details of Directors' remuneration throughout 2017, and this will be subject to an advisory vote by shareholders at the upcoming AGM.

This year our AGM will be held at 1pm on Thursday 31 May 2018 at The Events Centre, The Principal York, Station Road, York, YO24 1AA and I look forward to welcoming you.

Russell Scrimshaw
Chairman

Board activity in 2017

Performance

- Received comprehensive management reports at each meeting covering progress with the Project, health and safety matters, sales and marketing developments and finance and corporate development activities.
- Approved the 2017 and 2018 budgets.
- Approved changes to the Group's treasury policy.
- Considered and approved updates to the statement of authority matrix.
- Approved the full year and half year results following recommendations from the Audit Committee.
- Approved the 2016 Annual Report.

Leadership

- Approved the appointment of Thomas Staley to the Board and Noel Harwerth as Senior Independent Director following recommendations from the Nominations Committee.
- Following recommendations from the Nominations Committee, approved the Chairman's role profile, the CEO's role profile, division of responsibility scheduled for the Chairman and CEO; and the Senior Independent Director role profile. In preparation for the move from AIM to Main Market, reconstituted the membership of the Disclosure Committee.

Strategy

- Held an offsite strategy meeting.
- Reviewed and approved the take-or-pay supply agreement with Wilmar International for the use and resale of POLY4 exclusively in South East Asia.

Internal controls and risk management

- Received regular updates on risk and reviewed the principal risks and mitigation plans.
- Received a health and safety presentation from the Group's H&S manager.

Governance and stakeholders

- Received regular meeting reports from each of the Committee Chairs.
- Reviewed and approved increase to the annual fees of the Non-Executive Directors and Board Chairman following recommendations from a benchmarking exercise undertaken by the Remuneration Committee.
- Considered and approved the process for the annual performance evaluation of the Board.
- Reviewed annual schedule of Board agenda items.
- Undertook an annual evaluation of the Board's performance and reviewed the results.
- Approved changes to the Group's anti-bribery and corruption policy and the Group's new Speak Up policy.
- Reviewed the 2017 Annual Report planning process.
- In preparation for the move from AIM to the Main Market, received briefing memoranda on Directors' duties and responsibilities for a premium listed company; AIM to Main update papers; update from PwC on accounting and workstreams together with a Step Up training paper and presentation from Allen & Overy and J.P. Morgan Cazenove.
- Received and considered an anti-bribery and corruption memorandum updating the Board on the current legislative position and planned actions to ensure compliance with best practice.
- Approved updated Terms of Reference for the Audit Committee, Remuneration Committee, Nominations Committee and Disclosure Committee.
- Approved changes to the Disclosure and Inside Information Policy and adopted a schedule of matters reserved to the Board.
- Reviewed developments in corporate governance, legal and regulatory updates.
- Received investor relations reports.

Governance

CORPORATE GOVERNANCE

LEADERSHIP

Board meetings

During 2017, the Board met eight times during the year, excluding Board Committee meetings to approve the financial results and matters in connection with the move to the Main Market. Individual Director attendance at each Board meeting is set out in the table opposite.

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

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

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

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

The Chairman and Chief Executive

The roles of the Chairman and Chief Executive are held separately and their responsibilities are clearly documented and established. Russell Scrimshaw is the Chairman and is responsible for the leadership and effective running of the Board. Chris Fraser is the Chief Executive and is responsible for the running of the Group's business and implementation of the strategy and policies adopted by the Board.

Non-Executive Directors

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

Senior Independent Director

Noel Harwerth is the Senior Independent Director (SID) of the Company, having been appointed on 25 April 2017. As well as being available to shareholders whose concerns have not been resolved through normal channels or when such channels would be inappropriate, the SID provides a sounding board for the Chairman and serves as an intermediary for the other Directors, where necessary. The SID also has responsibility for leading the annual appraisal of the Chairman's performance.

The Role of the Board

The Board provides leadership of the Company and direction for management. It is responsible for the long-term success of the Company and for ensuring the appropriate management and operation of the Company in pursuit of its objectives.

The Board is responsible for setting the Company's strategy, values and standards and ensuring the necessary controls and resources are in place for the Company to deliver it. The Board has regular scheduled meetings and has a formal schedule of matters requiring its approval and specifically reserved for its decision, which form the core of the Board's agenda. These include:

- approving the Group's long-term objectives;
- approval of the annual operating and capital expenditure budgets;
- approving contracts for more than a certain monetary amount;
- extension of the Group's activities into new business or geographic areas;
- approval of major capital projects; and
- approval of key policies and procedures.

Board attendance in 2017

BOARD MEMBERS			
Russell Scrimshaw	Chairman	8/8	100%
Chris Fraser	Managing Director & CEO	8/8	100%
Thomas Staley*	Finance Director & CFO	8/8	100%
Noel Harwerth	Senior Independent Director	8/8	100%
Keith Clarke	Independent Non-Executive Director	8/8	100%
Louise Hardy	Independent Non-Executive Director	8/8	100%
Lord Hutton	Independent Non-Executive Director	8/8	100%
Jane Lodge	Independent Non-Executive Director	8/8	100%

* Although Thomas Staley was appointed to the Board on 2 February 2017, he attended the January 2017 board meeting.

Executive Directors

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

Principal Committees of the Board

The Board has delegated certain aspects of its responsibilities to four Committees (as shown on page 65): the Audit Committee, the Nominations Committee, the Remuneration Committee and the Disclosure Committee.

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

Reports of the Audit, Nominations and Remuneration Committees are provided on pages 66 to 98, and include information on each Committee's membership, duties, attendance at meetings and work throughout the year.

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

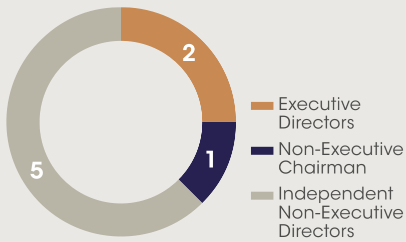
For a copy of the Code

PLEASE VISIT
FRCPUBLICATIONS.COM

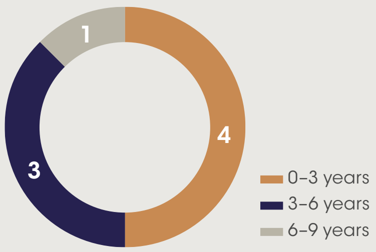
CORPORATE GOVERNANCE CONTINUED

EFFECTIVENESS

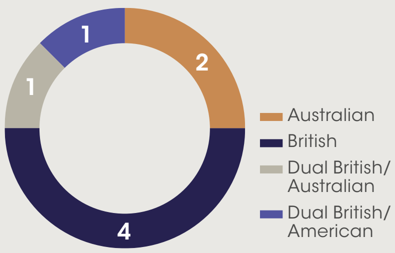
Board composition



Board tenure (no. of Directors)



Nationality



Composition of the Board

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

A list of individual Directors, their biographies and Committee memberships as at the date of this report are on pages 56 and 57.

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

The Board considers all of its Non-Executive Directors to be independent. The Non-Executive Directors disclose to the Board their other significant commitments and the procedure adopted by the Company in relation to Directors' conflicts of interest is detailed on page 100.

Louise Hardy, Jane Lodge and Noel Harwerth are independent in character and independent in judgement and are therefore independent Non-Executive Directors in accordance with the Code. Lord Hutton and Keith Clarke hold share options in the Company as detailed on page 93. These outstanding share options were granted in 2012 and 2013 respectively, when the Company was listed on AIM. No further grants have been made to the Company's current Non-Executive Directors since 2013 and the Company does not intend to include share options or other performance-related elements in the remuneration of the Non-Executive Directors in the future. Notwithstanding these share options, the Board considers Lord Hutton and Keith Clarke to be independent in character and independent in judgement and therefore deemed to be independent Non-Executive Directors.

Prior to taking on the role as Chairman, Russell Scrimshaw was viewed as independent in character and independent in judgement. The Chairman's other significant commitments are detailed on page 56.

Performance evaluation

In October 2017 the Board undertook an internal evaluation of its performance in accordance with the Code through the completion of a comprehensive questionnaire using the electronic board portal. The results of the evaluation were presented to the Board at its meeting in December 2017 and confirmed that overall the Board was operating effectively. The review confirmed that there were a small number of areas for action for 2018, including the design and implementation of a formal training and development programme for Board members and more opportunities for the Board to meet informally ahead of scheduled Board meetings.

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

Training, development and induction of new Directors

Ongoing professional development is provided to all Directors. In 2017 the Board's professional development consisted of various updates, presentations and memoranda from the Company's external advisers focused primarily on the responsibilities and duties of a director of a Premium Listed company given the Company's move from AIM to the Main Market as well as a health and safety presentation and updates on regulatory and legislative developments. A number of the 2017 Board meetings were held in Scarborough to enable the Directors to attend site visits to see the development of the Project.

As there have been no new external appointments to the Board during the year, a formal induction programme was not delivered during the year. Thomas Staley was appointed to the Board during the year but had been with the Company since 2012 as Corporate Development Director and more recently Chief Financial Officer. Thomas attended the Board meetings in his previous roles before being appointed as an Executive Director in February 2017 and, as such, was familiar with the workings of the Board and the Company so a formal induction process was not deemed necessary.

Information and support

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

The Board uses an electronic board portal which provides quick, easy and secure access to board papers and materials in advance of each meeting and in sufficient time to allow proper consideration of their contents.

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

57 years
average age of the Board

Board diversity

Women 3 Men 5

37% female
63% male

CORPORATE GOVERNANCE CONTINUED

ACCOUNTABILITY

Risk management and internal control

Details of the Group's internal controls and risk management framework are more fully set out on page 48 of the Strategic Report.

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

REMUNERATION

The Directors' Remuneration Report, including details of the Remuneration Policy and service contracts, is set out on pages 73 to 98.

RELATIONS WITH SHAREHOLDERS

The Board recognises the importance of maintaining good communications with the Company's shareholders to ensure mutual understanding of the Group's strategy, objectives, governance and performance.

During the year shareholders are kept informed of the progress of the Group through regular corporate communications: the Preliminary Results Announcement, the Annual Report and Accounts, the Half Year Results Announcement, the Notice of Annual General Meeting, quarterly trading updates and press releases regarding any other significant developments, as well as the dissemination of regulated information. Such communications are made available to the London Stock Exchange and are simultaneously available on the Company's website, siriusminerals.com

The Company's website houses a wide range of information about the Group and the Project including the Annual Report and Accounts, press releases and share price data.

From time to time, the Company invites research analysts and institutional investors to presentations and site visits that are designed to provide more understanding of the strengths and capabilities of its business operations and strategy.

Shareholders can receive documentation such as the Annual Report and Accounts electronically and are also able to cast their votes by proxy. The Company also has an electronic proxy appointment service for CREST members.

GOVERNANCE STRUCTURE

The Board

Responsible for the long-term success of the Company

Non-Executive Chairman
Russell Scrimshaw

Key objective:

- Leadership of the Board

Chief Executive
Chris Fraser

Key objective:

- Overall performance of the Company

Audit Committee

Jane Lodge (Committee Chair)
Keith Clarke CBE
Noel Harwerth

Key objectives:

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

Remuneration Committee

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

Key objectives:

- Review remuneration and service contracts of Executive Directors
- Review of all share incentive plans

Nominations Committee

Keith Clarke (Committee Chair)
Russell Scrimshaw
Noel Harwerth

Key objective:

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

Disclosure Committee

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

Key objective:

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

Governance

AUDIT COMMITTEE REPORT

"The Committee provides crucial oversight of the Group's financial affairs."

JANE LODGE. CHAIR

Dear Shareholder

I am pleased to present our Audit Committee Report for 2017 which describes our activities and areas of focus during the year ended 31 December 2017.

Composition

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

The Board is satisfied that the members of the Audit Committee bring a wide range of skills, expertise, experience and competence relevant to the sector in which the Company operates. The Board is also satisfied that Jane Lodge possesses the necessary recent and relevant financial experience, as set out in the Code, to effectively chair the Committee.

Responsibilities

The main role of the Audit Committee includes:

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

The Terms of Reference for the Committee are set out in detail on the Company's website, siriusminerals.com. These terms were updated in March 2017 to reflect current best practice for a Premium Listed company ahead of the Company's move from AIM to the Main Market and are reviewed on at least an annual basis.

Meetings

The Committee has regular scheduled meetings and holds additional meetings as and when required. Members are expected, where possible, to attend all Committee meetings. The Committee had four meetings in 2017 and individual attendance is set out in the table opposite.

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

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

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

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

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

Committee attendance in 2017

COMMITTEE MEMBERS		
Jane Lodge	4/4	100%
Noel Harwerth	4/4	100%
Keith Clarke	4/4	100%

Committee activity in 2017

During the year the Committee:

- reviewed the proposed accounting treatment of the Group's US$400 million convertible loans and Royalty Financing Agreement;
- received an update on accounting treatment for agronomic studies;
- oversaw the rotation of the lead audit partner and re-appointed PricewaterhouseCoopers LLP;
- reviewed the Group's risk register;
- reviewed and recommended to the Board the approval of the 2016 Annual Report; the 2017 half-year results announcement and the significant financial reporting judgements;
- considered and recommended to the Board the approval of letters of representation issued to the external auditor;
- received updates from management on the Directors' commitments set out in the Group's Financial Position and Prospects Procedures (FPPP) report performed by PricewaterhouseCoopers LLP in April 2017 (to support the Group's move from AIM to the Main Market of the LSE);
- reviewed and approved the process for the review of the effectiveness of internal controls;
- considered the schedule of non-audit services provided by the external auditor;
- considered and approved the audit approach and scope of the audit work to be undertaken by the external auditor and associated fees;
- approved the process for the Committee's 2017 annual performance evaluation;
- reviewed the annual schedule of agenda items for the Committee;
- considered and approved management's recommendation for an internal audit function;
- reviewed the Group's whistleblowing arrangements and oversaw the implementation of an externally managed phone and web reporting Speak Up service;
- assessed the effectiveness of the Group's internal control environment;
- reviewed the planning of the 2017 Annual Report including consideration of the skeleton financial statements and draft going concern and viability statements; and
- conducted and reviewed the results of the 2017 performance evaluation of the Committee and agreed actions for 2018.

AUDIT COMMITTEE REPORT CONTINUED

Committee evaluation

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

The results of the 2017 internal evaluation show that overall the Committee is operating effectively. Areas identified for action for 2018 include the incorporation of a programme of training and presentations into the Committee meeting schedule at appropriate times, including updates on corporate governance and accounting developments by PricewaterhouseCoopers LLP and subject matter 'deep dives'; PricewaterhouseCoopers LLP to carry out a benchmarking exercise of the Company's 2017 Annual Report; the length of Committee meetings to be increased to allow sufficient time for the agenda and papers to be considered; and more Committee meetings held in person rather than conference call.

Significant issues in 2017

The Committee considered a number of matters during the year as described above, the most significant of which was in relation to the valuation of the royalty financing agreement and the Group's US$400 million convertible loans. As a result of the stage 1 financing undertaken in 2016, a number of complex financial instruments (US$250 million royalty agreement with Hancock British Holdings Limited (Hancock), a US$50 million equity arrangement with Hancock and US$400 million convertible loans) were entered into by the Group with a number of third parties. Due to the complexity of the accounting for each of these financial instruments, the Committee received and considered comprehensive reports from management throughout the year to explain the proposed accounting treatment for the US$50 million equity arrangement and initial drawdown of the US$250 million royalty agreement together with detailed summaries of the subsequent accounting considerations for the royalty host instrument and the royalty embedded derivative. The Committee also took into account the views of the external auditor. The Committee concluded that the proposed accounting treatment of the financial instruments in the Company's 2017 financial statement was appropriate.

Risk management and internal control

Details of the Group's internal controls and risk management framework are more fully set out on page 48 of the Strategic Report.

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

Internal audit

Due to the Group's current size and complexity, the Audit Committee did not deem it necessary to operate an internal audit function during the year. The Audit Committee was able to satisfy itself as to the proper implementation and operation of controls during the year through the review of the Group's FPPP report as well as regular reporting from senior management as to the operation of the Group's controls in the year. As the level of construction activity increases on the Project in the coming year, it is the Audit Committee's view that an internal audit function will become necessary. Therefore, the Committee has begun to plan for the implementation of this in 2018 in order to support its ongoing monitoring of the Group's system of controls.

Auditor

The Committee is responsible for managing the relationship with the company's auditor, PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP have been the Company's auditor since October 2012. The Committee confirms its compliance for the financial year ending 31 December 2017 with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. The Company last put its external audit contract out to tender in 2012, following which PricewaterhouseCoopers LLP was appointed as the Company's auditor. Under current regulations, the Company will be required to retender the audit no later than in respect of the year ending 31 December 2022. The Committee recognises that audit tenders and transitions to new auditors require significant resource. Given that the Company is new to the Main Market, the Committee considers that it is in the best interests of the Company to retain PricewaterhouseCoopers LLP until 2022 to provide stability and continuity. It is therefore the Company's intention to tender the audit no later than for the year ending 31 December 2022.

In accordance with best practice and professional standards, the Company requires its External Auditor to adhere to a rotation policy whereby the audit engagement partner is rotated after five years. During the year the Committee oversaw the rotation of the Senior Statutory Auditor with Randal Casson replacing Ian Morrison as the audit engagement partner. The External Auditor is also required to periodically assess whether, in its professional opinion, it is independent and to share those views with the Committee.

In order to ensure the independence and objectivity of the External Auditor, the Committee has a policy regarding the provision of non-audit services by its External Auditor to ensure that such services do not impair the independence or objectivity of the External Auditor. Any non-audit services provided must be pre-approved by the Committee unless the activity will have a total value of less than £5,000. Control over total non-audit fees is monitored on a regular basis by the Committee with the intention to remain below an audit fee to non-audit fee ratio of 1:1 and within the FRC guidance of the 70% cap that will be required from 2019. However, the Committee recognises that there may be times where it is appropriate to engage the external auditor for additional services which may result in the 1:1 ratio being exceeded. 2017 was an exceptional year for the Company with its move from AIM to the Main Market and this resulted in the non-audit fees being higher than the audit fees due to PricewaterhouseCoopers LLP's work in connection with the prospectus for the Premium Listing. This was the one non-audit service that PricewaterhouseCoopers LLP provided to the Company during the year and no other non-audit fees were incurred in 2017. An analysis of fees paid in respect of audit and non-audit services provided by PricewaterhouseCoopers LLP for 2017 is set out in note 22 on page 134. Having reviewed such non-audit services the Committee is satisfied that they did not prejudice PricewaterhouseCoopers LLP's independence or objectivity.

The Committee assesses the quality of the external audit annually and considered the performance of PricewaterhouseCoopers LLP taking into account the Committee's own assessment, feedback from senior finance personnel and views from PricewaterhouseCoopers LLP on their performance as detailed in a report of their audit findings at the year end, which they took the Committee through at the meeting in February 2018. Based on this review, the Committee was satisfied with the effectiveness of the audit for the year ended 31 December 2017.

Speak Up policy

Due to the Company's move from AIM to the Main Market, the Group's whistleblowing arrangements were reviewed for best practice and as a result the Group implemented an externally managed independent phone and web reporting Speak Up service and a new Speak Up policy during the year to allow employees to raise concerns in confidence. Prior to this, the Group had a whistleblowing policy in place whereby an employee could raise any concerns direct with management. Updates on any matters raised are provided to the Committee at each meeting.

Jane Lodge
Chair

Governance

NOMINATIONS COMMITTEE REPORT

"A diverse Board of skills, experience, background and gender is an essential part of good governance."

KEITH CLARKE, CHAIR

Dear Shareholder

I am pleased to present our Nominations Committee Report for 2017 which describes our activities and areas of focus during the year.

Composition

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

Responsibilities

The main role of the Committee is to:

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

The Terms of Reference for the Committee are set out in detail on the Company's website, siriusminerals.com. These terms were updated in March 2017 to reflect current best practice for a Premium Listed company ahead of the Company's move from AIM to the Main Market and are reviewed on at least an annual basis.

Meetings

The Committee has regular scheduled meetings and holds additional meetings as and when required. Members are expected, where possible, to attend all Committee meetings. The Committee met twice in 2017 and individual attendance is set out in the corresponding table.

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

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

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

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

Committee attendance in 2017

COMMITTEE MEMBERS		
Keith Clarke	2/2	100%
Noel Harwerth	2/2	100%
Russell Scrimshaw	2/2	100%

Committee activity in 2017

During the year the Committee:

- reviewed the composition, size and structure of the Board ahead of the Company's move to the Premium List of the London Stock Exchange;
- having carried out this review, considered and recommended to the Board the appointment of Thomas Staley, the CFO, as an additional Executive Director;
- reviewed and recommended to the Board the approval of the role profiles for Senior Independent Director, Chairman of the Board and CEO in preparation for the Company's move to the Main Market;
- considered appropriate candidates for the role of Senior Independent Director ahead of the Company's move to the Main Market and recommended to the Board, the appointment of Noel Harwerth as Senior Independent Director;
- reviewed and recommended to the Board for approval, updated Terms of Reference for the Committee; and
- undertook an evaluation of its own performance.

NOMINATIONS COMMITTEE REPORT CONTINUED

Committee evaluation

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

The results of the 2017 internal evaluation showed that overall the Committee is operating effectively. The main recommendation for action for 2018 was for the Committee to have an increased focus on succession planning for the Board and senior management team to ensure that the business is prepared for the future while also assisting in the design of a programme of training for the Board. The length of Committee meetings would also be increased to allow sufficient time for the agenda and papers to be considered and more Committee meetings held in person rather than conference call.

Diversity

Over the last 12 months, there have been a number of diversity reviews, including The Hampton-Alexander Review on gender balance in FTSE leadership; the McGregor-Smith review on race in the workplace and The Parker Review on ethnic diversity on UK boards.

The Committee continues to review and monitor the balance and composition of the Board and makes recommendations to the Board as appropriate as evidenced by the Committee's activity during the year under review. It is the Committee's intention to have a continued focus on diversity in 2018.

All Board appointments are made on merit, in the context of the skills and experience that the Board, as a whole, requires in order to maintain and enhance its effectiveness. The appointment of Thomas Staley to the Board in February 2017 followed an assessment by the Committee that an additional Executive Director with financial expertise was necessary ahead of the Company's move to the Premium List of the London Stock Exchange and the associated enhanced governance requirements and also in preparation for the Company's stage 2 debt financing. Thomas has over ten years of experience developing and financing energy, resource and infrastructure projects across a range of international markets. His core competency was structuring commercial arrangements and financing projects utilising a wide range of capital including project and export credit backed debt, mezzanine debt and equity. Given his experience and the fact that he had demonstrated his strong capabilities as CFO since joining the Company in 2014, especially in the delivery of the Company's stage 1 financing, the Committee was of the view that Thomas would bring the necessary required skills to the Board and was the most suitable candidate.

Female representation on the Board is currently 37% with the Audit Committee at 66%, the Remuneration Committee having 50% and the Nominations Committee at 33%.

Further details on the Company's diversity and talent management can be found in the Our People section on page 46 of the Strategic Report.

Keith Clarke
Chair

REMUNERATION COMMITTEE REPORT CHAIRMAN'S ANNUAL STATEMENT

"Our aim is to create a remuneration framework that is appropriate whilst supporting our strategic goal to develop and implement our world-class North Yorkshire polyhalite Project within budget and schedule."

LORD HUTTON, CHAIR

Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to present our Directors' Remuneration Report for the year ending 31 December 2017, our first report following our admission to the Main Market.

In line with the applicable regulations, this report is presented in two sections: firstly our Directors' Remuneration Policy (the Policy) containing our forward looking policy in relation to Directors' remuneration; and then our Annual Report on Remuneration which provides details of the amounts earned in respect of the 2017 financial year and how our Policy will be implemented in the 2018 financial year. Our Policy is subject to a binding shareholder vote at the 2018 AGM and, subject to approval by shareholders, will become effective from that date. Our Annual Report on Remuneration will be subject to an advisory vote at the 2018 AGM.

How we link executive remuneration to our strategy

Given the unique nature of our business, we designed our Policy to ensure that it will be appropriate for the UK Premium Listed company environment whilst continuing to support our strategic goal to develop and implement our world-class North Yorkshire polyhalite Project within budget and schedule. We will emerge as a disruptive, world-leading fertilizer operation and the opportunity to create value for our shareholders is sizeable. The nature of this opportunity and the focus required to deliver transformational milestones within a clear time frame during a loss-making period were the basis for the Policy for which we are seeking shareholder approval.

REMUNERATION COMMITTEE REPORT CONTINUED
CHAIRMAN'S ANNUAL STATEMENT

Reflecting the development stage of our Project and that the Company is still some years from becoming a cash flow-generating company, the fixed pay for our Managing Director and Chief Executive Officer (CEO) and Finance Director and Chief Financial Officer (CFO) are positioned at the lower end of the market for FTSE 250 companies. Instead, our package is geared towards variable pay, based on the delivery of our strategic milestones towards first production.

Our Policy provides for a maximum annual bonus opportunity of up to 175% of salary for our CEO and up to 150% for our CFO. In exceptional circumstances, linked to the achievement of a transformational strategic milestone, the maximum bonus awarded may be increased up to 200% of salary.

We have introduced individual limits in our Policy on the level of long-term incentive awards that can be granted each year to our Executive Directors. Ordinarily, LTIP awards of up to 200% of salary may be granted to our CEO and up to 175% of salary may be granted to our CFO. Vesting of LTIP awards are linked to the delivery of our strategic milestones. We have included the ability to grant exceptional LTIP awards (i.e. an additional 300% of salary for the CEO and CFO so the overall LTIP award could be up to 500% of salary for the CEO and up to 475% of salary for the CFO). Any exceptional LTIP awards will be subject to aspirational stretch targets. For the avoidance of doubt, there is no intention to grant such exceptional awards on an ongoing basis.

The ability to grant exceptional awards reflects that we are a unique business at a critical point in our development. Recognising the importance of our strong team culture and the contribution of the wider team, the principle of awarding exceptional LTIP awards for the delivery of transformational strategic milestones significantly ahead of plan will also apply to the wider team eligible to participate in the LTIP. Achieving our transformational milestones significantly ahead of plan would require outstanding Company performance through consistent innovation, constant drive and successful execution. This would also result in significant increased value being delivered to shareholders.

The Remuneration Committee recognises that this exceptionally strong performance of the Company should also result in a substantial rise in our share price as a consequence of this performance. Although this provides a strong alignment between executive reward, Company performance and shareholder value creation, the Remuneration Committee is mindful that there may be scenarios where the level of reward is materially greater than envisaged at the time that the awards are granted. Taking into account the current executive remuneration environment, to mitigate the risk that the overall maximum remuneration payable may have the potential of being simply too high irrespective of outstanding Company performance, the Remuneration Committee has decided to include an overall total annual remuneration cap of £20 million. It should be noted that this cap is intended to mitigate the risk of the overall remuneration policy having unintended consequences and is only likely to be in point due to exceptional share price accretion and if more than one LTIP award vested in respect of a milestone being achieved and the Company's market capitalisation increased from circa £1 billion to over £7 billion.

Reflecting best practice, our Policy also includes a shareholding guideline which requires Executive Directors to build up a shareholding with a value equal to 200% of salary. Alignment with shareholders is further enhanced by the following (which will apply to bonus and long-term incentive awards from 2018):

- the deferral into shares, for two years, of any bonus earned in excess of 100% of salary; and
- an additional holding period for long-term incentive awards, such that vested LTIP awards will only be released to an Executive Director prior to the fifth anniversary of the date of grant (so they can dispose of the shares acquired) if the shareholding guideline has been achieved, although sales to cover tax would be permitted.

As at 31 December 2017 Chris Fraser's shareholding equated to 50 times salary and Thomas Staley's shareholding equated to 0.7 times his salary.

Our performance and incentive outturns in 2017

As outlined in the Chairman's statement on pages 4 to 6, 2017 has been a year of significant progress for our business. We accomplished a number of significant Project milestones and successfully executed a number of key activities that are pivotal to the success of this exciting Project.

Following a robust assessment of the Executive Directors' contribution to the achievement of these strategic goals, and measured against the pre-set objectives for the Executives, the Remuneration Committee awarded cash bonuses of £332,500 and £250,000 to Chris Fraser and Thomas Staley respectively. Further detail in relation to the performance achieved and the associated bonuses earned in respect of 2017 is set out on page 89 to 90. Shareholders will recognise that the nature and stage of our business means that setting conventional financial targets is not appropriate; our bonuses for 2017 and for 2018 are based on the delivery of specific elements of the Project and substantive progress towards transformational milestones on time and within budget, which are all lead indicators to the success of the business.

No long-term incentives vested in respect of performance in 2017.

Implementation of our Policy in 2018

- **Fixed pay**: No base salary increases are proposed for the Executive Directors for 2018. Pension contributions for our Executive Directors will continue to be in line with auto enrolment minimum contribution requirements at the level of circa. 1% of salary (2% with effect from April 2018) in line with the wider workforce and auto-enrolment requirements.
- **2018 maximum bonus opportunity**: Maximum bonus opportunity of up to 175% of salary for Chris Fraser and up to 150% of salary for Thomas Staley. However, the maximum bonus earned for 2018 may be increased up to 200% of salary if a successful stage 2 financing is achieved. This recognises the critical importance and transformational impact of a successful stage 2 financing. Further details in relation to the annual bonus performance measures for 2018 are set out on page 96.
- **2018 long-term incentive grants**: Subject to shareholder approval of the Policy, we intend to grant LTIP awards of up to 500% of salary to Chris Fraser and up to 475% of salary for Thomas Staley following the 2018 AGM. This reflects the significant changes brought about by commencement of construction during 2017, our ambitious goals for the Project through the next phase of development and the prospective construction over the next several years of a complex and large scale project and first mining of polyhalite. This event is expected to be a seminal and unique achievement for the Company in its lifecycle. The 2018 LTIP grant consists of two elements: ordinary grants of 200% of salary for Chris Fraser and 175% for Thomas Staley, and an 'exceptional stretch award' of 300% of salary to encourage rapid and early construction which, we believe, will result in significant additional benefits to shareholders, potentially of many hundreds of millions of pounds. As set out in further detail on page 97, the vesting of the 2018 LTIP awards will be based on the critical milestone of first polyhalite being extracted from the ore body. Maximum vesting of the ordinary award requires this milestone to be achieved by 31 March 2022. The exceptional element of the awards is subject to the delivery of this transformational milestone significantly ahead of plan (with maximum vesting requiring this milestone to be achieved by 15 March 2021).

We are committed to a responsible approach to executive pay that reflects appropriately the unique nature of our business and is aligned with the next phase of development into what will be a disruptive, world-leading fertilizer operation. We have consulted with shareholders on the design and implementation of our Policy and have taken into consideration the feedback received, which resulted in some changes (including to our approach to bonus deferral, the inclusion of time frames on LTIP milestones and reduction in the proposed total annual remuneration cap). We will continue to engage with our shareholders and trust that you will support the resolutions to be proposed at the 2018 AGM in relation to the Directors' Remuneration Report.

Lord Hutton
Chair of the Remuneration Committee

Remuneration at a glance

2017 annual bonuses earned of approximately 70% and 76% of salary based on Chris Fraser's and Thomas Staley's contribution to the achievement of significant strategic milestones during the year that are pivotal to the success of the Project (see page 89 to 90).

Salaries for 2018 will not be increased.

Pension contributions for our Executive Directors will continue to be line with the wider workforce at circa 1%.

Maximum bonus opportunity for 2018 will be up to 175% of salary for Chris Fraser and up to 150% of salary for Thomas Staley. However, the maximum bonus earned for 2018 may be increased up to 200% of salary if a successful stage 2 financing is achieved. From 2018, bonus awards above 100% of salary will be deferred into shares for two years.

Exceptional LTIP awards of up to 500% of salary for Chris Fraser and up to 475% of salary for Thomas Staley to be granted in 2018 based on the critical milestone of first polyhalite being extracted from the ore body (see page 97).

Reflecting best practice a 200% of salary shareholding guideline applies.

LTIP awards granted from 2018 will only be released to an Executive Director prior to the fifth anniversary of the date of grant if the shareholding guideline has been achieved.

To mitigate the risk that the overall maximum remuneration payable may have the potential of being simply too high, irrespective of outstanding Company performance, an overall total remuneration cap of £20 million has been incorporated into the Policy.

DIRECTORS' REMUNERATION POLICY

This part of the Directors' Remuneration Report sets out Sirius Minerals' Directors' Remuneration Policy (the Policy) which, subject to shareholder approval at the 2018 Annual General Meeting, shall take binding effect from the close of that meeting. Remuneration arrangements entered into with Directors before the move from AIM to the Main Market do not form part of the forward looking Policy, but may be satisfied in accordance with their terms as referred to on page 85.

The principal aim of the Policy, which has been determined by the Remuneration Committee, is to align the interests of Executive Directors with the Company's strategic vision and the long-term creation of shareholder value. The Policy is intended to remunerate our Executive Directors competitively and appropriately for effective delivery of this and allows them to share in this success and the value delivered to shareholders.

Policy for Executive Directors

COMPONENT	PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE MEASURES
Base salary	Core element of fixed remuneration reflecting the individual's role and experience.	The Remuneration Committee ordinarily reviews base salaries annually, taking into account a number of factors including (but not limited to) the value of the individual and their experience and performance. The Remuneration Committee also takes into consideration: • pay increases within the Group more generally; and • Group organisation, affordability and prevailing market conditions.	Whilst there is no maximum salary, increases will normally be within the range of salary increases awarded (in percentage of salary terms) to other employees in the Group. However, higher increases may be awarded in appropriate circumstances, including (but not limited to): • an increase in scope of the role or the individual's responsibilities; • where an individual has been appointed at a lower than typical market salary to allow for growth in the role, in which case larger increases may be awarded to move salary positioning to a typical market level as the individual gains experience; • change in size and complexity of the Group; and/or • significant market movement. Such increases may be implemented over such time periods as the Remuneration Committee deems appropriate.	While no formal performance conditions apply, an individual's performance in the role is taken into account in determining any salary increase.

COMPONENT	PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE MEASURES
Benefits	To provide broadly market competitive benefits.	The Company provides benefits in line with market practice and includes private medical insurance and travel insurance (for the Executive Director and his/her family), life insurance, provision of a mobile phone (or reimbursement of mobile phone costs) and laptop. Other benefits may be provided based on individual circumstances, which may include relocation costs.	Whilst the Remuneration Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level which the Remuneration Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances.	Not applicable.
Retirement benefits	To provide a means of saving to deliver income in retirement.	The Company may make a contribution to a defined contribution pension arrangement, personal pension or pay a salary supplement.	Up to 10% of salary. At the date of the approval of this Policy, the Company makes a contribution in line with auto-enrolment requirements (2% with effect from April 2018).	Not applicable.
Bonus	The Remuneration Committee may award Executive Directors a bonus opportunity, which will be earned for performance against targets and/or objectives linked to the delivery of the Company's strategy.	Targets and objectives will be reviewed annually. Performance will typically be assessed over a period of one year. The Remuneration Committee has discretion to amend the payout should any formulaic output not reflect the Remuneration Committee's assessment of overall business performance. Any bonus earned in excess of 100% of base salary will be deferred into shares, typically for a period of two years. Recovery provisions apply, as referred to on page 79.	The overall maximum annual bonus opportunity is up to 200% of base salary. However, in normal circumstances, the maximum annual opportunity will be up to 175% of base salary for the Company's CEO and up to 150% of base salary for the Company's CFO. The additional opportunity up to the overall maximum will only be used in exceptional circumstances, linked to the achievement of a transformational strategic milestone.	Targets (which may be based on financial or strategic measures) and individual objectives are determined to reflect the Company's strategy. Where more than one measure applies, the Remuneration Committee will determine the weighting. Bonuses will vest to the extent determined by the Remuneration Committee between 0% and 100% of the opportunity based on its assessment of the extent to which the measure or objective is achieved.

Governance

DIRECTORS' REMUNERATION POLICY CONTINUED

COMPONENT	PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE MEASURES
Long-term incentives (the Sirius Minerals Plc Long Term Incentive Plan or LTIP)	Long-term incentive awards will be granted under the LTIP, which provides a clear link between the remuneration of the Executive Directors and the creation of value for shareholders by rewarding the Executive Directors for the achievement of objectives aligned to shareholders' interests.	Awards may be granted in the form of conditional shares, nil-cost options or Jointly Owned Equity* awards, or as cash-based equivalents. The vesting of awards will be subject to the satisfaction of performance conditions. Recognising the Company's strategy and the stage of its development, performance conditions may be achieved, so that awards vest, before the third anniversary of the date of grant. However, vested shares will, ordinarily, only be released to the Executive Director so that he can dispose of them (other than sales to cover tax liabilities arising in relation to the award) before the fifth anniversary of the date of grant of the award if the Executive Director satisfies the shareholding guideline. Recovery provisions apply, as referred to below.	The overall maximum value of shares over which a participant may be granted an award in respect of any financial year of the Company is up to 500% of base salary. However, in normal circumstances, the maximum annual award will be up to 200% of base salary for the Company's CEO and up to 175% of base salary for the Company's CFO. Any additional award up to the overall maximum will only be granted where awards are subject to exceptional / aspirational stretch targets.	Performance conditions will be determined by the Remuneration Committee in advance of each grant and aligned with the Company's strategy. These conditions may be based on operational strategic milestones or financial measures. Vesting will be determined in accordance with a vesting schedule set by the Remuneration Committee as at the date of grant.

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

Recovery provisions (malus and clawback)
Bonus and LTIP awards are subject to the following recovery provisions:

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

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

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

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

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

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

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

Governance

DIRECTORS' REMUNERATION POLICY CONTINUED

Policy for Non-Executive Directors

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

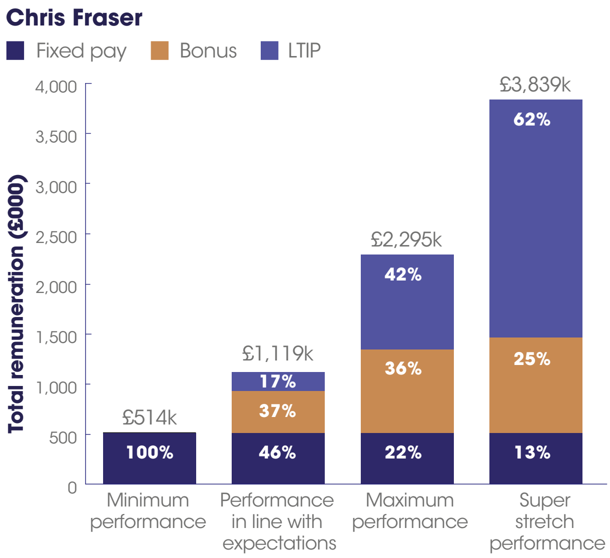
* Non-Executive Directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes. However, certain Non-Executive Directors participate in share option arrangements established by the Company prior to Admission as disclosed in the Prospectus; those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

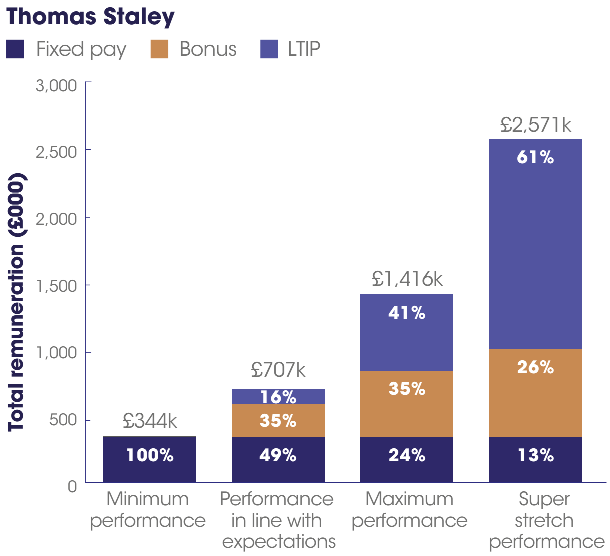
Policy for the remuneration of employees more generally

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

Illustrations of application of the remuneration policy

The following charts provide an illustration, for each of the Executive Directors, of the application for the 2018 financial year of the remuneration policy. The charts show the split of remuneration between fixed pay (i.e. base salary, benefits and employer pension contributions/salary supplement), annual bonus and long term incentive pay. The regulations require us to show remuneration on the basis of minimum remuneration, remuneration receivable for performance in line with Sirius Minerals' expectations and maximum remuneration. Reflecting our approach to LTIP awards and the intention to grant awards at the level of 500% of salary in 2018 (subject to the exceptional performance target for delivering the first polyhalite significantly ahead of plan), we have shown both an 'ordinary' maximum and a 'super stretch' maximum which assumes the vesting of a 500% LTIP award. The charts do not take into account any share price appreciation.





Governance

DIRECTORS' REMUNERATION POLICY CONTINUED

In illustrating the potential in reward, the following assumptions have been made:

	FIXED PAY	ANNUAL BONUS	LTIP
Minimum performance	Base salary (being the latest known salary as at 1 January 2018), employer pension contributions at an assumed rate of 2% on the latest known salary, and benefits disclosed in the single figure table on page 88 for the 2017 financial year.	No bonus	No LTIP vesting
Performance in line with expectations		Bonus equal to 50% of the ordinary opportunity is earned (i.e. 87.5% of salary for Chris Fraser and 75% of salary for Thomas Staley).	LTIP vests as to 20% of the ordinary maximum award (i.e. 40% of salary for Chris Fraser and 35% of salary for Thomas Staley).
Ordinary maximum performance		Bonus equal to 175% of salary is earned by Chris Fraser and 150% of salary by Thomas Staley.	LTIP vests in respect of the maximum ordinary award (i.e. 200% of salary for Chris Fraser and 175% of salary for Thomas Staley).
Super stretch performance		Bonus equal to 200% of salary is earned by Chris Fraser and Thomas Staley.	LTIP vests in respect of the maximum exceptional stretch targets award (i.e. 500% of salary for Chris Fraser and 475% of salary for Thomas Staley).

Recruitment remuneration policy

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

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

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.
- Retirement benefits will be provided in line with the above Policy.
- The Remuneration Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').
- Other elements may be included in the following circumstances:
  - an interim appointment being made to fill an Executive Director role on a short-term basis;
  - if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis;
  - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis; and
  - if the Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Remuneration Committee.
- The Remuneration Committee may also alter the performance measures, performance period and vesting period, deferral period and holding period of the bonus or LTIP if the Remuneration Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the next Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) is 700% of salary, reflecting an annual bonus opportunity of up to 200% of salary and an LTIP grant of up to 500% of salary. However, awards at these levels would only be made in the event of exceptional performance targets applying.

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

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

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

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

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

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

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

NAME	COMMENCEMENT	NOTICE PERIOD BY COMPANY/DIRECTOR
Executive Directors		
Chris Fraser	17 January 2011	Six months*
Thomas Staley	20 October 2014	Six months
Non-Executive Directors		
Russell Scrimshaw	19 December 2010	Three months
Noel Harweth	27 July 2015	Three months
Keith Clarke CBE	23 December 2013	Three months
Louise Hardy	12 May 2016	Three months
Lord Hutton	18 January 2012	Three months
Jane Lodge	27 July 2015	Three months

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

DIRECTORS' REMUNERATION POLICY CONTINUED

Payment for loss of office

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

Executive Directors

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

Non-Executive Directors

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

Statement of consideration of employment conditions elsewhere in the Company

The Remuneration Committee does not formally consult with employees as part of its process when determining Executive Director pay. However, as noted in the Policy table on page 76, the level of salary increases of employees within the wider Group is considered when setting base salary for Executive Directors. The Remuneration Committee is also kept informed of general decisions made in relation to employee pay and related issues.

Statement of consideration of shareholder views

The Remuneration Committee believes that ongoing dialogue with major shareholders is of key importance. During the financial year, the Remuneration Committee consulted with shareholders in relation to the Policy and our proposals have been finalised having regard to feedback received.

Legacy remuneration arrangements

The Remuneration Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed: (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

These legacy remuneration arrangements include:

- an entitlement on the part of each Executive Director to one business class return flight per year for him and his family to Australia and, in certain termination scenarios, to the reasonable costs incurred in the Executive Director and his family relocating to Australia;
- an entitlement on the part of Thomas Staley to be awarded 1,000,000 shares on completion of agreed milestones under the Milestone Award granted to him and referred to in the Prospectus; and
- share options held by the Directors disclosed in the Prospectus and referred to on page 92 to 93.

Governance

ANNUAL REPORT ON REMUNERATION

This report provides details on remuneration in the period and some other information required by the applicable regulations. It will be subject to an advisory shareholder vote at the 2018 Annual General Meeting. The relevant sections of this report have been audited, as required.

Composition

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

Louise Hardy was appointed to the Committee on 15 December 2017 and until, her appointment, the composition of the Committee did not meet the requirement under provision D.2.1 of the Code.

Responsibilities

The main role of the Committee is to:

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

The Terms of Reference for the Committee are set out in detail on the Company's website, siriusminerals.com. These terms were updated in March 2017 to reflect current best practice for a Premium Listed company ahead of the Company's move from AIM to the Main Market and are reviewed on at least an annual basis.

Meetings

The Committee has regular scheduled meetings and holds additional meetings as and when required. Members are expected, where possible, to attend all Committee meetings. Three meetings were held in 2017 and individual attendance is set out in the table below.

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

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

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

The Remuneration Committee has access to the Company Secretary for assistance as required and can obtain other professional advice at the Company's expense, if required. Deloitte LLP (Deloitte) has provided advice to the Committee during the year in relation to its consideration of matters relating to Directors' remuneration. Deloitte is retained to provide independent advice to the Committee as required. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operated under the Code of Conduct in relation to executive remuneration consulting in the UK. Deloitte's fees for providing remuneration advice to the Committee were £30,000 for the year ended 31 December 2017. The Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and takes into account the Remuneration Consultants Group Code of Conduct when considering this. Deloitte was appointed by the Committee and has provided share scheme advice, other tax advice and general remuneration advice to the Company.

Committee attendance in 2017

COMMITTEE MEMBERS		
Lord Hutton	3/3	100%
Jane Lodge	3/3	100%
Russell Scrimshaw	3/3	100%
Louise Hardy*	0/0	0%

* Louise Hardy was appointed to the Committee on 15 December 2017. The three Committee meetings held in 2017 took place before she was appointed to the Committee.

Committee evaluation

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

The results of the 2017 internal evaluation show that overall the Committee is operating effectively. Areas identified for action for 2018 include incorporation of a programme of training and presentations into the Committee meeting schedule at appropriate times, including updates from Deloitte on topical issues, such as key trends and issues in UK executive remuneration; the development of an enhanced induction programme for new Remuneration Committee members; and more Committee meetings held in person rather than conference call.

Committee activity in 2017

During the year the Committee:

- engaged Deloitte to undertake a benchmarking exercise of Executive Directors' salaries and Non-Executive Directors' fees ahead of the Company's move from AIM to the Main Market (the 'Deloitte Benchmarking Exercise');
- considered, and recommended to the Board, changes to the remuneration packages of the CEO and senior management team and the annual fees of the Non-Executive Directors and Board Chairman having considered the Deloitte Benchmarking Exercise;
- considered and recommended to the Board, 2017 share awards;
- in preparation for the move from AIM to the Main Market, received a briefing memorandum from Deloitte on future expectations and obligations regarding remuneration and a gap analysis of the Company's current position;
- reviewed the design of the 2017 Remuneration Report including consideration of the binding Remuneration Policy;
- approved the process for the Committee's 2017 annual performance evaluation;
- reviewed the annual schedule of agenda items for the Committee;
- conducted and reviewed the results of the 2017 performance evaluation of the Committee and agreed actions for 2018; and
- received and considered an update on market and governance developments in UK executive remuneration and the implications for the Company.

Governance

ANNUAL REPORT ON REMUNERATION CONTINUED

Single figure table

The following table sets out total remuneration for each Director in respect of the year ended 31 December 2017 and the prior year.

	Salary and fees £'000		Benefits £'000		Annual bonus £'000		LTIP £'000		Pension £'000		Total remuneration £'000	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Executive Directors												
C Fraser	**475**	360	**29**	19	**333**	540	**-**	–	**5**	3	**842**	922
T Staley[1]	**303**	–	**7**	–	**250**	–	**-**	–	**3**	–	**563**	–
Non-Executive Directors												
R Scrimshaw	**188**	50									**188**	50
N Harweth	**53**	31									**53**	31
K Clarke	**57**	25									**57**	25
L Hardy[2]	**45**	16									**45**	16
J Hutton	**53**	25									**53**	25
J Lodge	**57**	33									**57**	33

1 Thomas Staley was appointed a Director on 2 February 2017 and the salary disclosed in respect of 2017 is for the period from his appointment date until 31 December 2017.
2 Louise Hardy was appointed to the Board on 12 May 2016.

The figures in the single figure tables above are derived from the following:

SALARY AND FEES	THE AMOUNT OF SALARY/FEES RECEIVED IN THE YEAR
Benefits	The taxable value of benefits received in the year in respect of qualifying services as an Executive Director.
Annual bonus	2017: Cash bonus approved and payable in 2018 based on the Committee's assessment of performance achieved during the year ended 31 December 2017 (see further details below). 2016: In respect of Chris Fraser, a cash bonus of £540,000 was approved and paid in April 2017. This bonus was based principally on the Committee's assessment of performance achieved during the year ended 31 December 2016. In respect of Thomas Staley, a cash bonus of £220,000 was approved and paid in April 2017. Although this bonus was paid when Thomas Staley was an Executive Director, this bonus was based principally on the Committee's assessment of performance achieved during the year ended 31 December 2016 (prior to his appointment as an Executive Director). This bonus has therefore not been shown in the Directors' remuneration table above.
LTIP	2017: No long-term incentive awards held by Executive Directors vested by reference to performance in 2017. 2016: No long-term incentive awards held by Executive Directors vested by reference to performance in 2016.
Pension	Value of the employer contribution to the defined contribution pension scheme on behalf of the Executive Director.

Additional disclosures in respect of the single figure table

Base salary and fees

Details of annual base salaries for Executive Directors are set out below.

	2017 base salary	2016 base salary	% increase
C Fraser	**£475,000**	£360,000	32%
T Staley*	**£330,000**	–	–

* Thomas Staley was not a Director of the Company in 2016.

Salaries for the Executive Directors were disclosed in the Prospectus published in April 2017. Reflecting the development stage of our Project, and that the Company is still some years from becoming cash flow-generating, the base salaries are positioned at the lower end of the market for FTSE 250 companies. The Committee set them with a focus on the balance between fixed and variable pay so that the overall package was appropriate where stretch performance is delivered.

Annual Short-term Incentive Plan

For the financial year ended 31 December 2017, the Executive Directors earned cash bonuses of £332,500 (in the case of Chris Fraser) and £250,000 (in the case of Thomas Staley). These bonuses were approved in 2018 based on the Committee's assessment of performance achieved during the year ended 31 December 2017 as set out below. For 2017, it was also agreed that whilst the Executive Directors performance was at or above targets set in all areas, the Company should continue to be conservative in its cash bonus awards assessment, given that stage 2 financing has not yet been achieved. Bonuses were approved by the Remuneration Committee following a robust assessment of the Executive Directors' contribution to the delivery of the following specific strategic objectives linked to Project stage progress, safety, financing, leadership and regulatory approvals.

C Fraser	**Weighting %**	**Deliverable**	**Assessment**	**Bonus earned (% of salary)**
Project progressing safely and satisfactorily	20%	Project progress to plan, health and safety objectives met, good risk management	Met targets	15%
Supply agreements for stage 2 financing progressing satisfactorily	20%	Plans will be delivered although slightly behind timescales	Met targets	10%
Move to Main Listing and FTSE 250	10%	Achieved within time frame, budget and with positive outcomes	Exceeded target	10%
Project approval changes agreed by NYMNPA	10%	Delivered	Met target	5%
Senior Leadership Team established and desired culture defined and progressing	20%	Strong team embedded and "ROBUST" culture defining decision making and behaviours	Above target	16%
Preparation for 2018 stage 2 financing progressing to plan	20%	Delivered to the satisfaction of the Board	Above target	14%
Overall assessment			Above target	70%
Bonus earned				£332,500

Governance

ANNUAL REPORT ON REMUNERATION CONTINUED

T Staley	Weighting %	Deliverable	Assessment	Bonus earned (% of salary)
Preparation for 2018 stage 2 financing progressing to plan	30%	Delivered to the satisfaction of the Board	Above target	20%
Move to Main Listing and FTSE 250	20%	Achieved within time frame, budget and with positive outcomes	Exceeded target	20%
Develop and build investor relations to attract more analyst coverage and institutional investment	10%	Delivered, broader institutional investor base, increased profile for the Company	Above target	6%
Delivery of new finance system	20%	SAP implemented to time and cost	Above target	14%
Human resources team and infrastructure	20%	Improvements to efficient recruitment processes and design and implementation of HR plan	Above target	16%
Overall assessment			Above target	76%
Bonus earned				£250,000

Long-term incentives

Awards vesting in respect of financial year

No long-term incentive awards held by Executive Directors vested by reference to performance in 2017.

Awards granted during the financial year

LTIP awards were granted to the Executive Directors on 26 June 2017, as set out below. In line with our strategy and remuneration policy, the awards vest on the achievement of Project milestones. There is no specified performance period over which the milestones must be achieved.

The milestones and weightings are as follows:

MILESTONE	WEIGHTING
Commence main sinking	10% of the award will vest
Stage 2 financing commitments	45% of the award will vest
First production of polyhalite	45% of the award will vest

	Type of award	Number of shares	Face value at grant £**
C Fraser	LTIP Award*	1,479,452	479,342
T Staley	LTIP Award*	602,740	195,288

* The LTIP Awards are granted in the form of Jointly Owned Equity awards (JOE) which give the participant an interest in the future growth in value of shares owned jointly with a trustee, along with the right to acquire the trustee's interest in the shares for nil cost, so that the participant is entitled to the full value of the shares.

**Based on the closing middle market share price on 26 June 2017 of 32.4 pence.

Payments made to former Directors during the year

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

Payments for loss of office made during the year

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

Statement of Directors' shareholding and share interests

The interests of the Directors and their connected persons in the Company's ordinary shares as at 31 December 2017 are set out below. There have been no changes to those interests between 31 December 2017 and the date of signing of these financial statements.

Share ownership

Director	**Shares owned as at 31 December 2017***
Executive Directors	
C Fraser	**123,747,368**
T Staley	**1,135,525**
Non-Executive Directors	
R Scrimshaw	**43,523,979**
N Harweth	**86,482**
K Clarke	**852,207**
L Hutton	**30,856**
J Lodge	**386,953**
L Hardy	**-**

* Includes shares held by members of the Director's immediate family, shares held by trusts where the Director or members of the Director's family are beneficiaries, and related companies.

Governance

ANNUAL REPORT ON REMUNERATION CONTINUED

Directors – share plan interests

Director	Award	Date of grant	Number of shares at 1 January 2017	Granted during the year	Lapsed during the year	Exercised during the year	Exercise price	Number of shares at 31 December 2017	Status	Exercise period
Executive Directors										
C Fraser	IOS Option[1]	26 September 2012	10,289,814	–	10,289,814	–	29.2p	0	Lapsed	26 September 2014 to 26 September 2017
	IOS Option[1]	26 September 2012	10,289,814	–	–	–	43.7p	10,289,814	Vested	26 September 2015 to 26 September 2018
	2016 LTIP Award (JOE Award[2])	13 May 2016	826,004	–	–	–	–	826,004	Unvested, subject to performance conditions[6]	n/a Awards vest on achievement of the relevant milestone, with a backstop date of 30 November 2018 in relation to the first milestone and 30 November 2021 in relation to the second milestone. Awards can be realised between vesting and the tenth anniversary of grant.
	2017 LTIP Award (JOE Award[2])	26 June 2017	–	1,479,452	–	–	–	1,479,452	Unvested, subject to performance conditions[7]	Awards vest on achievement of the relevant milestone. Awards can be realised between vesting and the tenth anniversary of grant.

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

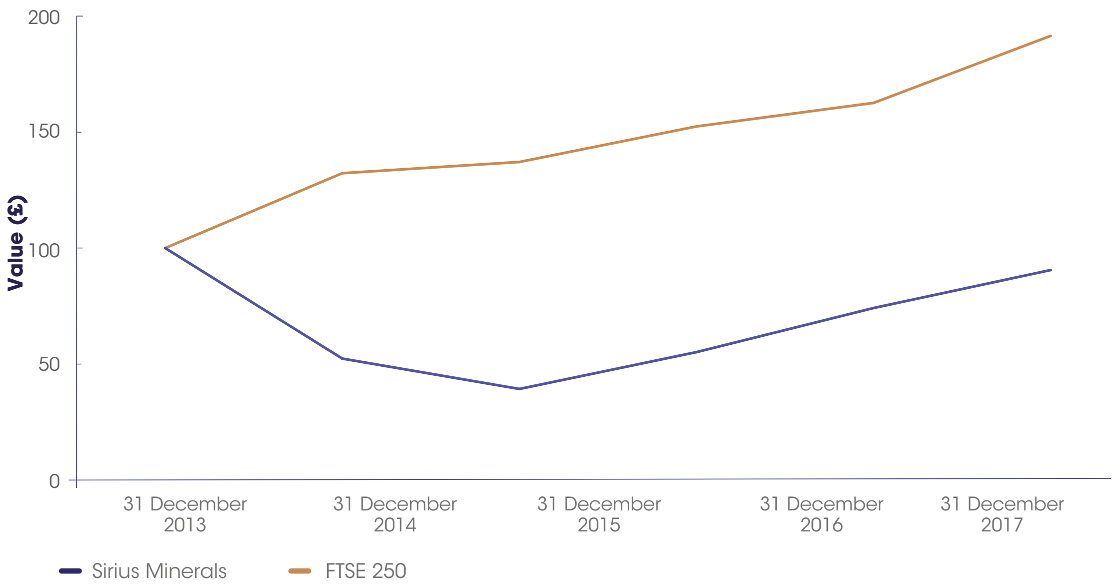
Notes:
1 IOS Options are granted under the Company's Incentive Option Scheme, described in the Prospectus.
2 Awards granted as Jointly Owned Equity Awards (as referred to on page 91) under the Company's Long-term Incentive Plan.
3 USOP Options are granted under the Company's Unapproved Share Option Plan, described in the Prospectus.
4 CSOP Options are granted under the Company's Company Share Option Plan, described in the Prospectus.
5 The Milestone Award is the remaining part of the award referred to in paragraph 6.1.2 of the Prospectus.
6 The vesting of the 2016 LTIP Award is subject to the satisfaction of the following milestones: financial close of the financing to reach commercial production by November 2018 as regards 50% of the award and first commercial ore sales by ship by November 2021 as regards 50% of the award.
7 The vesting of the 2017 LTIP Awards is subject to the performance milestones referred to on page 91.
8 The vesting of the Milestone Award is subject to completion of the subsequent major debt financing to complete the Project.

Governance

ANNUAL REPORT ON REMUNERATION CONTINUED

Performance graph and historical Chief Executive Officer Remuneration outcomes

The graph below shows the total shareholder return (TSR) performance for the Company's shares in comparison to the FTSE 250 for the period from 1 January 2013 to 31 December 2017. The Company is a constituent of this Index and as such it has been selected as an appropriate comparator group. For the purposes of the graph, TSR has been calculated as the percentage change during the period in the market price of the shares, assuming that dividends are reinvested. The graph shows the value, by 31 December 2017, of £100 invested in the Group over the period compared with £100 invested in the FTSE 250.



Source: Thomson Reuters Datastream

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

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

Notes:

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

2 LTIP awards of 857,143 shares which vested in three tranches in 2014 and 2015 and 2016 were granted on 21 May 2013. These awards were subject to continued employment only. Therefore this LTIP has been included in the single figure table at grant based on the closing middle market share price on 21 May 2013 of 25.25 pence. There were no other awards which vested in respect of a performance period ending in the five years to 31 December 2017.

CEO pay increase in relation to all employees

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

Percentage change	Chief Executive Officer	Wider workforce[1]
Salary[2]	32%	13.5%
Taxable benefits[3]	-1%	11%
Annual bonus	139%	28%

1 In order for the comparisons to be meaningful, the group of employees selected for the wider workforce comprised: (1) in relation to salary, those employees who were with the business in both 2016 and 2017 and, accordingly, were eligible for a salary review in 2017; (2) in relation to taxable benefits, those employees who were received taxable benefits in 2016 and those employees who received taxable benefits in 2017 (other than benefits related to JOE awards, as described below); and (3) in relation to bonuses, those employees who were eligible for a bonus in both 2016 and 2017. These groups have been selected in order to provide a meaningful comparison and so that remuneration between 2016 and 2017 can be viewed on a like-for-like basis.

2 Salary increase for the CEO is a consequence of the resetting of base salaries when the Company was admitted to the Main Market as explained in the salary and fees note to the single figure table on page 89.

3 Benefits provided to the CEO and to other employees who receive JOE awards include the payment by the Company of the income tax and employee National Insurance contributions due in respect of the award of JOE awards under the LTIP. Because these benefits relate to the value of the long-term incentive awards granted to the CEO and other employees, they are excluded for the purposes of this analysis as, in the opinion of the Committee, their inclusion would not result in meaningful disclosure of the increase in the benefits.

Spend on pay

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

	2017 £'000	2016 £'000	Percentage change
Dividends and share buybacks	0	0	N/A
Overall expenditure on pay	16,056	8,319	93.0%

Implementation of Directors' Remuneration Policy for the financial year commencing 1 January 2018

Information on how Sirius Minerals intends to implement the Directors' Remuneration Policy for the financial year commencing on 1 January 2018 is set out below.

Salary/fees and benefits

Base salaries for the Executive Directors are unchanged from 2017 for 2018 and will be as follows:

	2018 base salary
C Fraser	£475,000
T Staley	£330,000

Pension will continue to be provided in line with auto enrolment minimum contribution requirements at the level of 2% with effect from April 2018.

Governance

ANNUAL REPORT ON REMUNERATION CONTINUED

Fees for the Chairman and Non-Executive Directors are unchanged from 2017 for 2018 will be as follows:

Chairman fee	Non-Executive fee	Audit, Remuneration & Nominations Committee Chair fee	Audit, Remuneration & Nominations Committee membership fee	Senior Independent Director fee
£180,000	£45,000	£8,000	£4,000	£8,000

2018 annual Short-term Incentive Plan bonus disclosure

For 2018, the Executive Directors' maximum bonus opportunity will be 175% of salary for Chris Fraser and 150% of salary for Thomas Staley. However, the maximum bonus earned for 2018 may be increased up to 200% of salary if a successful stage 2 financing is achieved. This recognises the critical importance and transformational impact of a successful stage 2 financing.

Details of the bonus measures and targets for 2018, to the extent that they can be shared prospectively, and the weightings which apply to each element are provided below. The Company will disclose further detail to explain how performance is assessed against each of these strategic goals on a retrospective basis in the 2018 Annual Report.

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

OBJECTIVES FOR CHRIS FRASER HAVE BEEN SET AROUND THE FOLLOWING KEY AREAS:	WEIGHTINGS
Stage 2 financing completed successfully by the end of 2018	30%
Project procurement required for stage 2 financing in place	15%
Bankable Supply Agreements in place	15%
Project safety objectives met	15%
Construction progress against Project timeline and budget	15%
People culture and staff engagement	5%
Quality of senior leadership team and succession planning	5%

OBJECTIVES FOR THOMAS STALEY HAVE BEEN SET AROUND THE FOLLOWING KEY AREAS:	WEIGHTINGS
Stage 2 financing completed successfully by the end of 2018	65%
Increase the percentage of share register held by institutional investors	15%
Effective management of Company controls, reporting processes and corporate infrastructure as reinforced by internal and external audit reports	10%
Implement and expand the market intelligence capability of the Company	10%

Long-term Incentive Plan

Subject to shareholder approval of the Policy, we intend to grant LTIP awards of up to 500% of salary to Chris Fraser and up to 475% of salary for Thomas Staley following the 2018 AGM. This reflects the significant changes brought about by commencement of construction during 2017, our ambitious goals for the Project through the next phase of development and the prospective construction over the next several years of a complex and large scale project and first mining of polyhalite. This event is expected to be a seminal and unique achievement for the Company in its lifecycle.

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

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

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

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

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

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

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

Governance

ANNUAL REPORT ON REMUNERATION CONTINUED

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

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

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

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

Approval

This Report was approved by the Board on 5 March 2018 and signed on its behalf by:

Lord Hutton
Chairman of the Remuneration Committee

OTHER STATUTORY INFORMATION

The Directors' Report of the Group for the financial year ended 31 December 2017 is set out on pages 99 to 101 inclusive. Additional information which is incorporated by reference into this Directors' Report, including information required in accordance with the Companies Act 2006 and Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules, can be located as follows:

Disclosure	Location
Strategic Report	Page 2
Business model	Page 32
Strategy	Page 22
Results	Page 34
Research and development	Page 26
Principal risks	Page 48
Corporate responsibility	Page 38
Greenhouse gas emissions	Page 44
Employees	Page 46
Governance	Page 54
Viability statement	Page 53
Going concern statement	Note 1, page 114
Directors' interests in shares	Page 91
Financial instruments	Page 132
Statement of Directors' responsibilities	Page 102
Statement of Auditor's responsibilities	Page 108
Post balance sheet events	Page 129
Interest capitalised	Page 117
Details of long-term incentive schemes	Page 90
Contracts of significance	Page 101
Shareholder waiver of dividends	Page 101
Shareholder waiver of future dividends	Page 101

Both the Directors' Report and the Strategic Report have been drawn up and presented in accordance with, and in reliance upon, applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Strategic Report

The Company is required by the Companies Act to include a Strategic Report in this Annual Report, which provides an overview of the development and performance of the Company's business in the year ended 31 December 2017 and its position at the end of that year, and which covers likely future developments in the business of the Company and the Group. The information that fulfils the requirements of the Strategic Report can be found on pages 2 to 53, which are incorporated by reference.

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

Branches outside the UK

The Company has no branches.

Directors

The Directors of the Company as at the date of approval of this Annual Report, including their biographical details, are set out on pages 56 to 57.

Thomas Staley was appointed to the Board on 2 February 2017. All other Directors served throughout the financial year ended 31 December 2017.

Copies of Executive Directors' service contracts are available to shareholders for inspection at the Company's registered office and at the Annual General Meeting (AGM). Details of the Directors' remuneration and service contracts and their interests in the shares of the Company are included in the Directors' Remuneration Report which is set out on pages 73 to 98.

OTHER STATUTORY INFORMATION CONTINUED

Appointment and replacement of Directors

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

In accordance with the UK Corporate Governance Code, all the Directors will retire at the 2018 AGM and offer themselves for re-election. The Board is satisfied that each Director is qualified for re-election by virtue of their skills, experience and contribution to the Board. In addition, the Board considers that all Directors have the necessary skills and experience as set out in their biographies on pages 56 and 57.

Powers of the Directors

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

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

Conflicts of interest

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

Directors' indemnities and insurance

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

The Company has in place appropriate Directors' and Officers' Liability insurance cover in respect of potential legal action against its Directors.

Directors' interests in contracts

Except as stated in note 18 on page 128, no contract existed during the year in relation to the Company's business in which any Director was materially interested.

Major shareholdings

The table on the opposite page shows the holdings in the Company's issued share capital which had been notified to the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules as at 5 March 2018. The information in this table was correct at the date of notification. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Owner	Date notified	Shares issued	%
The Capital Group Companies, Inc	01.09.2017	446,399,118	10.002
Jupiter Asset Management Limited	13.03.2014	111,173,507	5.966

Political contributions
During the year, the Company sponsored the Northern reception at the 2017 Conservative Party Conference and attended the Scarborough/Whitby constituency annual dinner which totalled £11,100.

Share capital
As at 31 December 2017, the Company's issued share capital was made up of 4,463,105,303 Ordinary shares of 0.25 pence each, which each carry one vote at general meetings of the Company. No shares are held in treasury. Details of shares issued during the year are set out in note 10 on page 122.

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

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

Share schemes
As at 31 December 2017, Sanne Fiduciary Services Limited (Sanne), as trustee of the Sirius Minerals Plc Employee Benefit Trust (Trustee), held 10,950,012 Shares, which are held jointly by Sanne as Trustee and employees as JOE Award holders under the JOE Awards. The Trustee has agreed to waive rights to vote or receive dividends in respect of the JOE Shares. The JOE Award holders have agreed to waive rights to vote or receive dividends until the exercise of the JOE Awards. More information on the JOE Awards can be found in the Directors' Remuneration Report on page 90.

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

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

There are provisions in the Executive Directors' service agreements in relation to change of control which are described in detail in the Directors' Remuneration Report on pages 73 to 98.

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

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

Annual General Meeting
The 2018 AGM will be held at 1pm on Thursday 31 May 2018 at The Events Centre, The Principal York, Station Road, York, YO24 1AA. The Notice of 2018 AGM is available on our website and sent to shareholders in the format selected by them.

Forward-looking statements
This Annual Report contains forward-looking statements. These forward-looking statements are made in good faith, based on a number of assumptions concerning future events and information available to the Directors at the time of their approval of this report. These forward-looking statements should be treated with caution due to the inherent uncertainties underlying any such forward-looking information. The user of this document should not rely unduly on these forward-looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other events, many of which are outside of the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

Governance

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

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

The Directors are responsible for 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.

We confirm that, to the best of our knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Chris Fraser
Managing Director and CEO

Thomas Staley
Finance Director and CFO

FINANCIAL STATEMENTS

Credit: Ebor images North York Moors National Park

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIRIUS MINERALS PLC

REPORT ON THE AUDIT OF THE GROUP FINANCIAL STATEMENTS

OPINION

In our opinion:

- Sirius Minerals Plc's Group financial statements and Company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework', and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and Parent Company statements of financial position as at 31 December 2017; the consolidated income statements and statement of comprehensive income, the consolidated statements of cash flows, and the consolidated and Parent Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

BASIS FOR OPINION

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

Independence

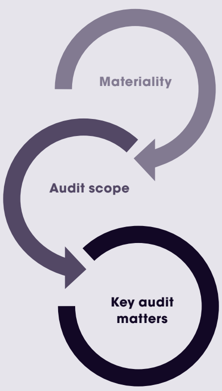
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

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

Other than those disclosed in the Directors' Report, we have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

OUR AUDIT APPROACH

Overview



- Overall Group materiality: £4.0 million (2016: £4.0 million), based on 0.5% of total assets.
- Overall Company materiality: £3.6 million (2016: £3.9 million), based on 0.5% of total assets.

- We, as the Group engagement team, audited Sirius Minerals Plc, York Potash Limited and Sirius Minerals Finance Limited. Each is considered to be a financially significant component of the Group due to the quantum of their asset base. Taken together these three entities represent 97% of the Group's total assets and 100% of its loss before tax.

- Valuation of complex financing arrangements (Group and Parent).

The scope of our audit

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

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of complex financing arrangements The Group's stage 1 financing activities during the 2016 financial year has resulted in a number of complex financing arrangements being entered into with third parties, specifically: • US$250 million royalty agreement with Hancock British Holdings Limited • US$50 million equity arrangement with Hancock British Holdings Limited • US$400 million of Group issued Dollar denominated convertible bonds. Accounting for each of these financing instruments under IFRS is complex and, where valuation models are required, the eventual accounting treatment is sensitive to key management judgements. The accounting framework for each of these financing instruments and the respective valuation models employed by management remain consistent with those adopted in 2016. However, the valuations recognised in the 2017 financial statements remain sensitive to current year inputs in the valuations models. Given the material nature of these instruments and the judgemental nature of these inputs we consider this to be a key audit matter. (Group and Parent)	We obtained management's valuation model for each of the financing instruments listed. To assess application we: • read the underlying contract and assessed whether the contract terms supported the accounting treatment adopted; • assessed whether the valuation model adopted was consistent with the model applied during the period ended December 2016; • evaluated discount rate assumptions made by management, engaging our PwC valuation experts to assist with this evaluation; • confirmed convertible bond conversion rates to source documentation; • read the disclosure made in the financial statements. We found, based on the results of our testing, that the valuation, recognition and disclosures made in the financial statements in respect of these financial instruments were consistent with the supporting evidence we obtained.

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

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

The Group, headed by Sirius Minerals Plc, comprises 13 wholly owned statutory entities, nine of which are registered and domiciled in England and Wales. The remaining entities are registered and domiciled in each of Jersey, Canada, Singapore and the USA.

The Group's activities are fully centred on its UK operations, in particular the development of the Woodsmith Mine, an asset held by York Potash Limited. The Group is financed via equity and external debt instruments held principally by Sirius Minerals Plc and Sirius Minerals Finance Limited. Each of these three entities is considered to be a financially significant component due to the quantum of their asset base. Taken together these three entities represent 97% of the Group's total assets and 100% of its loss before tax.

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

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

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

	Group financial statements	Company financial statements
Overall Group materiality	£4.0 million (2016: £4.0 million).	£3.6 million (2016: £3.9 million).
How we determined it	0.5% of total assets.	0.5% of total assets.
Rationale for benchmark applied	The Group is in a pre-trading phase and is focused on developing the Woodsmith Mine asset. Accordingly total assets is the primary measure used by shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	The Company holds investments in wholly owned subsidiary entities focused on developing the Woodsmith Mine asset. Accordingly total assets is the primary measure used by shareholders in assessing the performance of the Company, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.4 million and £3.6 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1 million (Group audit) (2016: £0.1 million) and £0.1 million (Company audit) (2016: £0.1 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

REPORTING ON OTHER INFORMATION

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group
We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 48 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 53 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

- The statement given by the Directors, on page 102, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 66 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

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

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT
Responsibilities of the Directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement set out on page 102, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the members on 10 October 2012 to audit the financial statements for the year ended 31 March 2013 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 31 March 2013 to 31 December 2017.

Randal Casson

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

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS
ADDITIONAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000s	2016 Restated* £000s
Revenue		**–**	–
Operating costs		**(23,981)**	(16,858)
Operating loss	2	**(23,981)**	(16,858)
Finance costs	4	**(55,268)**	(6,564)
Loss before taxation		**(79,249)**	(23,422)
Taxation	5	**362**	468
Loss for the year		**(78,887)**	(22,954)

	Note	2017 £000s	2016 Restated* £000s
Other comprehensive (expense)/income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(43)**	18
Cash flow hedging movement		**(910)**	–
Other comprehensive (expense)/income for the year		**(953)**	18
Total comprehensive loss for the year attributable to the owners of the Company		**(79,840)**	(22,936)
Loss per share:			
Basic and diluted (pence)	6	**(1.82)**	(0.93)

* Operating costs and finance costs have been restated following the change in accounting policy described in note 1 on page 115.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

ASSETS	Note	2017 £000s	2016 £000s
Non-current assets			
Intangible assets	7	**14,710**	150,204
Property, plant and equipment	8	**306,631**	6,138
Restricted cash	9	**54,261**	55,283
Total non-current assets		**375,602**	211,625
Current assets			
Derivative financial instrument	14	**-**	1,041
Restricted cash	9	**20,228**	27,641
Other receivables		**7,113**	840
Bank deposits		**158,450**	322,188
Cash and cash equivalents		**235,532**	260,157
Total current assets		**421,323**	611,867
TOTAL ASSETS		**796,925**	823,492
EQUITY AND LIABILITIES			
Equity			
Share capital	10	**11,158**	10,412
Share premium account		**695,356**	590,723
Share-based payment reserve	11	**6,053**	6,114
Accumulated losses		**(207,860)**	(112,261)
Other reserves		**423**	1,284
Total equity		**505,130**	496,272
Non-current liabilities			
Provisions	12	**2,753**	–
Total non-current liabilities		**2,753**	–
Current liabilities			
Convertible loans	13	**249,325**	321,366
Derivative financial instrument	14	**10,033**	–
Trade and other payables	15	**29,684**	5,854
Total current liabilities		**289,042**	327,220
TOTAL LIABILITIES		**291,795**	327,220
TOTAL EQUITY AND LIABILITIES		**796,925**	823,492

The financial statements on pages 110 to 134 were issued and approved by the Board of Directors on 5 March 2018 and 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 2017

	Note	Share capital £000s	Share premium account £000s	Share-based payment reserve £000s	Other reserves £000s	Accumulated losses £000s	Total equity £000s
At 1 January 2016		5,737	240,874	7,624	1,266	(90,339)	165,162
Loss for the year		–	–	–	–	(22,954)	(22,954)
Other comprehensive income		–	–	–	18	–	18
Transactions with owners:							
Share issue	10	4,629	347,281	–	–	–	351,910
Share-based payments	11	32	1,418	(1,510)	–	1,032	972
Exercised options	10	14	1,150	–	–	–	1,164
At 31 December 2016		10,412	590,723	6,114	1,284	(112,261)	496,272
Loss for the year		**–**	**–**	**–**	**–**	**(78,887)**	**(78,887)**
Other comprehensive expense		**–**	**–**	**–**	**(953)**	**–**	**(953)**
Transferred to non-current assets		**–**	**–**	**–**	**119**	**–**	**119**
Transactions with owners:							
Shares issued on conversion of convertible loans	10	**728**	**104,484**	**–**	**–**	**(18,670)**	**86,542**
Share-based payments	11	**18**	**149**	**(61)**	**(27)**	**1,958**	**2,037**
At 31 December 2017		**11,158**	**695,356**	**6,053**	**423**	**(207,860)**	**505,130**

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

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

Other reserves comprise the foreign exchange reserve (which arises on translation of foreign operations with a functional currency other than Sterling) of a surplus of £1,241,000 (31 December 2016: £1,284,000), the cash flow hedge reserve (which accumulates unrecognised gains or losses of instruments designated in cash flow hedge relationships) of a deficit of £791,000 (31 December 2016: nil) and treasury shares (which comprise the par value of all shares issued to the Group's employee benefit trust but not yet awarded to employees) of a deficit of £27,000 (31 December 2016: nil).

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £000s	2016 Restated* £000s
Cash flow from operating activities		
Operating loss	**(23,981)**	(16,858)
Adjustments for:		
Depreciation and amortisation	**299**	57
Share-based payments	**822**	844
Changes in working capital	**353**	(407)
Cash used in continuing operations	**(22,507)**	(16,364)
Tax credit received	**–**	468
Net cash used in operating activities	**(22,507)**	(15,896)
Cash flow from investing activities		
Purchase of intangible assets	**(6,676)**	(12,108)
Purchase of property, plant and equipment	**(111,484)**	(4,346)
Redemption of bank deposits	**241,183**	–
Purchase of bank deposits	**(87,647)**	(320,187)
Interest received	**3,607**	441
Net cash generated from/(used in) investing activities	**38,983**	(336,200)
Cash flow from financing activities		
Repayment of borrowings	**–**	(748)
Proceeds from convertible loans	**–**	319,923
Purchase of restricted cash	**(36,381)**	(81,580)
Redemption of restricted cash	**39,070**	–
Interest paid	**(33,034)**	(19)
Proceeds from issue of shares	**–**	371,445
Share issue costs	**(925)**	(18,370)
Convertible loans issue costs	**(2,419)**	(9,158)
Net cash (used in)/generated from financing activities	**(33,689)**	581,493
Net (decrease)/increase in cash and cash equivalents	**(17,213)**	229,397
Cash and cash equivalents at the beginning of the period	**260,157**	29,093
(Loss)/gain from foreign exchange	**(7,412)**	1,667
Cash and cash equivalents at end of the period	**235,532**	260,157

* Operating loss has been restated following the change in accounting policy described in note 1 on page 115.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REFERENCE INFORMATION

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

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

These consolidated financial statements of the Company and its subsidiaries (together, the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS. The standards used are those published by the International Accounting Standards Board (IASB) and endorsed by the EU as at 31 December 2017.

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

GOING CONCERN

The Group continues to incur losses and cash outflows due to the significant level of development activity that it is undertaking in supporting the construction of its polyhalite project in North Yorkshire (the Project). The Group does not currently anticipate generating any revenues from the Project until late 2021. Therefore its ability to continue as a going concern for the time being is dependent upon it attracting sufficient financial investments from external parties to enable it to complete commercial development of the Project.

The stage 1 financing conducted in November 2016 generated sufficient funds to allow the Group to commence construction of the Project. As a result the Group continues to hold total cash and cash equivalents and bank deposits of £393,982,000 at 31 December 2017 (2016: £582,345,000). In addition, the Group currently anticipates that a further US$300 million of cash will be received in the second half of 2018 in relation to its royalty financing arrangements with Hancock British Holdings Limited, subject to the satisfaction of certain contractual conditions precedent.

The Group is in the process of negotiating its stage 2 financing and has mandated a group of six financial institutions on the basis of a non-binding but mutually agreed term sheet. The UK Government's Infrastructure and Projects Authority (formally IUK) has also confirmed its interest in supporting the stage 2 financing for the Project. The Group expects to complete its stage 2 financing during the second half of 2018 which will provide it with sufficient funding to complete the construction of the Project and result in the ongoing generation of revenues and profits.

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

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

BASIS OF CONSOLIDATION

The Group's consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. All intra-group transactions and balances are eliminated in preparing the consolidated financial statements.

ACCOUNTING POLICIES

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

1. REFERENCE INFORMATION CONTINUED

All accounting policies applied are consistent with those used in the preparation of the prior year financial statements with the exception of the presentation of foreign exchange revaluations described within this note in the next section below.

Segment reporting

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

The Group is currently organised into one business division: the UK segment which consists of Project-related activities and the corporate operations. This division is the segment for which the Group reports information internally to the Board of Directors. The Group's operations are predominantly in the United Kingdom. The Group has a number of non-UK based entities that are either dormant or whose operations are insignificant in the context of the Group. Therefore disclosures required under IFRS 8 are already included in the primary statements and so no further information requires disclosure.

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 prevailing at that date. All exchange differences are reported as part of finance costs in the income statement.

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

The year-end rate which was applied in translating balances denominated in US Dollars into Sterling in the financial statements at 31 December 2017 was £1=$1.35 (2016: £1=$1.23). The average exchange rate which was applied to US Dollar transactions occurring during 2017 was £1=$1.29 (2016: £1=$1.35).

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.

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.

Derivative financial instruments

Derivatives are recognised by the Group when it becomes party to contractual arrangements which include derivative features on a standalone basis or embedded within a linked host non-derivative instrument. Derivatives are measured at fair value at each reporting date with all changes in fair value being recognised within finance costs within the income statement. The Group does not use derivative financial instruments for speculative purposes.

CHANGE IN ACCOUNTING POLICY

From 1 January 2017 the Group has elected to change its accounting policy in accounting for foreign exchange revaluation gains and losses in relation to cash, restricted cash and bank deposits. Previously these were classified within operating costs but the Group has now chosen to classify these within finance costs. This is on the basis that such gains and losses are more representative of outcomes from the Group's finance hedging strategy rather than a part of underlying operating costs.

The Group has retrospectively made this restatement from 1 January 2016 in these financial statements, resulting in an increase in reported operating costs and a reduction in finance costs of £4,986,000 for the year ended 31 December 2016 compared to those amounts disclosed in the 2016 financial statements. The effect on the current period has been a decrease in operating costs and increase in finance costs of £22,595,000. This change in accounting policy has not led to any change in any balance on the statement of financial position nor statement of changes in equity in any period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. REFERENCE INFORMATION CONTINUED

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 2017 that have had a material impact on the Group.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these consolidated financial statements. The majority of these are expected by the Group to not have a material impact upon the consolidated financial statements. The new accounting standards with the most potentially significant impact upon these consolidated financial statements are set out below.

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

IFRS 16 *Leases* is effective for annual reporting periods beginning on or after 1 January 2019. The Group is yet to complete its impact assessment of the new standard however, based on the current level of operating lease commitments the Group has entered into (as set out in note 19 on page 129), as well as the absence of any finance leases, then the effect of transition to this new standard is unlikely to materially impact the Group's financial statements.

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

JUDGEMENTS, ESTIMATES AND UNCERTAINTIES

The preparation of financial statements requires the exercise of judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity are summarised below and set out in more detail in the related notes in the boxes denoted by a ⚖ symbol.

Critical accounting judgements, estimates and assumptions

The judgements that carry the most significant risk of an outcome that differs from the amount recognised in the financial statements are as follows:

ACCOUNTING FOR ROYALTY FINANCING AGREEMENT

In November 2016 the Group entered into a royalty financing agreement. IFRS does not provide explicit guidance on how transactions with the features of this agreement should be accounted for and therefore judgement is required in applying the most appropriate and faithful accounting treatment for the contract. For more information see note 14 on page 126.

FAIR VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group has certain financial instruments associated with the stage 1 financing which it is required to classify as derivatives and measure at fair value. The fair value of each of the derivatives is not directly observable from market prices and so the Group is required to exercise judgement in estimating the appropriate fair values. For more information see note 21 on page 133.

Other accounting judgements, estimates and assumptions

ESTIMATION OF PROVISIONS

As part of the planning permissions that the Group must comply with as it develops its Project, it is required to restore environmental disruption caused on the sites on which it operates. Such restoration costs are not expected to be settled until the final exhaustion of the Project, however the cost of liabilities incurred by each balance sheet date must be estimated and provided against. For more information see note 12 on page 124.

IMPAIRMENT OF ASSETS

At each reporting date, the Group assesses whether there is any indication that any of its assets may be impaired and recognises an impairment if the asset's carrying amount exceeds its recoverable amount. Estimation is required in assessing the recoverable amount of a given asset at each measurement date. For more information see note 7 on page 120.

2. OPERATING LOSS

Operating loss is stated after charging:

	2017 £000s	2016 £000s
Depreciation of property, plant and equipment	**273**	57
Amortisation of intangible assets	**26**	–
Operating lease charges	**614**	240
Share-based payments	**822**	844
Sirius Minerals Foundation donation	**2,000**	–

3. STAFF NUMBERS AND COSTS

	2017 Number	2016 Number
Average monthly number of staff (including Directors)	**91**	65

	£000s	£000s
Wages and salaries	**12,336**	6,304
Social security costs	**1,619**	973
Pension costs	**63**	31
Share-based payments	**2,038**	1,011
Total staff costs	**16,056**	8,319

£6,352,000 (2016: £3,668,000) of the above total expense has been capitalised as part of additions to non-current assets during the year.

Total Directors' emoluments and emoluments of the highest paid Director, together with full details of Directors' remuneration, pensions and benefits in kind are given in the Annual report on remuneration on pages 86 to 98.

4. FINANCE COSTS

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

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

	2017 £000s	2016 Restated £000s
Interest income	**3,755**	448
Interest income capitalised on qualifying assets	**(1,942)**	–
Interest expense	**(27,671)**	(2,858)
Interest expense capitalised on qualifying assets	**25,047**	–
Fair value loss on convertible loans embedded derivative	**(42,498)**	(5,744)
Fair value (loss)/gain on royalty financing derivative	**(11,074)**	1,041
Foreign exchange (losses)/gains on net debt	**(885)**	549
Total finance costs	**(55,268)**	(6,564)

During January 2017 the Group commenced significant development work at the Project. After this point all interest expense incurred and interest income earned on the temporary investment of borrowings has been capitalised.

The foreign exchange gain line item within 2016's finance costs has been restated following the change in accounting policy described in note 1 on page 115.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. TAXATION

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Research and development tax credits are recognised within current tax when they can be reasonably estimated.

	2017 £000s	2016 £000s
Corporation tax credit received	**362**	468
Total tax recognised in statement of comprehensive income	**362**	468

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

	2017 £000s	2016 £000s
Loss on ordinary activities before taxation	**(79,249)**	(23,422)
Loss on ordinary activities multiplied by the standard rate of corporation taxation in the UK of 19.25% (2016: 20%)	**15,255**	4,684
Taxation effects of:		
Expenses not deductible for tax purposes	**(7,930)**	(15)
Tax losses not recognised (see note 17)	**(7,325)**	(4,669)
Research and development tax credit	**362**	468
Total tax credit for the year	**362**	468

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

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

6. LOSS PER SHARE

Basic loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For all periods presented, the Group's potentially dilutive ordinary share equivalents (being share options issued under equity-settled share-based payment schemes, the convertible loans, and share options issued to Hancock British Holdings Limited under the royalty financing arrangement) reduce the loss per share and have therefore not been included in determining the total weighted average number of ordinary shares outstanding for the purposes of calculating diluted loss per share.

	2017 £000s	2016 £000s
Loss for the purposes of basic and diluted earnings per share	**78,887**	22,954
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share (number in thousands)	**4,322,854**	2,472,762
Basic and diluted loss per share (pence)	**1.82**	0.93

7. INTANGIBLE ASSETS

EXPLORATION COSTS AND RIGHTS
Costs arising from exploration and evaluation activities are accumulated separately for each area of interest and only capitalised as part of intangible assets where such costs are expected to be recouped through successful development. Expenditure capitalised comprises direct costs that have a specific connection with a particular area of interest.

Capitalised expenditure in respect of areas of interest is written off in the income statement when the above criteria do not apply or when the Directors assess that the carrying value may exceed the expected recoverable amount. Capitalised costs in respect of an area of interest that is abandoned are written off in the period in which the decision to abandon is made.

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

BUSINESS COMBINATIONS AND GOODWILL
On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair value of identifiable net assets acquired is recognised as goodwill. Goodwill arising on consolidation is recognised as an asset and allocated to cash-generating units for the purpose of impairment testing. Any goodwill recognised is stated at cost less accumulated impairment and any impairment is recognised immediately in the income statement and is not subsequently reversed.

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

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

IMPAIRMENT
At each reporting date, the Group assesses whether there is any indication that any of its intangible assets may be impaired. Where an indication of impairment exists (or, on an annual basis in the case of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. INTANGIBLE ASSETS CONTINUED

Year ended 31 December 2017	Exploration costs and rights £000s	Goodwill £000s	Other intangibles £000s	Total £000s
Net book value				
At 1 January 2017	**140,443**	**6,643**	**3,118**	**150,204**
Additions	**2,254**	**–**	**4,975**	**7,229**
Amortisation for the year	**–**	**–**	**(26)**	**(26)**
Transfers to property, plant and equipment	**(142,697)**	**–**	**–**	**(142,697)**
At 31 December 2017	**–**	**6,643**	**8,067**	**14,710**
– cost	**–**	**6,643**	**8,097**	**14,740**
– accumulated amortisation	**–**	**–**	**(30)**	**(30)**

Year ended 31 December 2016	£000s	£000s	£000s	£000s
Net book value				
At 1 January 2016	128,936	6,643	2,191	121,721
Additions	11,307	–	927	12,234
At 31 December 2016	140,443	6,643	3,118	150,204
– cost	140,443	6,643	3,197	150,283
– accumulated amortisation	–	–	(79)	(79)

IMPAIRMENT OF INTANGIBLE ASSETS
The Group is required to consider whether any impairment may exist in each of its intangible assets. As a result the Group was required to estimate the value in use of each of these assets based on predicted future cash flows to compare to the assets' carrying values. The estimation of these future cash flows is inherently uncertain and the use of different assumptions could lead to an impairment being recognised.

All of the net book value of goodwill relates to the Group's acquisition of York Potash Limited (the legal entity developing the Project) in January 2011.

Recoverable amount has been assessed using fair value less costs of disposals based on discounted cash flow techniques where the resulting estimate is based on the detailed long-term production plan which was made public as part of the Group's stage 1 financing. The lowest-output future production plan in that document calculated a net present value of the Project of US$7.1 billion as at October 2016. A discount rate of 10% (which is considered to be appropriate for a project of this nature and size and consistent with industry norms), was applied in calculating that valuation. No reasonably possible change in the key assumptions on which the goodwill's recoverable amount is based would cause its value to fall short of its carrying amount as at 31 December 2017.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less depreciation and any recognised impairment losses. Cost includes all expenditure that is directly attributable to the acquisition or construction of these items and, for assets that take a substantial period of time to get ready for their intended use, borrowing costs. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the costs can be measured reliably. All other costs, including repairs and maintenance costs are charged to the income statement in the period in which they are incurred.

Capital works in progress include all spend directly attributable to the development of the Project, including buildings, civil works, equipment, labour, direct services and professional fees. These assets are not depreciated. At the point in time in the future when the Project commences production, all assets within this category will be transferred to appropriate separate asset classes and depreciation will commence from that point.

The plant and equipment category currently represents assets used for generally administrative purposes and which are not directly involved in development of the Project, including the Group's head office leasehold improvements and IT hardware. Depreciation is provided on all assets within this category over the estimated useful lives of the assets, which are generally between three and five years. Freehold land is not depreciated.

Year ended 31 December 2017	Freehold land £000s	Plant and equipment £000s	Capital works in progress £000s	Total £000s
Net book value				
At 1 January 2017	**6,093**	**45**	**–**	**6,138**
Additions	**23,606**	**3,145**	**131,318**	**158,069**
Depreciation for the year	**–**	**(273)**	**–**	**(273)**
Transfers from intangible assets	**–**	**–**	**142,697**	**142,697**
At 31 December 2017	**29,699**	**2,917**	**274,015**	**306,631**
– cost	**29,699**	**3,612**	**274,015**	**307,326**
– accumulated depreciation	**–**	**(695)**	**–**	**(695)**

Year ended 31 December 2016	£000s	£000s	£000s	£000s
Net book value				
At 1 January 2016	1,765	84	–	1,849
Additions	4,328	18	–	4,346
Depreciation for the year	–	(57)	–	(57)
At 31 December 2016	6,093	45	–	6,138
– cost	6,093	766	–	6,859
– accumulated depreciation	–	(721)	–	(721)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9. RESTRICTED CASH

Restricted cash represents amounts set aside by the Group in bank accounts and which are not available for general use due to contractual restrictions. Amounts are reclassified from restricted cash to cash and cash equivalents when the contractual restrictions expire.

	2017 £000s	2016 £000s
US Dollar amounts in relation to convertible loans coupon payments	**39,234**	82,924
Sterling amounts for local authorities' security requirements	**35,255**	–
Total restricted cash	**74,489**	82,924

US Dollar amounts reported by the Group are in relation to the US$400 million convertible loans, as further described in note 13 on page 126. Sterling amounts are in respect of local authorities' security requirements which reflect a combination of providing environmental restoration for construction works and the security requirements of the Section 106 agreements. All amounts are classified as non-current except for those amounts which are expected to be released back to the Group within the next 12 months.

10. SHARE CAPITAL

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments (generally ordinary shares) issued by the Group are recorded at the proceeds received, with the par value of shares issued being recorded within ordinary share capital and any surplus, net of any direct issue costs, being recorded in the share premium account.

The Company has only one class of share capital, being ordinary shares with a par value of 0.25p each. Shares included in the table below are all allotted, issued and fully paid up.

	Number of shares thousands	Ordinary share capital £000s
At 1 January 2016	2,294,745	5,737
£370 million equity issuance	1,850,895	4,627
Allotted in respect of vested share incentives	6,225	16
Allotted to employee benefit trust	12,649	32
At 31 December 2016	4,164,514	10,412
Allotted on conversion of convertible loans	**291,287**	**728**
Allotted in respect of vested share incentives	**1,126**	**3**
Allotted to employee benefit trust	**6,178**	**15**
At 31 December 2017	**4,463,105**	**11,158**

At 31 December 2017 the following number of ordinary shares were contingently issuable depending on the achievement of conditions or exercise of options by the counterparties:

	2017 thousands	2016 thousands
Convertible loans	**1,009,103**	1,300,390
Hancock US$50 million equity derivative	**200,077**	200,077
Employee share options	**40,377**	60,956
Employee senior awards	**10,790**	9,840
Total contingently issuable shares	**1,260,347**	1,571,263

11. 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 to the income statement on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. For employees employed directly in relation to the Project, any charge in relation to options or awards held by them is capitalised as part of additions to property, plant and equipment.

At each reporting date, the Group revises its estimates of the number of options and awards that are expected to vest and immediately recognises any impact of the revision to original estimates.

The accumulated expense recorded prior to vesting in respect of each share-based payment is recognised within the share-based payment reserve and reclassified to share capital upon the issuance of the underlying shares. If fully vested share options are not exercised and expire then the accumulated expense in respect of these is reclassified to accumulated losses.

The Group operates three equity-settled share-based payment arrangements as part of its employee remuneration strategy which are detailed below. The total expense recognised within the income statement in relation to equity-settled share-based payment transactions in the year is £822,000 (2016: £884,000). Further amounts of £1,217,000 (2016: £127,000) have been capitalised within property, plant and equipment (2016: intangible assets) in relation to the fair value of share-based payments earned by employees who are employed solely on direct development work on the Project.

Share options

The Group's share option scheme provides for the grant of share options to certain parties at stipulated exercise prices. The options are generally conditional upon the completion of a set service period (between one and three years) and typically expire ten years after grant date. The Group used the Black-Scholes model to value the share options that it awarded under the scheme. The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 3.9 years (2016: 3.1 years) and exercise prices between 10.2p-43.7p (2016: 10.2p-43.7p). For the options exercised during 2016, the weighted average share price at the date of exercise was 22.86p.

	2017		2016	
	Number of options thousands	**Weighted average exercise price pence**	Number of options thousands	Weighted average exercise price pence
Outstanding at 1 January	**60,956**	**33.04**	67,916	32.39
Granted	**–**	**–**	2,500	35.00
Forfeited/lapsed	**(20,579)**	**36.45**	(5,050)	30.63
Revaluation	**–**	**–**	1,815	–
Exercised	**–**	**–**	(6,225)	19.37
Outstanding at 31 December	**40,377**	**31.30**	60,956	33.04
Exercisable at 31 December	**36,321**	**31.20**	55,554	33.10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. SHARE-BASED PAYMENTS CONTINUED

Senior awards

The senior awards scheme provides for grants of awards in the form of conditional free shares or nil cost options to certain senior employees in the Group. Shares in relation to the awards vest to participants upon the Group's achievement of strategic milestones to which the individuals directly contribute. The fair value of awards made under the scheme is equal to the share price on the grant date of the awards. Movements in the number of shares awarded under the scheme are as follows:

Number of ordinary share awards (thousands)	2017	2016
Outstanding at 1 January	**9,840**	18,167
Granted	**3,200**	11,858
Vested	**(1,126)**	(11,505)
Forfeited	**(1,124)**	(8,680)
Outstanding at 31 December	**10,790**	9,840

Employee benefit trust awards

The Group operates an employee benefit trust award scheme in the form of conditional free shares which are granted to all employees (although employees remain liable for any personal tax consequences of the grant). The vesting of the shares to employees is conditional upon employees' continued employment with the Group and the achievement of key Group-level strategic milestones (principally, shaft-sinking, the completion of stage 2 financing and first commercial ore sale). The fair value of awards made under the scheme is equal to the share price on the grant date of the awards. Movements in the number of shares awarded under the scheme are as follows:

Number of ordinary share awards (thousands)	2017	2016
Outstanding at 1 January	**3,119**	–
Granted	**7,328**	4,678
Forfeited	**(186)**	(1,559)
Outstanding at 31 December	**10,261**	3,119

12. PROVISIONS

The Group is required to rehabilitate sites and associated facilities during construction and at the end of their lives to a condition acceptable to the relevant authorities in compliance with licence requirements and other commitments made to stakeholders. The costs associated with these obligations are provided for in the accounting period when the obligation arising from the related disturbance occurs. Such costs do not include any additional obligations which are expected to arise from disturbance expected to be caused in future years.

Provisions are initially recognised at the net present value of the future cash flows associated with them. When provisions are initially recognised, the corresponding cost is capitalised as an asset within property, plant and equipment, representing part of the cost of acquiring the future economic benefits of the operation.

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

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

12. PROVISIONS CONTINUED

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

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

13. CONVERTIBLE LOANS

Convertible loans represent liabilities entered into by the Group which are principally loans that require repayment, but which may ultimately be settled by conversion into shares at the option of the Group and/or counterparty based on the terms of a conversion element which is written into the terms of the loan contract.

Convertible loans are assessed according to the substance of the contractual arrangements. The conversion element of each agreement is split out of the host loan and is classified as a liability or equity on the basis of the contractual characteristics of the conversion features. Conversion features of convertible loans denominated in the Group's functional currency of Sterling are typically classified as equity amounts and not re-measured while conversion features of convertible loans denominated in a currency other than Sterling are classified as derivative financial instruments.

All transaction costs that are directly attributable to the issuance of the convertible loans are deducted from the initial carrying value of the host loan. These transaction costs are amortised in line with the host loan and recognised as part of finance costs.

At inception the conversion element is separated from the host loan and is assigned a fair value based on an appropriate fair-valuation technique. The initial carrying amount of the host loan is equal to the funds raised less the fair value attributable to the conversion option at inception and less transaction costs. The host loan is held at amortised cost and measured using the effective interest rate method, with all interest being charged to finance costs.

Conversion elements that are derivative instruments are re-measured to fair value at each balance sheet and conversion date with any movement in fair value being recorded in finance costs.

Upon conversion, the carrying value of the host loan and conversion derivative is extinguished from liabilities and reclassified into equity as share capital and share premium.

FAIR VALUE ESTIMATION OF THE EMBEDDED DERIVATIVE

The Group is required to apply judgement in estimating the fair value of the embedded derivative at each point in time. Further information about the nature and sensitivity of this estimate is provided in note 21 on page 133.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13. CONVERTIBLE LOANS CONTINUED

	2017		2016	
	Host loan £000s	**Derivative £000s**	Host loan £000s	Derivative £000s
Opening balance on 1 January	**278,933**	**42,433**	–	–
Amount initially recognised	**–**	**–**	283,234	36,689
Transaction costs incurred	**–**	**–**	(11,577)	–
Interest charge	**27,671**	**–**	2,839	–
Interest and make-whole payments	**(33,034)**	**–**	–	–
Fair value re-measurement	**–**	**42,498**	–	5,744
Conversions	**(51,001)**	**(36,465)**	–	–
Foreign exchange revaluation	**(21,710)**	**–**	4,437	–
Closing balance on 31 December	**200,859**	**48,466**	278,933	42,433

On 28 November 2016 the Group issued US$400 million of seven year, 8.5% quarterly coupon US Dollar-denominated convertible loans at par, receiving gross proceeds of £319,923,000. The key terms of the convertible loans are that at any date subsequent to 8 January 2017 up until maturity a loanholder may convert their loans into ordinary shares in the Company at a conversion price of US$0.31 per share.

If a loanholder 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 loans until 28 November 2018. The Group also has a call option to redeem all loans at par should the Company's share price consistently exceed US$0.54 from 19 December 2018 onwards. Loanholders may not request early cash-repayment of their 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, which is disclosed as part of restricted cash. The Group is not able to use this restricted cash for any purpose other than the payment of quarterly coupons and make-whole payments.

Due to the conversion terms of the loans leading to the issuance of a fixed number of ordinary shares in the Company in return for the extinguishment of the bonds whose value is variable in terms of the Company's functional currency of Sterling, the Group has accounted for the bonds as a host loan instrument containing an embedded derivative liability in respect of the conversions features.

During 2017, conversion notices in respect of 22.4% of the US$400 million convertible loans were delivered by convertible loanholders to the Group, leading to the creation of 291,287,368 new ordinary shares in the Company.

14. ROYALTY FINANCING AGREEMENT

ACCOUNTING FOR ROYALTY FINANCING AGREEMENT

The Group entered into a royalty financing agreement during 2016. Significant judgement is required in determining how the agreement should be accounted for due to the lack of explicit guidance for these types of arrangements under IFRS. Based on the precise contractual terms of the agreement, the 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*. Furthermore, the Group has concluded that prior to drawdown occurring the agreement is analogous to a loan commitment and therefore no recognition of it is necessary in the financial statements until drawdown occurs.

LOAN COMMITMENTS

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

14. ROYALTY FINANCING AGREEMENT CONTINUED

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 US$250 million in return for future royalty payments amounting to 5% of gross revenues on the first 13 million tonnes of product sold in each calendar year and a further 1% of gross revenues on sales in excess of 13 million tonnes, for the life of the Project.

Drawdown of the US$250 million consideration is subject to certain conditions precedent being met, principally the Group giving notice to Hancock that it has expended US$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 Group has until October 2020 to achieve these conditions.

The agreement also commits Hancock to subscribe for 200 million new ordinary shares in the Company for an additional consideration of US$50 million at the time of drawdown of the royalty consideration. A derivative liability (2016: asset) is recognised in respect of this commitment and its fair value is measured as the difference between the fair value of the US$50 million that will be received and the fair value of 200 million new ordinary shares that will be issued on the drawdown date. Further information about the fair value estimation of this derivative is provided in note 21 on page 133.

15. TRADE AND OTHER PAYABLES

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

	2017 £000s	2016 £000s
Trade payables	**2,997**	243
Taxation and social security	**278**	170
Accruals	**26,409**	5,441
Total trade and other payables	**29,684**	5,854

16. NET CASH

	2017 £000s	2016 £000s
Opening balance on 1 January	**386,336**	28,345
Net (decrease)/increase in cash and cash equivalents	**(17,213)**	229,397
Net cash flows from restricted cash and bank deposits	**(156,225)**	401,767
New debt issued	**–**	(270,909)
Interest expense on convertible loans	**(27,671)**	(2,839)
Interest paid on convertible loans	**33,034**	–
Conversions of convertible loans	**51,001**	–
Foreign exchange differences	**(1,650)**	575
Closing balance on 31 December	**267,612**	386,336

Net cash is defined by the Group as being the total value of cash and cash equivalents, bank deposits and restricted cash, less all interest-bearing debt. Interest-bearing debt includes only the host loan element of the US$400 million convertible loans and not the embedded conversion derivative on the basis that the Group has no obligation to cash-settle the embedded derivative.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17. DEFERRED TAXATION

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

Deferred tax is determined using tax rates and laws that have been enacted (or substantially enacted) by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

The following table shows the nature of deferred tax assets/(liabilities) recognised by the Group:

	Non-current assets £000s	Convertible loans £000s	Tax losses £000s	Net total £000s
At 1 January 2016	(6,580)	–	6,580	–
(Charged)/credited to income statement	122	(9,187)	9,065	–
At 31 December 2016	(6,458)	(9,187)	15,645	–
(Charged)/credited to income statement	**(4,290)**	**5,381**	**(1,091)**	**–**
At 31 December 2017	**(10,748)**	**(3,806)**	**14,554**	**–**

All deferred tax balances arise from timing differences in relation to UK corporation taxes and are expected to be able to be offset between companies. Deferred tax assets in respect of tax losses are only recognised to the extent that they offset deferred tax liabilities.

In addition to those tax losses recognised above, the Group has further unused UK tax losses which would represent a deferred tax asset of £9,716,000 (2016: £2,297,000). These losses have not been recognised due to uncertainty over the availability of future taxable profits against which to set them.

In the UK tax losses generally have no expiry. However for companies which have not yet begun formal trading (including the Group's main subsidiary), only expenditure from the seven years prior to the date of commencement of trade are available for future use. Consequently, £1,129,000 of the potential deferred tax asset in respect of unrecognised losses noted above are expected to expire before the expected commencement of trading and therefore will likely not be available for use by the Group.

18. RELATED PARTY TRANSACTIONS

There have been no material related party transactions in the year ended 31 December 2017 (2016: nil), except for key management compensation. The key management compensation below includes eight (2016: seven) Sirius Minerals Plc Directors and three (2016: four) further executive management employees who are not Sirius Minerals Plc Directors.
Key management personnel received the following compensation during the period:

	2017 £000s	2016 £000s
Salaries and short-term benefits	**4,415**	1,482
Post-employment benefit contributions	**11**	9
Share-based payments	**1,431**	581
Compensation for loss of office	**–**	157
Total key management compensation	**5,857**	2,229

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

19. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

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.

The Group leases certain buildings under operating lease agreements. The lease terms are between two and fifteen years and the majority of agreements are renewable at the end of the lease period, at market rate. The lease expenditure charged to the income statement during the year is disclosed in note 2 on page 117.

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

	2017 £000s	2016 £000s
No later than 1 year	**376**	185
Later than 1 year and no later than 5 years	**1,800**	249
Later than 5 years	**1,925**	–
Total amounts due under operating leases	**4,101**	434

Capital expenditure commitments and contingent liabilities

At 31 December 2017 the Group had contracted but unrecognised capital expenditure commitments of £20,806,000. The Group has no other commitments or contingent liabilities at 31 December 2017 (31 December 2016: nil).

20. POST BALANCE SHEET EVENTS

On 14 February 2018 the Group announced that it had signed a design and build contract with DMC Mining Services UK Ltd for the construction for the Project's shafts. The target price of this contract is consistent with the previously announced allocated Project budget.

21. FINANCIAL RISK MANAGEMENT

The main financial risks faced by the Group relate to the availability of funds to meet business needs (liquidity risk) and fluctuations in foreign exchange rates (market risk).

a. Liquidity risk and capital management

Liquidity risk

The Group's policy on overall liquidity is to ensure that it can call on sufficient funds to facilitate all ongoing operations and planned expansion of the Project on its optimal production timetable.

The Group monitors its levels of working capital and financial investments to ensure that it can meet its payments as they fall due. The following table shows the gross contractual maturities of the Group's recognised financial liabilities, including unrecognised future interest payments:

31 December 2017	**Trade and other payables £000s**	**Convertible loans £000s**	**Total £000s**
Amount due within 1 year or less	**29,387**	**19,556**	**48,943**
Amount due within 1-2 years	**–**	**19,556**	**19,556**
Amount due within 2-5 years	**–**	**58,669**	**58,669**
Amount due after 5 years	**–**	**249,634**	**249,634**
Total contractual cash flows	**29,387**	**347,415**	**376,802**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21. FINANCIAL RISK MANAGEMENT CONTINUED

31 December 2016	Trade and other payables £000s	Convertible loans £000s	Total £000s
Amount due within 1 year or less	5,854	27,632	33,486
Amount due within 1-2 years	–	27,632	27,632
Amount due within 2-5 years	–	82,895	82,895
Amount due after 5 years	–	380,344	380,344
Total contractual cash flows	5,854	518,503	524,357

All cash flows contractually due in respect of the convertible loans until the end of 2019 will be settled with the Group's restricted cash.

Capital management

The Group's objectives when managing capital are to ensure that it is best placed to further its development of the Project, whilst also safeguarding the Group's ability to continue as a going concern. The Group defines capital as being cash and cash equivalents plus bank deposits. The Board of Directors monitors the level of capital as compared to the Group's commitments and approves plans to adjust the level of capital accordingly in the best interests of shareholders. The Group is not subject to any externally imposed capital requirements.

As part of the annual budgeting and long-term planning process the Group's cash flow forecast is reviewed and approved by the Board. The cash flow forecast is updated on a monthly basis taking account of the latest expenditure forecasts. Based on the size and timing of the forecast expenditures, the Group adjusts the mix of holdings of its cash and cash equivalents and bank deposits in order to ensure that it has sufficient liquidity to meet its expenditures, whilst maximising the return on its funds, within the bounds of the Group's Board-approved treasury policy.

b. Foreign currency exchange rate risk

The Group's operations are essentially based in the United Kingdom and it is expected that future revenues will be denominated in US Dollars. The majority of the Group's operating and capital expansion costs are denominated in Sterling although a significant portion of capital expansion costs are expected to be denominated in Euros and Canadian Dollars. The Group's debt financing is denominated in US Dollars.

The table below shows the currency denomination of the Group's recognised financial instruments:

31 December 2017	**Cash and cash equivalents £000s**	**Bank deposits £000s**	**Restricted cash £000s**	**Trade and other payables £000s**	**Derivatives £000s**	**Convertible loans £000s**	**Total £000s**
Sterling	**147,993**	**60,063**	**35,255**	**(23,032)**	**–**	**–**	**220,279**
US Dollars	**69,679**	**59,391**	**39,234**	**(196)**	**(10,033)**	**(249,325)**	**(91,250)**
Euros	**9,064**	**30,111**	**–**	**(4,932)**	**–**	**–**	**34,243**
Canadian Dollars	**8,733**	**8,885**	**–**	**(1,200)**	**–**	**–**	**16,418**
Other	**63**	**–**	**–**	**(27)**	**–**	**–**	**36**
Total	**235,532**	**158,450**	**74,489**	**(29,387)**	**(10,033)**	**(249,325)**	**179,726**

31 December 2016	Cash and cash equivalents £000s	Bank deposits £000s	Restricted cash £000s	Trade and other payables £000s	Derivatives £000s	Convertible loans £000s	Total £000s
Sterling	158,262	200,095	–	(3,397)	–	–	354,960
US Dollars	101,851	122,093	82,924	(2,457)	1,041	(321,366)	(15,914)
Euros	28	–	–	–	–	–	28
Canadian Dollars	5	–	–	–	–	–	5
Other	11	–	–	–	–	–	11
Total	260,157	322,188	82,924	(5,854)	1,041	(321,366)	339,090

Foreign exchange differences on retranslation of monetary items upon settlement and at period-end is recognised as part of finance costs in the income statement, except for financial assets in a designated cash flow hedge relationship where these differences are recognised as part of other comprehensive income.

21. FINANCIAL RISK MANAGEMENT CONTINUED

The Group is exposed to foreign currency transaction risk on transactions that are denominated in currencies other than the proceeds of the stage 1 financing (Sterling and US Dollars). It is the Group's policy to hedge foreign currency exposures associated with committed or probable expenditures in order to mitigate this potential transaction risk. The Group achieves this by purchasing cash and bank deposits in the relevant foreign currencies ahead of the occurrence of the transactions and simultaneously designating these foreign cash and bank deposits as hedging instruments in cash flow hedge relationships. As a result the Group is able to significantly mitigate its exposures to movements in the Sterling/Euro and Sterling/Canadian Dollar exchange rates, both in its expected cash flows and upon its income statement.

The Group is also exposed to foreign currency translation risk since its convertible loan debt financing (net of surplus cash that the Group holds which was received on issuance of the convertible loan) is denominated in US Dollars. It is the Group's policy to not hedge this risk. As a result, movements in the Sterling/US Dollar exchange rate will impact upon the Group's reported financial position and performance. A strengthening of the US Dollar against Sterling would have an adverse impact on reported losses and the Group's financial position. It is expected that this exposure will reduce over time by conversion of the convertible loans (which will crystallise all currency fluctuations in equity without requiring any cash settlement by the Group), meaning that this is not expected to give rise to a material cash flow risk.

The impact of a 10% weakening in the Sterling/US Dollar exchange rate compared to the rate prevailing at 31 December 2017 would be an increase in reported loss of £9,125,000 (December 2016: £1,440,000) and a reduction of £9,126,000 (December 2016: £1,456,000) to the Group's reported equity.

The Group has put in place a foreign exchange risk management system within its intercompany borrowing structure to minimise the risk that any adverse fluctuations in the Sterling/US Dollar exchange rate indicated by the sensitivities in the paragraph above could give rise to any material cash tax exposures.

c. Interest rate risk

The Group's convertible loans have a fixed rate of interest of 8.5% and so interest payments due under these loans are not exposed to any cash flow risk arising from fluctuations in market interest rates. The Group has no other interest-bearing liabilities.

Cash and cash equivalents, bank deposits and restricted cash held by the Group all earn interest which is either floating or fixed for no longer than one year. The Group seeks to invest its interest-bearing financial assets in such a way so as to maximise the interest earned based on prevailing market rates, within the bounds of first minimising credit risk associated with the investments and ensuring that the investments are sufficiently liquid to allow the Group to service its day-to-day operating and expected capital expenditures.

d. Credit risk

The Group's credit risk is primarily attributable to its cash and cash equivalents, bank deposits and restricted cash. The Group's maximum credit exposure is equal to the carrying value of its financial assets as reported in the statement of financial position.

This risk is mitigated by placing bank deposits and entering into financial instruments only with approved institutions who have an S&P credit rating of at least A-. Furthermore, to prevent concentration risk, the Group's treasury policy mandates that no more than 20% of the Group's surplus funds can be placed with any single institution (other than the Group's primary relationship bank).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21. FINANCIAL RISK MANAGEMENT CONTINUED

e. Financial instruments

The carrying value of each class of the Group's recognised financial instruments is detailed below:

31 December 2017	**Designated into cash flow hedge relationships £000s**	**Loans and receivables £000s**	**At fair value through profit and loss £000s**	**Financial liabilities at amortised cost £000s**	**Total £000s**
Financial assets					
Restricted cash	**–**	**74,489**	**–**	**–**	**74,489**
Bank deposits	**38,962**	**119,488**	**–**	**–**	**158,450**
Cash and cash equivalents	**16,407**	**–**	**219,125**	**–**	**235,532**
	55,369	**193,977**	**219,125**	**–**	**468,471**
Financial liabilities					
Convertible loans	**–**	**–**	**(48,466)**	**(200,859)**	**(249,325)**
Derivative financial instrument	**–**	**–**	**(10,033)**	**–**	**(10,033)**
Trade and other payables	**–**	**–**	**–**	**(29,387)**	**(29,387)**
	–	**–**	**(58,499)**	**(230,246)**	**(288,745)**
Net financial assets/(liabilities)	**55,369**	**193,977**	**160,626**	**(230,246)**	**179,726**

31 December 2016	Loans and receivables £000s	At fair value through profit and loss £000s	Financial liabilities at amortised cost £000s	Total £000s
Financial assets				
Derivative financial instrument	–	1,041	–	1,041
Restricted cash	82,924	–	–	82,924
Bank deposits	322,188	–	–	322,188
Cash and cash equivalents	260,157	–	–	260,157
	665,269	1,041	–	666,310
Financial liabilities				
Convertible loans	–	(42,433)	(278,933)	(321,366)
Trade and other payables	–	–	(5,854)	(5,854)
	–	(42,433)	(284,787)	(327,220)
Net financial assets/(liabilities)	665,269	(41,392)	(284,787)	339,090

The carrying value of all the Group's financial assets and liabilities is equivalent to their fair value except for the convertible loans (where the host loan element is measured at amortised cost). The fair value of the convertible loans at 31 December 2017 was £286,514,000 (2016: £334,679,000) compared to the stated carrying value of £249,325,000 (2016: £321,366,000). The traded market price of the Group's convertible loan at 31 December 2017 was 124.5 (2016: 102.9).

21. FINANCIAL RISK MANAGEMENT CONTINUED

f. Fair value

The Group is required to exercise judgement 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 the Group is required to identify appropriate valuation models in calculating these fair values. In making its estimates, priority is given to inputs based on actual market data and transactions, although these valuations nevertheless require some level of subjective assessment and the use of different valuation assumptions could have a significant impact upon the Group's reported financial performance and position.

Financial instruments measured at fair value are grouped into one of three levels as set out by IFRS 13 *Fair Value* based on the lowest level input that is significant to the fair value measurement. These levels are as follows:

Level 1 – Quoted prices (unadjusted) based on active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (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.

The only assets or liabilities that the Group has which are measured at fair value are the derivatives associated with the convertible loans and the royalty financing. These have both been assessed to be a level 2 financial liability since the derivatives themselves are not traded on an active market but their fair values are determined by valuation techniques that are based solely on observable market data. The main inputs to the derivatives' valuations are: the traded price of the Group's convertible loans; the traded price of the Group's shares; forward exchange rates and the debt yields of entities with similar credit profiles to the Group.

In order to estimate the fair value of the convertible loans' embedded derivative at any point in time, the Group estimates the fair value of the cash flows due under the host loan at an assumed discount rate that would likely apply to any debt issued by the Group which was not convertible and subtracting this from the market value of the convertible loans (based on the quoted trading price) at the measurement date. In estimating this assumed discount rate, the Group considers publicly quoted bond yield data of comparable entities with similar credit profiles and their prevailing bond yields at the measurement date.

The fair value of the royalty equity investment derivative is estimated as the net present value of the difference between the US$50 million receivable (in Sterling terms) and the 200 million shares to be issued on the royalty drawdown date (whose value is based on their spot price at the measurement date).

The inputs used in the fair valuation estimates of these derivatives exposes the Group to further market risks. Movements in these inputs cause the fair valuation (but not the cash flows) of the derivatives to fluctuate and affect reported finance costs. Increases in the convertible loans' price and share price (which generally move synchronously) would cause an increase in the loss reported from both derivatives while an increase in the discount rate assumed would cause an increase in the loss reported from the convertible loans' embedded derivative. Conversely, a fall in the Group's share price would cause a gain to be reported on these instruments' fair value. The sensitivity of the derivatives' valuation upon the reported loss for the year and total equity resulting from a 10% change in these inputs is as follows:

	2017 £000s	2016 £000s
Convertible loans and share price increase/(decrease)	**33,089/(33,089)**	36,632/(36,632)
Discount rate increase/(decrease)	**8,226/(8,634)**	14,533/(15,650)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22. AUDITOR'S REMUNERATION

Fees payable to the Group's auditor and its associates included in operating costs are as follows:

	2017 £000s	2016 £000s
Audit fees		
Fees payable for the audit of the consolidated financial statements	**95**	78
Fees payable for the audit of the Company's subsidiaries	**50**	37
Fees payable for review of the Group's half-year financial statements	**11**	10
Total audit-related fees	**156**	125
Other fees		
Other tax services	**-**	69
Other assurance services	**348**	320
Total non-audit fees	**348**	389
Total auditor's remuneration	**504**	514

Other assurance services relate to reporting upon the Group's financial position and prospects to support the Group's move from AIM to the Main list of the London Stock Exchange (2017) and the provision of comfort letters in respect of the Group's stage 1 financing prospectus (2016) that the Audit Committee deemed appropriate for the Group's auditor to perform.

23. SUBSIDIARY UNDERTAKINGS

The following table lists all of the Group's subsidiary undertakings. The Group owns 100% of the ordinary share capital and consolidates the full results of each of these entities. The registered office of these subsidiaries is Third Floor, Greener House, 68 Haymarket, London, SW1Y 4RF (3f GH) unless otherwise stated.

Name	Country of incorporation	Activity	Registered address
York Potash Limited	England	Project development	3f GH
York Potash Processing & Ports Limited	England	Project development	3f GH
York Potash Holdings Limited	England	Holding company	3f GH
Sirius Minerals Holdings Limited*	England	Holding company	3f GH
Sirius Exploration Limited	England	Dormant	3f GH
Sirius Resources Limited	England	Dormant	3f GH
Sirius Potash Limited	England	Dormant	3f GH
SACH 1 Limited*	England	Intercompany financing	3f GH
SACH 2 Limited*	England	Intercompany financing	3f GH
Sirius Minerals Finance Limited	Jersey	Fundraising	47 Esplanade, St Helier, Jersey, JE1 0BD
Auspotash Corporation Limited*	Canada	Dormant	102A-1075 Bay Street, Suite 414, Toronto, Ontario, M5S 2B2, Canada
Dakota Salts LLC	USA	Employee payroll	811 East Interstate Avenue, Bismarck, North Dakota, 58503, USA
Sirius Minerals Singapore Pte Ltd	Singapore	Employee payroll	80 Robinson Road, Singapore, 068898

* Represents those companies whose shares are directly held by Sirius Minerals Plc.

During 2017 the Group completed the winding up of its dormant subsidiary Sirius Minerals (Australia) Pty Limited (registered address: 5 Infinity Court, Coomera, Queensland, 4209, Australia) which led to the recycling of £42,000 of accumulated foreign exchange translation gains out of other reserves through the income statement.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

ASSETS	Note	**2017 £000s**	2016 £000s
Non-current assets			
Property, plant and equipment		**63**	2
Investments	D	**249,631**	81,803
Restricted cash		**19,678**	55,283
Total non-current assets		**269,372**	137,088
Current assets			
Derivative financial instrument	E	**–**	1,041
Restricted cash		**19,556**	27,641
Other debtors		**1,522**	330
Loans to subsidiaries	F	**519,280**	90,078
Bank deposits		**119,454**	322,188
Cash and cash equivalents		**210,700**	258,493
Total current assets		**870,512**	699,771
TOTAL ASSETS		**1,139,884**	836,859
EQUITY AND LIABILITIES			
Equity			
Share capital	10	**11,158**	10,412
Share premium account		**695,356**	590,723
Share-based payment reserve	11	**6,053**	6,114
Treasury shares		**(27)**	–
Accumulated losses		**(259,333)**	(186,601)
Total equity		**453,207**	420,648
Current liabilities			
Derivative financial instruments	E	**58,499**	42,433
Loans from subsidiaries	G	**625,439**	370,252
Trade and other payables		**2,739**	3,526
Total liabilities		**686,677**	416,211
TOTAL EQUITY AND LIABILITIES		**1,139,884**	836,859

Included within accumulated losses is a loss for the year of £74,690,000 (2016: loss for the year of £107,596,000).

The financial statements on pages 135 to 139 were issued and approved by the Board of Directors on 5 March 2018 and 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 2017

	Note	Share capital £000s	Share premium account £000s	Share-based payment reserve £000s	Treasury shares £000s	Accumulated losses £000s	Total equity £000s
At 1 January 2016		5,737	240,874	7,624	–	(80,037)	174,198
Loss for the year		–	–	–	–	(107,596)	(107,596)
Transactions with owners:							
Share issue	10	4,629	347,281	–	–	–	351,910
Share-based payments	11	32	1,418	(1,510)	–	1,032	972
Exercised options	10	14	1,150	–	–	–	1,164
At 31 December 2016		10,412	590,723	6,114	–	(186,601)	420,648
Loss for the year		**–**	**–**	**–**	**–**	**(74,690)**	**(74,690)**
Transactions with owners:							
Shares issued on conversion of convertible loans	10	**728**	**104,484**	**–**	**–**	**–**	**105,212**
Share-based payments	11	**18**	**149**	**(61)**	**(27)**	**1,958**	**2,037**
At 31 December 2017		**11,158**	**695,356**	**6,053**	**(27)**	**(259,333)**	**453,207**

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

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

Treasury shares comprise the par value of all shares issued to the Group's employee benefit trust but not yet awarded to employees.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

A. REFERENCE INFORMATION

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

These financial statements relate to Sirius Minerals Plc, a publicly traded company incorporated and domiciled in England. The registered address is Third Floor, Greener House, 68 Haymarket, London, SW1Y 4RF.

These financial statements present the results of the Company as an individual entity and are prepared on the going concern basis, in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and the Companies Act 2006. These financial statements have been prepared on the going concern basis as detailed in note 1 on page 114 of the consolidated Group financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under the standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of share capital, presentation of a cash flow statement, standards not yet effective and related party transactions. Where required, equivalent disclosures are provided in the consolidated Group financial statements of Sirius Minerals Plc.

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 consolidated financial statements are presented in Sterling (rounded to the nearest thousand), which is the functional currency of the Company.

PRINCIPAL ACCOUNTING POLICIES

The accounting policies which have been applied by the Company when preparing the financial statements are in accordance with FRS 101. FRS 101 is based on the recognition and measurement requirements of EU-adopted IFRS, under which the consolidated Group financial statements have been prepared. As a result, the accounting policies of the Company are consistent with those used and disclosed in the consolidated Group financial statements, except for the policy relating to investments in subsidiaries, which is detailed in note D on page 138.

CHANGE IN ACCOUNTING POLICY

Consistent with the equivalent change in Group accounting policy detailed in note 1 on page 115, during the year the Company elected to change its accounting policy in accounting for foreign exchange revaluation gains and losses in relation to cash and cash equivalents, restricted cash and bank deposits.

The Company has made this restatement from 1 January 2016 in these financial statements. This change in accounting policy has not led to any change in any balance reported within the Company's own financial statements.

JUDGEMENTS, ESTIMATES AND UNCERTAINTIES

The preparation of financial statements requires the exercise of judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected. The most significant estimates and judgements relevant to the Company's financial statements are broadly the same as those for the consolidated Group financial statements as detailed in note 1 on page 116. The only additional risk is around that of impairment in investments in subsidiaries, which is detailed further within note D on page 138.

B. PROFIT AND LOSS ACCOUNT

The Company has not presented its own income statement or statement of comprehensive income as permitted by section 408 of the Companies Act 2006. The loss for the Company for the year was £74,690,000 (2016: £107,596,000). Included in the Company's profit and loss account is a charge of £106,000 (2016: £78,000) in respect of the Company's audit fee.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C. STAFF NUMBERS AND COSTS

	2017 Number	2016 Number
Average monthly number of staff (including Directors)	**33**	15

	£000s	£000s
Wages and salaries	**4,697**	1,506
Social security costs	**728**	285
Pension costs	**18**	13
Share-based payments	**624**	797
Total staff costs	**6,067**	2,601

Detailed information concerning Directors' remuneration, interests and options is shown in the table within the Annual report on remuneration which is subject to audit on pages 86 to 98 which forms part of the Annual Report. Details on key management compensation is contained within note 18 on page 128 of the consolidated Group financial statements.

D. INVESTMENTS

Investments are initially stated at cost. Investments are tested for impairment when an indication of impairment becomes apparent. An impairment loss is recognised in the income statement to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future cash flows from the investment.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Company is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

IMPAIRMENT OF INVESTMENTS

At each reporting date, the Company assesses whether there is any indication that any of its investments may be impaired. Where an indication of impairment exists the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount (estimated as the value-in-use of the asset if the carrying value of the subsidiary's' net assets is less than the carrying value of the Company's investment in it) the asset is considered impaired and is written down to its recoverable amount.

The Company is required to exercise judgement in estimating the recoverable value of subsidiaries. Estimation is required with regard to subsidiary's value-in-use in a similar way to that described in note 7 on page 120 in relation to the estimates used in estimating the recoverable value of intangible assets.

Net book value of investments in subsidiaries	2017 £000s	2016 £000s
At 1 January	**81,803**	81,612
Additions	**171,086**	36,880
Impairments recognised	**(3,258)**	(36,689)
At 31 December	**249,631**	81,803

Disclosure of the Company's subsidiaries is given in note 23 on page 134 of the Group's consolidated financial statements. The Directors believe that the carrying value of the investments is supported by the projected discounted cash flows of the subsidiaries which are based on the latest Board-approved budgets.

E. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 £000s	2016 £000s
Hancock equity investment derivative	**(10,033)**	1,041
Convertible loans conversion derivative	**(48,466)**	(42,433)
Total derivative financial assets/(liabilities)	**(58,499)**	(41,392)

The Hancock equity investment derivative liability (2016: asset) is the same as that disclosed in note 14 on page 127 of the Group's consolidated financial statements. The convertible loans conversion derivative is effectively identical to that disclosed in note 13 on page 126 of the Group's consolidated financial statements. Further disclosures in relation to these derivatives are included within note 21 on page 133 of the Group's consolidated financial statements.

F. LOANS TO SUBSIDIARIES

All loans to subsidiaries do not bear interest, are unsecured and are repayable on demand.

G. LOANS FROM SUBSIDIARIES

	2017 £000s	2016 £000s
Loan from Sirius Minerals Finance Limited	**249,632**	370,252
Other loans from subsidiaries	**375,807**	–
Total loans from subsidiaries	**625,439**	370,252

An intercompany loan is in place from Sirius Minerals Finance Limited (SMF) to the Company for the gross proceeds of the US$400 million convertible loans.

The terms of the intercompany loan mirror the terms of the external convertible loans detailed in note 13 to the consolidated Group financial statements. The liability recognised by the Company in its own financial statements reflects the principal amount of all loans, all accrued interest and the gross value of all make-whole payments potentially payable. The intercompany loan has a stated interest rate of 8.5% payable on the outstanding par value of all unredeemed convertible loans held by SMF.

Upon any conversion of the US$400 million convertible loans the Company will receive a redeemable preference share in SMF from external bondholders. These redeemable preference shares are generally redeemed on the day of issuance against the intercompany loan, meaning that the gross intercompany liability faced by the Company continues to mirror the gross contractual liability that the Group has to external bondholders at each point in time.

All other loans from subsidiaries do not bear interest, are unsecured and are repayable on demand.

H. SHARE-BASED PAYMENTS

The total charge for the year in respect of share-based remuneration schemes was £624,000 (2016: £797,000). The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to the share-based payment reserve.

The key elements of each scheme, along with the assumptions employed to arrive at the charge in the profit and loss account, are set out in note 11 to the consolidated Group financial statements.

I. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption available under FRS 101 from disclosing transactions with other Group undertakings. Information on the Group can be found in note 23 on page 134 of the consolidated Group financial statements. There were no other related party transactions during the year other than those already disclosed in note 18 of the consolidated Group financial statements on page 128.

SHAREHOLDER INFORMATION

DIRECTORS

Chairman
Russell Scrimshaw

Executive Directors
Chris Fraser – Managing Director and CEO
Thomas Staley – Finance Director and CFO

Non-Executive Directors
Lord John Hutton
Jane Lodge
Louise Hardy
Keith Clarke, CBE
Noel Harwerth – Senior Independent Director

Company Secretary
Nick King

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SOLICITORS
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BANKERS
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1 Churchill Place
London
E14 5HP

SPONSOR
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25 Bank Street
Canary Wharf
London
E14 5JP

BROKERS
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J.P. Morgan Cazenove
25 Bank Street
Canary Wharf
London
E14 5JP

WH Ireland
20 Martin Lane
London
EC4R 0DR

ANNUAL GENERAL MEETING 2018
Date and time: 31 May 2018, 1pm
Venue: The Events Centre
The Principal York
Station Road
York
YO24 1AA

GLOSSARY

AGM	Annual General Meeting
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CO_2e	CO_2 equivalent
CSR	corporate social responsibility
D-Walling	diaphragm walling
EBIT	company's earnings before interest and tax (EBIT)
EBITDA	company's earnings before interest, taxes, depreciation and amortisation (EBITDA)
EC	electric conductivity
FDI	foreign direct investment
FSA	Financial Services Authority
GHG	greenhouse gases
GWP	global warming potential
JORC	Australasian Joint Ore Reserves Committee
LSE	London Stock Exchange
LTIP	long-term incentive plan
MHF	materials handling facility
MOP	muriate of potash – common name for potassium chloride
Mtpa	million tonnes per annum
MTS	mineral transport system
NYMA	North Yorkshire Moors Association
NYMNP	North York Moors National Park
NYMNPA	North York Moors National Park Authority
POLY4	Sirius Minerals' trademarked polyhalite product
Prospectus	prospectus issued by the Company on 25 April 2017 for the admission to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities (available on the Company's website, siriusminerals.com)
RNS	regulated news service
Robust	as set out on page 19
SOP	sulphate of potash
SOP-M	sulphate of potash and magnesium
STEM	science, technology, engineering and maths (STEM) – government's programme to encourage young people to develop skills in these subjects
TBM	Tunnel boring machines
ToP	take-or-pay in relation to sales agreement – a take-or-pay contract is a rule structuring negotiations between companies and their suppliers. With this kind of contract, the company either takes the product from the supplier or pays the supplier a penalty

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