



AFRICAN POTASH

Annual Report 2015

for the year ended 30 June

African Potash Limited

DIRECTORS AND ADVISERS

Directors

Chris Cleverly
Simon Dorling
Peter Hain
Elias Pungong
Declan O'Brien
Mark Simmonds

Executive Chairman
Non-executive
Non-executive
Non-executive
Non-executive
Non-executive

Registered Office

Richmond House
St Julians Avenue
St Peter Port
Guernsey GY1 1GZ

Nominated Adviser and Joint Broker

Cantor Fitzgerald Europe
One Churchill Place
London E14 5RB

Joint Broker

Cornhill Capital
18 St. Swithins Lane
London EC4N 8AD

Auditor

RSM UK Audit LLP
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Solicitors

Carey Olsen LLP
8-10 Throgmorton Avenue
London
EC2N 2DL

Bankers

Metro Bank PLC
One Southampton Row
London, WC1B 5HA

Registrars

Capita Registrars (Guernsey) Limited
Longue House
Longue House Lane
St Sampsons
Guernsey GY2 4JN

African Potash Limited

Chairman's Statement:

I joined the Board of African Potash in March this year, having been drawn to the Company for two reasons. Firstly, as a veteran of business across Africa it is clear to me that a key requirement for this rapidly developing continent is the ability to feed itself. Africa does not lack land suitable for agricultural deployment, but shortages of fertiliser, and pricing which make fertiliser prohibitively expensive, mean that land is not being effectively utilised; accordingly much of Africa remains reliant on external sources of food when this great continent could become the world's breadbasket. By investing in potash related projects or businesses (with potash remaining an important constituent of fertiliser, African Potash has the potential to be an important player in Africa's green revolution – benefitting the continent and in the process, the Company's shareholders. Secondly, and at this point I owe a huge debt of thanks to the previous leadership team of Ed Marlow and Jean-Pierre Conrad, African Potash has a majority interest in what we believe to be a potentially world class potash asset of its own, the Lac Dinga Potash Project in the Republic of Congo ('the Project' or 'Lac Dinga'). Taking account of these two factors and by implementing a new dual strategy, focussed on unlocking both the short term fundamentals of the African fertiliser market and the longer term value of a domestic potash project, I believe we have a compelling proposition which should benefit our current shareholders and attract new investors to the evolving African Potash story.

In order to execute this strategy, it is of paramount importance to have a team in place with the knowledge and influence to push aggressive growth objectives forward. With this in mind, I am proud to say that we have built a Board with exemplary commodities and African business experience, and perhaps more importantly, a deep and intimate knowledge of doing business in Africa. In October 2015, the Company announced the appointment of four new directors; Mr Elias Pungong, Rt Hon Mark Simmonds, Mr Declan O'Brien and Rt Hon Lord Peter Hain; providing us with a Board comprising pre-eminent figures in the worlds of politics, finance, business and charity. I will expand on each of the appointments in greater detail below.

With a new strategy in place, and an exceptional Board pushing this forward, the Company has delivered numerous notable achievements during the period and in the months post period end, all of which create a foundation for the growth of a potentially significant operator in the African fertiliser industry.

Commercial Agreements

In August 2015 African Potash entered into a trading agreement with the Common Market for Eastern and Southern Africa ('COMESA') and the Mask Africa Crowd Farm Fund Limited ('MACFF'), with a view to creating a vertical platform for the mining, production and distribution of fertiliser, focussed on the COMESA region and beyond. This agreement marked a milestone development in the establishment of the Company's fertiliser operations, giving the Company an entry into the trading sectors of the fertiliser industry to complement its established exploration interests thereby implementing part of its strategy to create a vertical platform for the mining, production and distribution of fertiliser

Under the terms of the deal, African Potash has agreed to supply and deliver at least 500,000 metric tonnes ('MT') of fertilisers on an annual basis for an initial three year period to off-takers identified and introduced by COMESA. With this secured, the Company wasted no time in identifying supply opportunities and entered into a number of Memorandum of Understanding ('MOU') agreements for the supply of 50,000MT in Zambia, 50,000MT in Malawi, 150,000MT in Zimbabwe and 150,000MT in the Democratic Republic of Congo between August and September, underpinning its active growth strategy.

The Company's current focus is now on securing the necessary financing to enable the delivery and roll-out of its fertiliser operations. In line with this a trade finance facility of up to US\$50m (the 'Finance Facility') is currently being arranged through African Potash's exclusive banking adviser Loita Capital Partners International Limited ('Loita'). The Finance Facility will be required until the Company's fertiliser trading operations become self-funding.

Whilst the Finance Facility has taken longer to conclude than initially expected, discussions continue to progress well.

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Chairman's Statement (continued):

Indeed, in October 2015 Loita arranged an off-taker finance facility term sheet (the 'Term Sheet') with Ecobank Malawi (the 'Bank'), to support the conclusion of trading operations. The Term Sheet indicates that the Bank will engage with the Company's off-take partners with a view to providing off-takers finance by way of letters of credit, issued by the Bank on behalf of off-takers. Any letters of credit granted by the Bank in this context will in effect provide a guarantee of payments to African Potash, thereby enabling the Company to finalise its own trade finance facilities.

Importantly, whilst the Company continues to conclude the larger Finance Facility, it has secured a bridge loan of \$1,125,000 to cover short term working capital requirements. This loan has a term of nine months (from December 2015).

African Potash continues to identify means through which it can accelerate its roll-out strategy and in line with this, in December 2015 the Company entered into an agreement with Beryl Holdings Pty Limited ('Beryl Holdings'), a South African investment firm, to collaborate and strengthen its fertiliser trading and delivery capabilities.

Under the terms of this agreement, Beryl Holdings' main fertiliser trading activities (which include trading, logistics and financing) will be restructured and operated via a newly formed Mauritian company, which will become a wholly owned subsidiary of African Potash ("Trading Co"). Beryl Holdings' current shareholding in logistics company, Bollore Logistics South Africa, which forms part of Bollore Africa Logistics, is expected to further enhance the intrinsic value of this partnership, as it is anticipated that this logistics company will enter into a trading relationship with Trading Co.

Separate to agreement with Beryl Holdings, the Company has also signed a further contract with Beryl Holdings for the purchase of 3,000 tonnes of UREA fertiliser stock. The stock has been sold to Windmill (Pvt) Ltd ('Windmill'), a privately-owned fertiliser producer in Southern Africa, thus marking the major milestone of African Potash's first fertiliser sale. This inaugural trade is expected to generate a net revenue of US\$300,000, with payment contracted to take place by 30 January 2016. Importantly African Potash will have no obligation to make any payment to Beryl Holdings until such time as it receives sales proceeds from Windmill.

The Company is now focussed on finalising current agreements and securing new prospective contracts as it continues to build revenue generative, fully integrated fertiliser operations across Africa.

On 16 December 2015 the Company made an investment of \$105,000 in Blenheim Natural Resources Plc ('Blenheim'), an AIM quoted investment company focussed on the mineral exploration, mining and extraction sectors. This establishes a relationship between both parties looking for value opportunities, particularly in Africa, as African Potash continues to build its vertically integrated fertiliser model and seek complementary investment and development opportunities.

Lac Dinga

African Potash retains its interest in the exploration side of the fertiliser industry through its 70% interest in La Société des Potasses et des Mines S.A. ('SPM'), which holds the exclusive right to conduct exploration activities for potash salts over the 702.5 sq km Lac Dinga Project Area ('Lac Dinga' or the 'Project') in highly prospective Kouilou region in the Republic of Congo.

The initial three year licence period expired on 3 December 2015 and is in the process of being renewed. The renewal application was filed in August 2015 and a draft of the renewal decree was forwarded by the Minister of Mines to the Secrétaire Général du Gouvernement on 18 September 2015. Although not yet confirmed, formal approval is expected in due course.

African Potash Limited

Chairman's Statement (continued):

Whilst the Project is still at an early stage of exploration, work conducted to date has returned encouraging results regarding its potential to host significant potash deposits. A drilling campaign undertaken in Q3 2014 confirmed the presence of multiple potash seams with individual sample grades of up to 25% KCl (~15.8% K₂O) received. Furthermore, approximately 250km² of the licence area is interpreted to be underlain by salt-bearing strata, which occurs at depths of about 300m to 420m below surface, and results generated suggested the potash mineralisation to be characteristic of similar commercial deposits in the Congolese coastal basin.

Encouraged by these results, an independent valuation of the licence was commissioned by the board. It is clear that the challenging environment facing many resource projects globally has led to a fall in valuations compared to those at the time of original acquisition of the Lac Dinga project in February 2013. Consequently the board have decided to write down the value of the project from a book value of \$17.5m to \$10m, within the valuation range provided in August 2015.

The Company is currently determining the best ways in which to advance and realise value from Lac Dinga as part of its integrated fertiliser model. The success of the initial programme has significantly de-risked the project and underlined the potential for the establishment of an economic resource in the project area. Planning for the next phase of drilling to enable the Company to issue a maiden resource statement is underway subject to raising sufficient finance to fund the programme.

Board Appointments

As part of the Company's evolution from a pure exploration play to a company which is interested in the full value chain of the fertiliser industry, African Potash has made a number of Board appointments to ensure we have the necessary skill set and experience to drive the scale of growth we are targeting.

In October 2015 the Company appointed Mr Elias Pungong to the Board as a non-executive Director. With a distinguished career spanning 25-years, Mr Pungong has a proven, native understanding of Francophone Africa, and in particular resource development in the region; this will be pivotal in orchestrating the development of the Lac Dinga Project and other potentially compatible resources.

Shortly following this, Mr Declan O'Brien joined the Board as a non-executive Director. As a veteran of the African commodity space, Declan brings with him significant financial and commercial experience which will be invaluable in supporting the Company's development.

In November 2015 Rt Hon Mark Simmonds joined the Board as a non-executive Director. His significant political experience, particularly within Africa, will support the finalisation of current agreements and the negotiation of future contracts.

Finally, the Right Honourable Lord Peter Hain was appointed to the Board as a non-executive Director in December 2015. As a previous Cabinet and government minister Peter has notable experience in diplomacy, negotiation and conflict resolution. He is also involved in multiple charitable organisations and recognises the need for food security in Africa, understanding the crucial role fertiliser will play in achieving this.

As part of this restructured Board, we said goodbye to Ed Marlow and Jean-Pierre Conrad, both of whom have left the Company to concentrate on their other business interests. We would like to extend our thanks again for their commitment shown and wish them the very best in their future endeavours.

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Chairman's Statement (continued):

Financial Results

Following the impairment charge in respect of Lac Dinga of \$7.5m (2014: \$nil impairment), the Company is reporting a loss for the year of \$8.8m compared with a loss of \$1.0m in the prior year. Net Assets have fallen to \$9.5m (2014: \$16.1m) and at 30 June 2015, cash balances were \$0.6m (2014: \$2.2m).

Outlook

Africa is a continent of 1.1 billion people with 60% of the world's undeveloped arable land. As the continent transforms with rapid urbanisation and fast growing economies, the requirement for a developed agriculture industry to feed Africa grows with it. Indeed, the International Monetary Fund estimates that Sub-Saharan Africa is growing most rapidly, with a projected population of 2 billion by 2050, whilst worldwide food production is expected to be needed to increase by an estimated 60-70% to feed a global population of more than 9 billion. In line with this, according to the African Development Bank, the size of Africa's food and agribusiness will be \$1 trillion by 2030 and foreign direct investment in this sector is expected to increase to \$45 billion by 2020. African Potash is committed to being at the fore of this trend.

In order to keep pace with this rapid growth, African Potash, with a newly aligned Board experienced in commodities and African operations, and a diverse portfolio spanning the exploration, extraction and trading sectors of the fertiliser industry, is ideally positioned to meet and deliver on these demands. Fertilisers help maximise agricultural potential and our strategy is centred on ensuring quality fertilisers are readily available for local farmers, crucially at a price which they can afford.

With our maiden fertiliser sale secured and multiple trade agreements in the pipeline – all achieved within less than 5 months of signing the initial supply agreement with COMESA – I truly believe this is a transformational time for African Potash. I believe that you know that you are in the right place at the right time when circumstances and events conspire together to create such rapid and successful change. Looking ahead to 2016 we look forward to finalising current agreements, the renewal of the licence for the Lac Dinga Project, and identifying new development opportunities as we focus on the roll-out of our integrated model.

Finally, I would like to thank my team (internal and external) both in London and in Africa for working so hard and with such commitment. I would also like to thank shareholders for their on-going support and look forward to keeping the market updated with our progress in the New Year.

Chris Cleverly
Executive Chairman

24 December 2015

African Potash Limited

DIRECTORS' REPORT

The directors of African Potash Limited ("African Potash" or the "Company") hereby present their report together with the audited financial statements for the year ended 30 June 2015.

Principal activities, business review and future developments

The Group holds a 70% interest in La Société des Potasses et des Mines SA ("SPM") which holds the Lac Dinga exploration licence and since the year end has commenced fertilizer trading operations.

A review of the Group's activity and prospects is given in the Chairman's Statement on pages 2 to 5. A review of the risks and uncertainties impacting on the Group's long term performance is included in the Corporate Governance report on pages 10 to 12. Details of the Group's exposure to foreign exchange and other financial risks are included in note 3.

Results and dividend

The Group results show a loss after taxation for the year attributable to the equity holders of the Company of \$7.2m (2014:\$1.0m) and to non-controlling interests of \$1.6m (2014: \$nil). The directors are unable to recommend a dividend (2014:\$nil).

Post balance sheet events

Post balance sheet events are set out in note 22.

Directors

The directors who served since 1 July 2014:

| | |
|---|------------------------|
| CJ Cleverly (appointed 3 March 2015) | Executive Chairman |
| JP Conrad (resigned 28 October 2015) | Non-Executive Director |
| S Dorling | Non-Executive Director |
| AS Groves (resigned 12 January 2015) | Non-Executive Director |
| P Hain (appointed 1 December 2015) | Non-Executive Director |
| E Marlow (resigned 19 October 2015) | CEO |
| E Pungong (appointed 19 October 2015) | Non-Executive Director |
| D O'Brien (appointed 10 November 2015) | Non-Executive Director |
| M Simmonds (appointed 10 November 2015) | Non-Executive Director |

Directors' interests

The directors serving during the year had the following beneficial interests in the shares of the Company:

| | Ordinary shares | |
|--|---|--|
| | 30 June 2015 (or at date of resignation) | 30 June 2014 (or at date of appointment) |
| C J Cleverly (appointed 3 March 2015) | 3,000,000 | 3,000,000 |
| JP Conrad | 526,316 | 526,316 |
| AS Groves (resigned 12 January 2015 ¹) | 15,526,316 | 15,526,316 |
| EHR Marlow | 16,578,947 | 16,578,947 |

1. 10 million of the shares in Mr Groves' interest are held on trust for Eriswell International Trading Inc, a company controlled by a trust, the beneficiaries of which include relatives of Mr Groves.

The directors appointed subsequent to the year end do not hold any beneficial interests in the shares of the company as at the date of this report.

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DIRECTORS' REPORT (continued)

The following share options and warrants were granted to directors during the year.

| Director | Date of grant | Number of options | Exercise price | Date from which Exercisable | Expiry date |
|-------------|------------------|-------------------|----------------|-----------------------------|------------------|
| CJ Cleverly | 27 February 2015 | 1,000,000 | 0.9p | 27 August 2015 | 27 August 2020 |
| CJ Cleverly | 2 March 2015 | 1,000,000 | 2.0p | 2 March 2015 | 16 May 2016 |
| CJ Cleverly | 2 March 2015 | 10,000,000 | 5p | 2 March 2015 | 16 May 2016 |
| CJ Cleverly | 2 March 2015 | 1,500,000 | 7.5p | 2 March 2015 | 16 May 2016 |
| CJ Cleverly | 2 March 2015 | 2,000,000 | 10p | 2 March 2015 | 16 May 2016 |
| JP Conrad | 11 July 2014 | 500,000 | 3p | 11 July 2015 | 13 November 2018 |
| JP Conrad | 11 July 2014 | 1,000,000 | 4p | 11 July 2015 | 11 July 2020 |
| S Dorling | 11 July 2014 | 1,000,000 | 3p | 11 July 2015 | 13 November 2018 |
| S Dorling | 11 July 2014 | 2,000,000 | 4p | 11 July 2015 | 11 July 2020 |
| AS Groves | 11 July 2014 | 500,000 | 3p | 11 July 2015 | 13 November 2018 |
| AS Groves | 11 July 2014 | 1,000,000 | 4p | 11 July 2015 | 11 July 2020 |
| EHR Marlow | 11 July 2014 | 1,000,000 | 3p | 11 July 2015 | 13 November 2018 |
| EHR Marlow | 11 July 2014 | 3,000,000 | 4p | 11 July 2015 | 11 July 2020 |

The directors held the following warrants issued in conjunction with the placing in the prior year:

| Director | Date of grant | Number of warrants | Exercise price | Date from which Exercisable | Expiry date |
|------------|---------------|--------------------|----------------|-----------------------------|-------------|
| JP Conrad | 16 May 2014 | 526,316 | 5p | 16 May 2014 | 16 May 2016 |
| AS Groves | 16 May 2014 | 526,316 | 5p | 16 May 2014 | 16 May 2016 |
| EHR Marlow | 16 May 2014 | 1,578,947 | 5p | 16 May 2014 | 16 May 2016 |

No share options or warrants were exercised by directors during the year (2014:\$nil).

Subsequent to the year end the following warrants and options have been granted to directors

| Director | Date of grant | Number | Exercise price | Date from which Exercisable | Expiry date |
|-------------|------------------|------------|----------------|-----------------------------|----------------|
| CJ Cleverly | 11 August 2015 | 10,000,000 | 0.552p | 11 August 2015 | 11 August 2020 |
| CJ Cleverly | 11 August 2015 | 15,000,000 | 5p | 11 August 2015 | 16 May 2016 |
| PG Hain | 01 December 2015 | 2,500,000 | 3p | 01 December 2015 | 30 June 2020 |
| PG Hain | 01 December 2015 | 5,000,000 | 5p | 01 December 2015 | 30 June 2020 |
| PG Hain | 01 December 2015 | 2,500,000 | 8p | 01 December 2015 | 30 June 2020 |
| E Pungong | 19 October 2015 | 2,475,000 | 5p | 19 October 2015 | 16 May 2016 |
| E Pungong | 19 October 2015 | 2,500,000 | 3p | 19 October 2015 | 30 June 2020 |
| E Pungong | 19 October 2015 | 15,000,000 | 5p | 19 October 2015 | 30 June 2020 |
| E Pungong | 19 October 2015 | 15,000,000 | 8p | 19 October 2015 | 30 June 2020 |
| D O'Brien | 10 November 2015 | 2,500,000 | 3p | 10 November 2015 | 30 June 2020 |
| D O'Brien | 10 November 2015 | 17,475,000 | 5p | 10 November 2015 | 30 June 2020 |
| D O'Brien | 10 November 2015 | 17,500,000 | 8p | 10 November 2015 | 30 June 2020 |
| M Simmonds | 10 November 2015 | 2,475,000 | 5p | 10 November 2015 | 16 May 2016 |
| M Simmonds | 10 November 2015 | 3,750,000 | 3p | 10 November 2015 | 30 June 2020 |
| M Simmonds | 10 November 2015 | 15,000,000 | 5p | 10 November 2015 | 30 June 2020 |
| M Simmonds | 10 November 2015 | 17,500,000 | 8p | 10 November 2015 | 30 June 2020 |
| M Simmonds | 10 November 2015 | 10,000,000 | 10p | 10 November 2015 | 30 June 2020 |

On 11 August 2015, C J Cleverly was awarded 3,000,000 incentive shares with a market value of £17,000.

There have been no other changes in directors' interests in shares or options between 1 July 2015 and 22 December 2015.

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DIRECTORS' REPORT (continued)

Substantial shareholdings

To the best of the knowledge of the board, except as set out in the table below, there are no persons who, as of 17 December 2015, are the direct or indirect beneficial owners of, or exercise control or direction over 3% or more of the Ordinary Shares in issue of the Company.

| | Number of Ordinary Shares | % Holding |
|--------------------------|---------------------------------|--------------|
| White Knight Investment | 53,263,889 | 6.95% |
| Green Cay | 30,989,648 | 4.04% |
| Novum Securities Limited | 25,600,000 | 3.33% |

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Employee involvement policies

The Group places considerable value on the awareness and involvement of its employees in the Group's performance. Within bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Group and that are of interest and concern to them as employees.

Creditors' payment policy and practice

The Group's policy is to ensure that, in the absence of dispute, all suppliers are dealt with in accordance with its standard payment policy to abide by the terms of payment agreed with suppliers when agreeing the terms of each transaction. Suppliers are made aware of the terms of payment. The number of days of average daily purchases included in trade payables at 30 June 2015 was 68 days (2014: 63 days).

Social and community issues

The Group recognises the value of employment and training to the continued economic growth in the countries in which it operates. The Group is developing policies to ensure its expertise and specialist skills and facilities are made available to the broader community.

Environmental issues

The Group places great emphasis upon good environmental practice and respect for local community values.

African empowerment

As its ambitions for growth and diversification are realised The Group will seek to empower, upskill and recruit local African staff, providing new opportunities for jobs of all skills including senior management.

Statement as to disclosure of information to auditor

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

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DIRECTORS' REPORT (continued)

Auditor

The Group's auditor, RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP), has indicated its willingness to continue in office.

Electronic communications

The maintenance and integrity of the Company's website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The Company's website is maintained in compliance with AIM Rule 26.

On behalf of the Board

CJ Cleverly
Executive Chairman

24 December 2015

African Potash Limited

CORPORATE GOVERNANCE

The board of directors is accountable to the Company's shareholders for good corporate governance and the Company has regard to the Quoted Companies Alliance's Corporate Governance Code for Small and Mid Size Quoted Companies 2013 which the directors consider appropriate guidance for the Group's size and its stage of development. Set out below is a summary of how, at 30 June 2015, the Group was dealing with corporate governance issues.

The Board of Directors

The Group is led and controlled by a board comprising the executive chairman, and five non-executive directors. The board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions.

There are no matters specifically reserved to the board for its decision, but no decision of any consequence is made other than by the directors. There are no separate Nomination, Audit and Remuneration Committees due to the current size of the board and any new directors are appointed by the whole Board.

There is no agreed formal procedure for the directors to take independent professional advice at the Company's expense.

The Company has adopted a share dealing code for directors' dealings which is appropriate for an AIM quoted company. The Directors comply with Rule 21 of the AIM Rules relating to directors' dealings and take all reasonable steps to ensure compliance by the Group's employees.

The Company's directors submit themselves for re-election at the Annual General Meeting at regular intervals in accordance with the Company's Articles of Association.

Relations with Shareholders

The Executive Chairman is the Group's principal spokesperson with investors, fund managers, the press and other interested parties. At the Annual General Meeting, investors are given the opportunity to question the board.

Compliance with relevant legislation

All directors are kept informed of changes in relevant legislation and changing commercial risks with the assistance of the Group's legal advisers and auditors where appropriate. The directors have taken appropriate legal advice and implemented internal training and reporting procedures to ensure compliance with the UK Bribery Act 2010 (the "Bribery Act"). The Bribery Act prescribes criminal offences for businesses engaged or allowing others to engage in bribery or corrupt practices. Although the Company does not have a presence in the UK, the Bribery Act applies to the Directors as the company is listed in the UK. In addition, Guernsey, where the Company is incorporated, is subject to the Prevention of Corruption (Bailiwick of Guernsey) Law, 2003 which contains broadly similar restrictions. Although the application of the UK and Guernsey legislation is uncertain as regards the Group, the Directors have formed the view that it is appropriate for the Group to implement relevant procedures to maintain compliance with the Bribery Act.

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CORPORATE GOVERNANCE (continued)

Internal Control

The board acknowledges its responsibility for establishing and monitoring the Group's systems of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

The board reviews the effectiveness of the systems of internal control and considers the major business risks and the control environment. No significant control deficiencies have come to light during the year and no weakness in internal financial control has resulted in material losses, contingencies or uncertainties which would require disclosure as recommended by the guidance for directors on reporting on internal financial control.

In light of this control environment the Board considers that there is no current requirement for a separate internal audit function.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 2 to 5 and the risks facing the business are outlined below. Note 3 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The board has detailed its considerations relating to Going Concern in note 4 of the financial statements. The group's forecast trading cashflows are dependent on the negotiation and fulfillment of new contracts that are not yet finalised and the successful conclusion of related financing lines. Without these trading cashflows the group will need to raise additional finance either through borrowing or the issue of new equity. Notwithstanding this uncertainty the directors are confident that with the current cash and forecasted cash flows from the trading operations, there will be sufficient cash resources to enable the Group to pay debts as they fall due and to continue its operations for the foreseeable future and thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. The board will not commit to a major exploration programme without raising sufficient finance to fund the planned expenditure.

Risks and uncertainties

There are a number of risks and uncertainties facing the Group, principally the following:

Regulatory risk

Whilst the Group believes that its operations are currently in substantial compliance with all relevant material environmental and health and safety laws and regulations, there can be no assurance that new laws and regulations, or amendments to, or stringent enforcement of, existing laws and regulations will not be introduced, which could have a material adverse impact on the Group.

Risks associated with operating in sub-Saharan Africa

Changes in government, monetary policies, taxation, exchange control and other laws can have a significant impact on the Group's assets and operations. Several countries in sub-Saharan Africa have experienced periods of political instability, and there can be no guarantees as to the level of future political stability. Changes to government policies and applicable laws could adversely affect the operations and/or financial condition of the Group. The jurisdictions in which the Group might operate in the future may have less developed legal systems than more established economies, which could result in risks such as (i) effective legal redress in the courts being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities;

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CORPORATE GOVERNANCE (continued)

Risks associated with operating in sub-Saharan Africa (continued)

(iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations. In certain jurisdictions, the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to the Group's licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed.

Risks associated with mineral and mining projects

Exploration risks

The business of exploration for minerals and mining involves a high degree of risk. The successful exploration and development of potash (or associated minerals) is speculative and subject to a number of uncertainties. Geographical location can present logistical difficulties and the available resources and reserves, once established may be significantly lower than estimated.

Early stage of operations

The Group intends to invest in projects whose operations are at an early stage and success in each stage of trading, exploration, mine development and mine operation together with fertilizer manufacturing operations will depend on the Directors' ability to manage the current projects and to take advantage of further opportunities which may arise. The success of the Group will depend on its ability to identify prospective projects and its ability to access equity markets for its development requirements.

Potash market risk

The marketability and availability of a ready market for potash is affected by and dependent on numerous factors beyond the Group's control, the precise effects of which cannot be accurately predicted. These factors include market fluctuations, general economic activity, action taken by other potash producing nations, availability of transportation capacity and government regulations such as regulations relating to taxation, royalties, production levels, exports and the environment. Movements in market prices could render uneconomic any of the mining activities to be undertaken.

Risks associated with commodity trading operations

Competition

The Group competes with numerous other companies (many of which have greater financial resources than the Group) and individuals in the trading of fertilizer and other agriculture commodities search as well as for the acquisition of potash interests and for the recruitment and retention of qualified employees.

Foreign exchange

The Company raised its share capital in Sterling, however its fertilizer trading and potash exploration activities and, if successful, potash production are markets which are denominated in US Dollars. Therefore the directors consider its functional currency to be US Dollars. Some of its working capital requirements may be denominated in currencies other than US Dollars. As a result, fluctuations in currency exchange rates could have a material adverse effect on the financial condition, results, operations or cash flows of the Group.

African Potash Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Guernsey company law requires the directors to prepare group financial statements for each financial year in accordance with generally accepted accounting principles. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements of the group are required by law to give a true and fair view of the state of the group's affairs at the end of the financial period and of the profit or loss of the group for that period and are required by IFRS adopted by the EU to present fairly the financial position of the group and the financial performance of the group.

In preparing the group financial statements, the directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping accounting records which are sufficient to show and explain the group's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements are properly prepared and in accordance with The Companies (Guernsey) Law 2008. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm they have discharged their responsibilities as noted above.

African Potash Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AFRICAN POTASH LIMITED

We have audited the Group financial statements of African Potash Limited for the year ended 30 June 2015 on pages 16 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As more fully explained in the Statement of Directors' Responsibilities set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within them.

Scope of the audit

A description of the scope of an audit of financial statements arising from the requirements of International Standards on Auditing (UK and Ireland) is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 30 June 2015 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the group financial statements have been prepared in accordance with the requirements of The Companies (Guernsey) Law 2008.

African Potash Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AFRICAN POTASH LIMITED (continued)

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in notes 4 and 11 to the financial statements concerning the Group's ability to continue as a going concern.

The Group incurred a net loss of \$8,836,000 for the year ended 30 June 2015 and is reliant on projected trading cashflows which are not yet contracted. Further, the carrying value of intangible assets within the balance sheet assumes that the group will have a continuing right to the underlying exploration licence and will be able to finance continued exploration activity. The initial licence period terminated on 3 December 2015 and may be renewed subject to approval by the government of the Congo for two further two year terms. At the date of this report, no formal confirmation has been received that the licence has been or will be renewed. Additionally, under the terms of the licence, rights may be suspended or withdrawn if there is no exploration work within a nine month period. Due to the Group's funding position, it will be unable to proceed with any material exploration activity without raising additional funding which creates a risk that the terms of the licence may not be met. These matters indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The financial statements do not include the adjustments, including impairment of the related intangible asset of \$10m, that would result if the Group was unable to continue as a going concern.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- we have not received all the information and explanations we require for our audit.

RSM UK Audit LLP, (formerly Baker Tilly UK Audit LLP) Auditor
Chartered Accountants and Registered Auditors
25 Farringdon Street,
London EC4A 4AB

24 December 2015

African Potash Limited

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2015

| | Note | Year ended 30 June 2015 \$'000 | Year ended 30 June 2014 \$'000 |
|---|------|---|---|
| Operating expenses | | (1,238) | (1,020) |
| Impairment of evaluation and exploration costs | 4 | (7,464) | - |
| Operating loss | 6 | (8,702) | (1,020) |
| Finance (expense) / income | 8 | (134) | 1 |
| Loss before taxation | | (8,836) | (1,019) |
| Income tax expense | 9 | - | - |
| Loss for the year | | (8,836) | (1,019) |
| Attributable to : | | | |
| Owners of the parent company | | (7,219) | (1,019) |
| Non-controlling interests | | (1,617) | - |
| | | (8,836) | (1,019) |
| Loss per share - basic and diluted (cents) | | | |
| - attributable to owners of the parent company | 10 | (1.97c) | (0.44c) |
| - attributable to non-controlling interests | 10 | (0.44c) | - |

All results relate to continuing activities.

The notes on pages 20 to 39 form part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

| | Year ended 30 June 2015 \$'000 | Year ended 30 June 2014 \$'000 |
|--|---|---|
| Loss for the year | (8,836) | (1,019) |
| Items that may be reclassified subsequently to the income statement: | | |
| - Foreign exchange translation differences | (574) | 11 |
| Other comprehensive (loss) / income for the year | (574) | 11 |
| Total comprehensive loss for the year | (9,410) | (1,008) |
| Attributable to owners of the parent company | (7,793) | (1,008) |
| Attributable to non-controlling interests | (1,617) | - |
| | (9,410) | (1,008) |

There is no taxation arising on other comprehensive income

The notes on pages 20 to 39 form part of the financial statements.

African Potash Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

| | Note | 2015 \$'000 | 2014 \$'000 |
|---|------|----------------|----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets: exploration activities | 11 | 10,000 | 14,523 |
| Property plant and equipment | 13 | 131 | 56 |
| Total non-current assets | | <u>10,131</u> | <u>14,579</u> |
| Current assets | | | |
| Trade and other receivables | 14 | 99 | 576 |
| Cash and cash equivalents | 14 | 571 | 2,170 |
| Total current assets | | <u>670</u> | <u>2,746</u> |
| TOTAL ASSETS | | <u>10,801</u> | <u>17,325</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 15 | (530) | (396) |
| Deferred consideration | 20 | (800) | (800) |
| Total current liabilities | | <u>(9,471)</u> | <u>(1,196)</u> |
| NET ASSETS | | <u>9,471</u> | <u>16,129</u> |
| EQUITY | | | |
| Issued capital | 16 | 15,864 | 13,897 |
| Shares to be issued | 20 | 2,800 | 2,800 |
| Share based payment reserve | | 1,141 | 356 |
| Foreign exchange translation reserve | | (596) | (22) |
| Retained earnings | | (11,268) | (4,049) |
| Total equity attributable to the owners of the parent company | | <u>7,941</u> | <u>12,982</u> |
| Non controlling interests | | 1,530 | 3,147 |
| TOTAL EQUITY | | <u>9,471</u> | <u>16,129</u> |

The notes on pages 20 to 39 form part of the financial statements.

The financial statements on pages 16 to 39 were approved and authorised for issue by the Board of Directors on 24 December 2015 and were signed on its behalf.

C J Cleverly
Executive Chairman

African Potash Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the parent company | | | | | | Total | Non-controlling interest | Total |
|--|--|---------------------|-----------------------------|--------------------------------------|-------------------|---------|---------|--------------------------|-------|
| | Share capital | Shares to be issued | Share-based payment reserve | Foreign exchange translation reserve | Retained earnings | Total | | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | |
| Balances at 1 July 2013 | 12,456 | 2,800 | 12 | (33) | (3,030) | 12,205 | 3,147 | 15,352 | |
| Loss for the year | - | - | - | - | (1,019) | (1,019) | - | (1,019) | |
| Other comprehensive income | | | | | | | | | |
| Exchange translation differences on foreign operations | - | - | - | 11 | - | 11 | - | 11 | |
| Total comprehensive income for the year | - | - | - | 11 | (1,019) | (1,008) | - | (1,008) | |
| Transactions with owners | | | | | | | | | |
| Issue of shares | 1,441 | - | - | - | - | 1,441 | - | 1,441 | |
| Share based payment charge | - | - | 344 | - | - | 344 | - | 344 | |
| Total transactions with owners | 1,441 | - | 344 | - | - | 1,785 | - | 1,785 | |
| Balance at 30 June 2014 | 13,897 | 2,800 | 356 | (22) | (4,049) | 12,982 | 3,147 | 16,129 | |
| Loss for the year | - | - | - | - | (7,219) | (7,219) | (1,617) | (8,836) | |
| Other comprehensive income | | | | | | | | | |
| Exchange translation differences on foreign operations | - | - | - | (574) | - | (574) | - | (574) | |
| Total comprehensive income for the year | - | - | - | (574) | (7,219) | (7,793) | (1,617) | (9,410) | |
| Transactions with owners | | | | | | | | | |
| Issue of shares | 1,967 | - | - | - | - | 1,967 | - | 1,967 | |
| Share based payment charge | - | - | 785 | - | - | 785 | - | 785 | |
| Total transactions with owners | 1,967 | - | 785 | - | - | 2,752 | - | 2,752 | |
| Balance at 30 June 2015 | 15,864 | 2,800 | 1,141 | (596) | (11,268) | 7,941 | 1,530 | 9,471 | |

The notes on pages 20 to 39 form part of the financial statements.

African Potash Limited

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2015

| | Note | Year ended 30 June 2015 \$'000 | Year ended 30 June 2014 \$'000 |
|--|------|---|---|
| Operating activities | | | |
| Loss before tax | | (8,836) | (1,019) |
| Adjustments for: | | | |
| - Impairment of evaluation and exploration assets | 4 | 7,464 | - |
| - Loss on disposal of property, plant and equipment | | - | 4 |
| - Foreign exchange | | (192) | (31) |
| - Share based payment | | 391 | 12 |
| - Finance expense / (income) | | 134 | (1) |
| Operating cash flow before movements in working capital | | (1,039) | (1,035) |
| Working capital adjustments: | | | |
| - Increase in receivables | | (9) | (475) |
| - Increase / (decrease) in payables | | 155 | (157) |
| Cash used in operations | | (893) | (1,667) |
| Finance (expense) / income | | (134) | 1 |
| Net cash used in operating activities | | (1,027) | (1,666) |
| Investing activities | | | |
| Purchase of intangible assets net of cash acquired | | (2,689) | (1,253) |
| Purchase of property, plant and equipment | | (121) | (15) |
| Net cash used in investing activities | | (2,810) | (1,268) |
| Financing activities | | | |
| Proceeds from issue of share capital | | 1,758 | 1,615 |
| Drawdown of convertible loan | 18 | 1,250 | - |
| Repayment of convertible loan | 18 | (760) | - |
| Net cash from financing activities | | 2,248 | 1,615 |
| Net decrease in cash and cash equivalents | | (1,589) | (1,319) |
| Cash and cash equivalents at start of the year | | 2,170 | 3,488 |
| Effect of exchange rates on cash and cash equivalents | | (10) | 1 |
| Cash and cash equivalents at end of the year | | 571 | 2,170 |
| Non cash transactions | | | |
| The principal non cash transactions relate to shares issued in settlement of : | | | |
| | | 2015 | 2014 |
| | | \$'000 | \$'000 |
| Advisory and consultancy fees | | 84 | 150 |
| Bergen facility fees and collateral shares | | 372 | - |
| | | 456 | 150 |

The notes on pages 20 to 39 form part of the financial statements.

African Potash Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

1. General Information

African Potash Limited is incorporated and domiciled in Guernsey. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Chairman's Statement on pages 2 to 5.

The presentational currency of the Group is US Dollars as this reflects the Group's business activities in the fertilizer trading and resource exploration sectors in sub-Saharan Africa and therefore the Group's financial position and financial performance.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

During the year the following principal standards have been adopted in these financial statements:

| | |
|----------|--|
| IFRS 10 | Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014) |
| IFRS 11 | Joint Arrangements (effective for annual periods beginning on or after 1 January 2014) |
| IFRS 12 | Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014) |
| IAS 27 | Separate Financial Statements (as amended 2011) (effective for annual periods beginning on or after 1 January 2014) |
| IAS 32 | Financial Instruments: Presentation - Amendment; Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014) |
| IFRIC 21 | Levies (effective for annual periods beginning on or after 1 January 2014) |

At the date of authorisation of these financial statements, the following principal Standards and Interpretations relevant to the Group's operations that have not been applied in these financial statements were in issue but not yet effective (unless otherwise stated):

| | |
|---|---|
| IFRS 9 | Financial Instruments: Classification (effective for annual periods beginning on or after 1 January 2018) |
| IFRS 15 | Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018) |
| September 2014 Annual Improvements to IFRSs | Effective for annual periods beginning on or after 1 January 2016 |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

African Potash Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June. Control is recognised where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

(ii) Transactions eliminated on consolidation

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method if they meet the criteria of IFRS 3. The cost of acquisition is measured at the aggregate of the fair values, at the date of acquisition, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The assets, liabilities and contingent liabilities of the acquiree are measured at their fair value at the date of acquisition. Any excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired is recognised as goodwill. If the fair value of the consideration is less than the fair value of the identifiable net assets acquired, the difference is recognised directly in the income statement.

Going concern

The board has detailed its considerations relating to Going Concern in note 4 of the financial statements.

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to pay debts as they fall due and to continue its operations for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Foreign currency translation

(i) Functional and presentation currency

The individual financial statements of each subsidiary company are prepared in the currency of the primary economic environment in which it operates ("the functional currency"). The consolidated financial statements are presented in US Dollars as this best reflects the Group's fertilizer trading activities and investment in the mineral exploration sector in Africa and the Group's financial position and performance.

African Potash Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

2. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in the income statement.

(iii) Consolidation

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's operations are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case exchange rates at the date of transactions are used. Exchange differences arising from the translation of the net investment in foreign operations and branches are recognised as a separate component of equity. Such translation differences are recognised as income or expense in the year in which the operation or branch is disposed of.

The following exchange rates have been used in preparing the consolidated financial statements:

| | Average Rate | | Closing Rate | |
|-----------------------------|--------------|------|--------------|------|
| | 2015 | 2014 | 2015 | 2014 |
| Central African Franc : USD | 549 | 484 | 586 | 481 |

Operating loss

Operating loss consists of operating expenses and the impairment charge and any subsequent reversal thereof in respect of loans and receivables and excludes interest income and expense.

Interest income

Interest income is accrued on an amortised cost basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax payable is based on taxable profit for the year. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon rates enacted and substantively enacted at the reporting date. Deferred tax is charged or credited in profit or loss, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

African Potash Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

2. Summary of significant accounting policies (continued)

Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term. At 30 June 2015 the Group had no operating leases with a term greater than one year (30 June 2014: none).

Intangible exploration and evaluation assets

All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are written-off as incurred.

Exploration and evaluation costs arising following the acquisition of an exploration licence are capitalised on a project-by-project basis, pending determination of the technical feasibility and commercial viability of the project. Costs incurred include technical expenses and allocated administrative overheads. Exploration costs are carried at historical cost less any impairment losses recognised.

If an exploration project is successful and it is brought into production, the related expenditures are transferred to property, plant and equipment as a mineral reserve or resource and depleted on a unit of production basis, or until the properties are sold, allowed to lapse, abandoned or determined not to be economically viable, at which time they are charged to the income statement.

Capitalised exploration expenditures are reviewed for impairment losses (see accounting note below) at each reporting date. In the case of undeveloped properties, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding results of exploration or evaluation work to date and the Group's intentions for development of the related property.

The recoverability of exploration and evaluation costs is dependent upon the discovery of economically recoverable ore reserves, the ability of the Group to obtain the necessary financing to complete the development of the reserves and future profitable production or proceeds from the disposal thereof.

Impairment of intangible assets – Exploration and evaluation costs

Impairment reviews for exploration and evaluation costs are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise but typically when one of the following circumstances applies:

- Unexpected geological occurrences that render the resource uneconomic;
- Substantive expenditure on further exploration expenditure for and evaluation of mineral resources neither budgeted or planned;
- Variations in the commodity price that render the project uneconomic;
- Title to the asset is compromised; or
- The Group determines it no longer wishes to continue with or develop the project.

Investment in subsidiaries

'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, structured entities and other off balance sheet vehicles. Details of the Company's subsidiaries are disclosed in note 12 to the financial statements.

African Potash Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

2. Summary of significant accounting policies (continued)

Property, plant and equipment

All items of property, plant and equipment are stated at historical cost less depreciation (see below) and impairment. Historical cost includes expenditure that is directly attributable to the acquisition. Subsequent costs are included in the asset's carrying value when it is considered probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Assets in course of construction for production, rental or administrative purposes not yet determined are carried at cost, less any identified impairment loss. Cost includes professional fees and associated administrative expenses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item, as follows:

| | |
|------------------|-----------|
| Motor vehicles | 25% |
| Office equipment | 10% – 33% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Loans and receivables

Loans and other receivables are not interest bearing and are initially recognised at their fair value and are subsequently stated at amortised cost using the effective interest method as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are subject to an insignificant risk of changes in value.

Trade and other payables

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

Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of the resources will be required to settle the obligation and the amount can be reliably estimated.

Equity instruments

Equity instruments issued by the Group are recorded at fair value on initial recognition, net of transaction costs.

Shares to be issued

Asset acquisitions to be settled by issuing a fixed number of shares are accounted in accordance with IFRS 2, with the fair value at the date of acquisition being recognised as a separate component of equity. On settlement and issue of shares, a corresponding transfer between equity reserves will be made.

African Potash Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

Share based payments – share options and warrants

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

Fair value is measured by use of the Black Scholes model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

3. Financial risk factors

The Group is principally financed by equity share capital to finance the Group's operations and expansion. The Group has financial instruments of cash, loan receivables, short term deposits, deferred consideration and others such as trade and other receivables and payables.

The Group has not entered into any derivative or other hedging instruments.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (including interest rate risk and currency risk). The Board reviews and agrees policies for managing each of these risks and these are summarised below. The interest receivable relates to interest earned on bank deposits.

Credit risk

Credit risk arises from financial assets, cash and cash equivalents, and deposits with banks and financial institutions, as well as outstanding receivables. The Group's principal deposits are held with a Bank with a high credit rating. Receivables are regularly monitored and assessed for recoverability.

The fair value of financial assets and liabilities is not materially different to the carrying values presented.

Maximum exposure to credit risk is as follows:

| | 2015 \$'000 | 2014 \$'000 |
|-----------------------------|----------------|----------------|
| Trade and other receivables | 99 | 576 |
| Cash and cash equivalents | 571 | 2,170 |
| | <u>670</u> | <u>2,746</u> |

Liquidity risk

The Group's policy throughout the year has been to ensure that it has adequate liquidity by careful management of its working capital. At 30 June 2015 the Group held cash deposits of \$0.6m (2014: \$2.2m).

African Potash Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

3. Financial risk factors (continued)

Market risk

The significant market risks to which the Group is exposed are currency risk and interest rate risk. These are discussed further below:

- *Interest rate risk*

The Group finances operations through the use of cash deposits at variable rates of interest for a variety of short term periods, depending on cash. The rates are reviewed regularly and the best rate obtained in the context of the Group's needs. The weighted average interest rate on deposits was 0.01% (2014: 0.01%).

The exposure of the financial assets to interest rate risk is as follows:

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| Financial assets at floating rates - Cash and cash equivalents | 571 | 2,170 |

- *Currency risk*

The Group holds cash balances and has transactions denominated in currencies other than the reporting currency and which therefore are subject to fluctuations in exchange rates. These risks are monitored by the board on a regular basis. The Group does not hedge against the effects of exchange rates.

The exposure of the Group's financial assets and liabilities to currency risk is as follows:

| | Sterling \$'000 | CFA \$'000 | Other \$'000 | USD \$'000 | Total \$'000 |
|--|--------------------|---------------|-----------------|---------------|-----------------|
| Cash and cash equivalents | 392 | 28 | 55 | 96 | 571 |
| Trade and other receivables | 26 | 22 | - | 51 | 99 |
| Total financial assets at 30 June 2015 | 418 | 50 | 55 | 147 | 670 |
| Trade payables | 35 | 144 | - | 6 | 185 |
| Other payables and accruals | 118 | 96 | - | 131 | 345 |
| Deferred consideration | - | - | - | 800 | 800 |
| Total financial liabilities at 30 June 2015 | 153 | 240 | - | 937 | 1,330 |
| Cash and cash equivalents | 472 | 71 | - | 1,627 | 2,170 |
| Trade and other receivables | - | 519 | - | - | 519 |
| Total financial assets at 30 June 2014 | 472 | 590 | - | 1,627 | 2,689 |
| Trade payables | 92 | 15 | - | 29 | 136 |
| Other payables and accruals | 74 | 23 | - | 163 | 260 |
| Deferred consideration | - | - | - | 800 | 800 |
| Total financial liabilities at 30 June 2014 | 166 | 38 | - | 992 | 1,196 |

Fair values

The Directors have reviewed the financial statements and have concluded that there is no significant difference between the carrying values and the fair values of the financial assets and liabilities of the Group as at 30 June 2015 and at 30 June 2014.

African Potash Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

3. Financial risk factors (continued)

Capital risk management

The Group regularly reviews its capital management requirements. The requirement for capital is satisfied by the issue of shares.

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group places funds which are not required in the short term on deposit at the best interest rates it is able to secure from its bankers.

The Group is under no obligation to meet any externally imposed capital requirements.

Sensitivity analysis

Financial instruments affected by market risk include cash and cash equivalents, trade and other receivables and payables. The following analysis, required by IFRS 7 Financial Instruments: Disclosures, is intended to illustrate the sensitivity of the Group's financial instruments (at period end) to changes in market variables, being exchange rates and interest rates.

| Exchange rates: | Income Statement \$'000 | Equity \$'000 |
|--------------------|----------------------------|------------------|
| 2015 | | |
| + 5% US\$ Sterling | 20 | 20 |
| - 5% US\$ Sterling | (20) | (20) |
| + 5% US\$ CFA | - | - |
| - 5% US\$ CFA | - | - |
| 2014 | | |
| + 5% US\$ Sterling | 24 | 24 |
| - 5% US\$ Sterling | (24) | (24) |
| + 5% US\$ CFA | - | - |
| - 5% US\$ CFA | - | - |

The following assumptions were made in calculating the sensitivity analysis:

- all income statement sensitivities also impact equity
- translation of foreign subsidiaries and operations into the Group's presentation currency have been excluded from this sensitivity.

Interest Rates: The Group does not hold any financial derivatives. Only cash is affected by changes in interest rates.

| | Income Statement \$'000 | Equity \$'000 |
|------------------------------------|-------------------------------|------------------|
| 2015 | | |
| + 20 bp increase in interest rates | 1 | 1 |
| + 50 bp increase in interest rates | 3 | 3 |
| - 20 bp increase in interest rates | (1) | (1) |
| - 50 bp increase in interest rates | (3) | (3) |
| 2014 | | |
| + 20 bp increase in interest rates | 4 | 4 |
| + 50 bp increase in interest rates | 11 | 11 |
| - 20 bp increase in interest rates | (4) | (4) |
| - 50 bp increase in interest rates | (11) | (11) |

The above sensitivities are calculated with reference to a single moment in time and will change due to a number of factors including:

- fluctuating trade payable balances
- fluctuating cash balances
- changes in currency mix

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4. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted in the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Intangible exploration and evaluation assets

In February 2013, the group purchased a 70% interest in the Lake Dinga licence which the board believes is highly prospective for commercial deposits of potash. The initial three year licence period expired on 3 December 2015 and is in the process of being renewed, albeit formal approval has not yet been received. During the year the Group has conducted a successful proof of concept drilling campaign confirming laterally extensive potash mineralisation which is characteristic of the Congolese coastal basin and further underpins the project's potential to host significant potash deposits. In order to develop the asset and issue a maiden resource statement, the Group will need to raise additional capital to fund a comprehensive drilling programme to support a resource estimate. Under the terms of its licence, the Group is required to undertake some exploration activity in any nine month period. The board remains confident that the highly prospective nature of the asset will enable them to raise the additional capital to fund these programmes.

The valuation of intangible exploration and evaluation assets is dependent upon the discovery of economically recoverable deposits which in turn is dependent upon the future potash prices, capital expenditures and environmental and regulatory restrictions. During the year, an independent valuation of the Group's interest in the Lake Dinga licence indicated that market conditions had resulted in a fall in value compared to that at the time of the original acquisition. Consequently the board have decided to write down the value of the asset to \$10m to reflect the results of that valuation.

Trading activities

The Group's fertilizer trading operations have commenced since the year end and are subject to commodity price and foreign exchange fluctuations, credit risk, together with the practical and logistical challenges of operating in sub-Saharan Africa. Policies are in place to address these risks.

Management's critical judgements in determining the value of assets, liabilities and equity within the financial statements relate to the valuation of intangible exploration and evaluation assets of \$10m (post impairment) (2014: \$14.5m), the timing volume and margins of anticipated trading contracts and the going concern assumptions.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates and judgements are continually evaluated. Revisions to accounting estimates are recognised in the period in which the estimates are revised or in future periods if applicable.

Going concern

As indicated above, current cash resources and anticipated cash flows from trading activities are not sufficient to enable the Group to complete a full evaluation of the Lac Dinga project or to continue to invest in exploration activities.

The board has prepared forecasts for the Group covering the period to 31 December 2016. The principal assumption is that fertiliser trading will pick up during 2016, with the Group commencing deliveries under the COMESA and Beryl agreements in Q1 2016.

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For the year ended 30 June 2015

However, the group's forecast trading cashflows are dependent on the negotiation and fulfillment of new contracts that are not yet finalised and the successful conclusion of related financing lines. Without these trading cashflows the group will need to raise additional finance either through borrowing or the issue of new equity.

Notwithstanding the above uncertainty, the directors are confident that with the current cash and forecasted cash flows from the trading operations, there will be sufficient cash resources to enable the Group to pay debts as they fall due and to continue its operations for the foreseeable future and thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. The board will not commit to a major exploration programme without raising sufficient finance to fund the planned expenditure.

5. Segment reporting

As set out in the operating review, the directors consider that during the year the Group operates in a single segment, potash exploration, and in one geographical segment, Africa.

6. Operating loss

Operating loss has been arrived at after charging:

| | 2015 \$'000 | 2014 \$'000 |
|--|----------------|----------------|
| Net foreign exchange loss / (gain) | 5 | (14) |
| Operating lease rentals – land and buildings | 65 | 58 |
| Staff costs (see note 7) | 818 | 482 |

Amounts payable to RSM UK Audit LLP, and its associated entities in respect of assurance services as follows:

| | 2015 \$'000 | 2014 \$'000 |
|----------------------------------|----------------|----------------|
| Audit services - statutory audit | 45 | 49 |

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7. Staff costs

The average monthly number of employees (including executive directors) employed by the Group for the year was as follows:

| | 2015 Number | 2014 Number |
|-----------------------|----------------|----------------|
| Office and Management | 8 | 8 |
| Operational | 23 | 21 |
| | <u>31</u> | <u>29</u> |

The aggregate remuneration comprised:

| | 2015 \$'000 | 2014 \$'000 |
|---|----------------|----------------|
| Wages and salaries | 797 | 957 |
| Social security costs | 63 | 107 |
| Share based payment charge | 391 | 12 |
| | <u>1,251</u> | <u>1,076</u> |
| Less: capitalised and included in intangible assets - exploration and evaluation expenditure | <u>(433)</u> | <u>(594)</u> |
| | <u>818</u> | <u>482</u> |

Directors' remuneration:

| | 2015 \$'000 | 2014 \$'000 |
|--------------|----------------|----------------|
| J P Conrad | 43 | 50 |
| E H R Marlow | 163 | 218 |
| S Dorling | 30 | 28 |
| A S Groves | 38 | 75 |
| C J Cleverly | 35 | - |
| | <u>309</u> | <u>371</u> |

8. Finance (expense) / income

| | 2015 \$'000 | 2014 \$'000 |
|---|----------------|----------------|
| Finance income: | | |
| - Interest income from loans and short-term bank deposits | 1 | 1 |
| | <u>1</u> | <u>1</u> |
| Finance expense | | |
| - Convertible loan termination fee (see note 18) | (135) | - |
| | <u>(134)</u> | <u>1</u> |
| Total finance (expense) / income | <u>(134)</u> | <u>1</u> |

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9. Income tax expense

| | 2015 \$'000 | 2014 \$'000 |
|---|----------------|----------------|
| Loss before tax from continuing activities: | <u>(1,372)</u> | <u>(1,019)</u> |
| Tax at the Republic of Congo corporation tax rate 30% (2014: 30%) | (412) | (306) |
| Tax effect of expenses that are not deductible in determining taxable profit | 6 | 5 |
| Tax effect of losses not allowable | <u>406</u> | <u>301</u> |
| Total tax charge for the year | <u>-</u> | <u>-</u> |

The tax reconciliation has been prepared using a 30% tax rate, the corporate income tax rate in the Republic of Congo, as this is where the Group's principal assets are located.

The Group has operations in a number of overseas jurisdictions where it has incurred taxable losses for the year of \$238,000 (2014: \$261,000). To date no deferred tax asset has been recognised as the requirements of IAS 12 'Income Taxes' have not been met.

The Company is resident for taxation purposes in Guernsey and its income is subject to Guernsey income tax, presently at a rate of zero (2014: zero). No tax is payable for the year due to losses incurred. Deferred tax has not been provided for, as brought forward tax losses are not recoverable under the Income Tax (Zero 10) (Guernsey) Law, 2007 (as amended).

10. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

| | 2015 \$'000 | 2014 \$'000 |
|--|--------------------|--------------------|
| Loss for the purposes of basic earnings per share | | |
| - attributable to owners of the parent company | (7,219) | - |
| - attributable to non-controlling interests | <u>(1,617)</u> | <u>(1,019)</u> |
| <u>Number of shares</u> | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | <u>366,026,873</u> | <u>233,784,359</u> |
| Loss per share | | |
| - attributable to owners of the parent company | (1.97c) | (0.44c) |
| - attributable to non-controlling interests | <u>(0.44c)</u> | <u>-</u> |

Due to the loss incurred during the year, there is no dilutive effect of share options.

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For the year ended 30 June 2015

11. Intangible assets

| | Evaluation and exploration costs |
|--------------------------|-------------------------------------|
| | \$'000 |
| At 1 July 2013 | 13,057 |
| Additions | 1,411 |
| Exchange rate adjustment | 55 |
| At 1 July 2014 | <u>14,523</u> |
| Additions | 3,248 |
| Impairment provision | (7,464) |
| Exchange rate adjustment | (307) |
| At 30 June 2015 | <u><u>10,000</u></u> |

The asset comprises the Lac Dinga exploration licence in the Republic of Congo held by La Société des Potasses et des Mines SA ("SPM") in which the Group has a 70% interest. The licence is for three years, with two renewals of two years each. The initial three year licence period expired on 3 December 2015 and is in the process of being renewed. The renewal application was filed in August 2015 and a draft of the renewal decree was forwarded by the Minister of Mines to the Secrétaire Général du Gouvernement on 18 September 2015. The board expect formal approval to be received in due course.

It is clear that the challenging environment facing many resource projects globally has lead to a fall in valuations compared to those at the time of original acquisition of the Lac Dinga project in February 2013. Consequently the board have decided to write down the value of the project from a book value of \$17.5m to \$10m, within the valuation range provided.

12. Investment in subsidiaries

The Group had the following subsidiaries at 30 June 2014 and 2015

| Name | Country of incorporation and place of business | Nature of business | Proportion of ordinary shares held directly by the parent % | Proportion of ordinary shares held by the group % | Proportion of ordinary shares held by non controlling interests % |
|--|---|------------------------------------|---|---|---|
| African Potash Mauritius Limited ¹ | Mauritius | Intermediate holding company | 100 | 100 | - |
| La Société des Potasses et des Mines S.A. ² | Republic of Congo | Potash exploration | - | 70 | 30 |

¹ Held directly by the Company

² Held by African Potash Mauritius Limited

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

The total non-controlling interest for the year is \$(1,617,000) (2014: \$nil). At 30 June 2015 the total non-controlling interest is \$1,530,000 (2014:\$3,147,000).

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For the year ended 30 June 2015

12. Investment in subsidiaries (continued)

Set out below is the summary financial information for La Société des Potasses et des Mines S.A. ("SPM").

| | 2015 \$'000 | 2014 \$'000 |
|----------------------------------|----------------|----------------|
| Non Current Assets | 2,705 | 1,125 |
| Current | | |
| - Assets | 70 | 610 |
| - Liabilities | (5,751) | (3,268) |
| Total Current Liabilities | (2,976) | (2,658) |
| Net Liabilities | (2,976) | (1,533) |

13. Property, plant and equipment

| | Motor vehicles \$'000 | Office equipment \$'000 | Total \$'000 |
|--------------------------|-----------------------------|-------------------------------|-----------------|
| Cost | | | |
| At 1 July 2013 | - | 53 | 57 |
| Additions | - | 15 | 15 |
| Disposals | - | - | (4) |
| Exchange rate adjustment | - | 2 | 2 |
| At 1 July 2014 | - | 70 | 70 |
| Additions | 39 | 82 | 121 |
| Disposals | - | - | - |
| Exchange rate adjustment | (2) | (18) | (20) |
| At 30 June 2015 | 37 | 134 | 171 |
| Depreciation | | | |
| At 1 July 2013 | - | 5 | 5 |
| Charge for the year | - | 9 | 9 |
| At 1 July 2014 | - | 14 | 14 |
| Charge | - | 31 | 31 |
| Exchange rate adjustment | - | (5) | (5) |
| At 30 June 2015 | - | 40 | 40 |
| Net book value | | | |
| At 30 June 2015 | 37 | 94 | 131 |
| At 30 June 2014 | - | 56 | 56 |

All property plant and equipment is held in the Republic of Congo. Depreciation arising in the year has been included in attributable overhead capitalised as project development costs.

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For the year ended 30 June 2015

14. Current assets

| | 2015 \$'000 | 2014 \$'000 |
|---------------------------|----------------|----------------|
| Current assets | | |
| Prepayments | 74 | 57 |
| Other receivables | 25 | 519 |
| Cash and cash equivalents | 571 | 2,170 |
| | <u>670</u> | <u>2,746</u> |

Cash balances include \$8,000 (2014: \$53,000) of restricted cash relating to cash held on deposit as security for credit card expenditure.

The directors consider that the carrying amount of financial assets approximates their fair value. There are no significant amounts past due.

15. Financial liabilities

| | 2015 \$'000 | 2014 \$'000 |
|----------------------------|----------------|----------------|
| Current liabilities | | |
| Trade payables | 186 | 136 |
| Other payables | 172 | 140 |
| Accruals | 172 | 120 |
| | <u>530</u> | <u>396</u> |

Trade payables and accruals comprise amounts outstanding for trade purchases and ongoing costs.

Other payables include amounts payable to related parties (see note 19).

The directors consider that the carrying amount of financial liabilities approximates their fair value. The average credit period taken for trade purchases is 68 days (2014: 63 days).

16. Share capital

| | Authorised, allotted and fully paid Number | \$'000 |
|--|--|---------------|
| Ordinary shares of no par value | | |
| At 1 July 2013 | 226,583,062 | 12,456 |
| Issue of shares | 58,410,520 | 1,441 |
| At 30 June 2014 | 284,993,582 | 13,897 |
| Issue of shares | 458,849,061 | 1,967 |
| At 30 June 2015 | <u>743,842,643</u> | <u>15,864</u> |

The Company has one class of ordinary share which carries no right to fixed income.

On 12 May 2014, 53,762,073 shares were issued at 1.9p for cash to fund the Phase 1 drilling and exploration programme.

On 12 May 2014 4,648,447 shares were issued at 1.9p under the terms of the management agreement with Hedgestone Advisory (Pty) Ltd to lead and facilitate the infrastructure and logistics operations supporting the drilling programme.

On 8 August 2014 6,330,613 shares were issued at 3.5p in connection with the Bergen facility (see note 18). A further 1,417,686 shares were issued at 3.5p in settlement of advisory fees.

African Potash Limited

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For the year ended 30 June 2015

16 Share capital (continued)

The following shares were issued upon the conversion of Bergen Convertible Securities during the year:

| Date | Number of Shares | Issue price |
|-------------------|------------------|-------------|
| 12 September 2014 | 4,889,914 | 2.5p |
| 20 November 2014 | 3,709,138 | 1.7p |
| 20 January 2015 | 8,099,512 | 0.8p |
| 12 March 2015 | 9,402,198 | 0.6p |

On 21 April 2015 and 22 May 2015 425,000,000 shares were issued for cash at 0.3p to redeem the outstanding loan notes under the Bergen facility and to fund the working capital requirements of the group.

Share Options:

At 30 June 2015, the following options over ordinary shares have been granted to directors and employees to the company and remain unexercised:

| Date of grant | Number of shares | Exercise price | Exercise period |
|------------------|------------------|----------------|--------------------------------------|
| 14 November 2012 | 1,150,000 | 3p | 14 November 2014 to 13 November 2018 |
| 01 May 2013 | 500,000 | 3p | 1 May 2014 to 13 November 2018 |
| 11 July 2014 | 2,900,000 | 3p | 11 July 2015 to 13 November 2018 |
| 11 July 2014 | 16,000,000 | 4p | 11 July 2015 to 11 July 2020 |
| 27 February 2015 | 2,444,686 | 0.9p | 27 August 2015 to 27 August 2020 |
| | <hr/> <hr/> | | |
| | 22,994,686 | | |

Warrants:

At 30 June 2015 the following warrants over ordinary shares have been and remain unexercised:

| Date of grant | Number of shares | Exercise price | Exercise period |
|---------------|------------------|----------------|------------------------------|
| 16 May 2014 | 1,250,000 | 2p | 16 May 2014 to 16 May 2016 |
| 02 March 2015 | 1,000,000 | 2p | 02 March 2015 to 16 May 2016 |
| 16 May 2014 | 55,012,073 | 5p | 16 May 2014 to 16 May 2016 |
| 02 March 2015 | 10,000,000 | 5p | 02 March 2015 to 16 May 2016 |
| 16 May 2014 | 1,250,000 | 7.5p | 16 May 2014 to 16 May 2017 |
| 02 March 2015 | 1,500,000 | 7.5p | 02 March 2015 to 16 May 2016 |
| 16 May 2015 | 1,250,000 | 10p | 16 May 2014 to 16 May 2018 |
| 02 March 2015 | 2,000,000 | 10p | 02 March 2015 to 16 May 2016 |
| | <hr/> <hr/> | | |
| | 73,262,073 | | |

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For the year ended 30 June 2015

17. Share based payments

Equity – settled share option plan

The Group unapproved share option scheme was established to provide equity incentives to the directors of, employees of and consultants to the company. The scheme rules provide that the Board shall determine the exercise price, vesting period and vesting criteria. The vesting period is generally 1 year. If options remain unexercised after a period of 4 or 5 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

| | Options Number | Weighted average exercise price |
|---------------------------------|-------------------|--|
| Options at 1 July 2014 | 1,650,000 | 3p |
| Options granted during the year | 19,294,686 | 3.5p |
| Options at 30 June 2015 | <u>20,944,686</u> | <u>3.4p</u> |
| Exercisable at the year end | <u>1,650,000</u> | <u>3p</u> |

At 30 June 2015 the weighted average remaining contractual life of the options outstanding was 4.75 years (2014: 4.4 years)

The fair value of services received in return for the share is options granted is measured by reference to the value of the share options granted. This is estimated using the Black-Scholes model which is considered the most appropriate considering the effects of the vesting criteria, exercise price and the payment of the dividend by the Company. The fair value of the options granted during the year was determined using the following assumptions:

- Share price at the date of grant was the average mid-market closing price for the three days immediately prior to grant.
 - The risk free rate ranged from 1.01% to 1.60% based on the gilt yield over the vesting period at the date of grant.
 - The annual dividend yield is expected to be nil based on management's immediate intention to reinvest operating cash flows.
 - The annual volatility ranged from 95.4% to 112% and is derived from the daily share prices of the Company over the year preceding the date of grant.
 - The options vest 6 to 12 months following the date of grant or upon satisfaction of specified vesting criteria. The weighted average exercise period range is 2.2 to 2.75 years being approximately 50% of the exercise period.
- The fair value of options granted during the period ranged from 0.52p to 2.04p.

A charge of \$387,000 (2014:\$12,000) has been recognised in the income statement.

African Potash Limited

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For the year ended 30 June 2015

17. Share based payments (continued)

Warrants

On 16 May 2014 warrants over ordinary shares have been granted to the investors and Hedgestone Advisory (Pty) Ltd pursuant to the placing on 12 May 2015 and remain unexercised.

On 2 March 2015 warrants over 14,500,000 ordinary shares were granted as staff incentives

| | Warrants Number | Weighted average exercise price |
|--------------------------|--------------------|--|
| Warrants at 1 July 2014 | 58,762,073 | 5.1p |
| Issued during the year | 14,500,000 | 5.7p |
| Warrants at 30 June 2015 | <u>73,262,073</u> | <u>5.2p</u> |
| Exercisable at year end | <u>73,262,073</u> | <u>5.2p</u> |

At 30 June 2015 the weighted average remaining contractual life of the warrants outstanding was 1 year (2014: 2 years)

The fair value of the warrants granted during the year was determined using the Black-Scholes option pricing model using the following assumptions:

- Share price at the date of grant was the average mid-market closing price for the three days immediately prior to grant; 0.9p.
- The risk free rate was 1.6% based on the gilt yield over the vesting period at the date of grant.
- The annual dividend yield is expected to be nil based on management's immediate intention to reinvest operating cash flows.
- The annual volatility was 95.6% and is derived from the daily share prices of the Company over the year preceding the date of grant.
- The warrants vest immediately and the weighted average exercise period is 1.2 years being 100% of the exercise period.
- The fair value of warrants granted during the period ranged from 0.01p to 0.2p.

A charge of \$4,000 (2014:\$nil) has been recognised in the income statement.

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18. Convertible loan notes

On 8 August 2014 the company announced that it had entered into a convertible securities issuance deed (the "Deed") with Bergen Opportunity Fund, LP ("Bergen"), an institutional investment fund managed by Bergen Asset Management, LLC, a New York asset management firm, in connection with an issuance by the Company of zero coupon convertible securities having a nominal amount of up to US\$3,750,000 (the "Convertible Securities").

On 14 August 2014 the initial Convertible Security was issued with a nominal value of US\$830,000 and a purchase price of US\$750,000. On 13 November 2014 the Company issued a second Convertible Security with a nominal value and purchase price of US\$500,000.

During the year, Bergen exercised its right to convert its Convertible Securities as follows:

| Date | Number of Shares | Issue price |
|-------------------|------------------|-------------|
| 12 September 2014 | 4,889,914 | 2.5p |
| 20 November 2014 | 3,709,138 | 1.7p |
| 20 January 2015 | 8,099,512 | 0.8p |
| 12 March 2015 | 9,402,198 | 0.6p |

On 9 February 2015 the Deed was terminated by mutual consent of the parties.

The outstanding Convertible Securities were repaid from the proceeds of the placing on 21 April 2015 with a penalty charge of US\$135,000.

19. Related party disclosures

1. AS Groves, a director of the Company during the year, is also a director of African Management Services Limited ("AMS"). No provisions have been made in respect of amounts owed by or to related parties.

During the year AMS provided accounting, treasury and administrative services to the Company for a management fee of \$23,000 (2014: \$172,000). As at 30 June 2015 the Company owed to AMS \$23,000 (2014: \$131,000). This has been settled after the year end.

2. M. Mouanda Makosso holds an interest in the non-controlling interest in La Société des Potasses et des Mines. M. Makosso received a consultancy fee of \$61,000 (2014:\$68,000).
3. The bridge loan drawn down on 2 December 2015 (see note 22) has been provided by Mrs K Clayton, the wife of the Company's CFO,
4. Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual directors is provided in note 7.

| | 2015 \$'000 | 2014 \$'000 |
|------------------------------|----------------|----------------|
| Short-term employee benefits | <u>309</u> | <u>371</u> |
| | <u>309</u> | <u>371</u> |

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For the year ended 30 June 2015

20. Deferred consideration

On 22 February 2013, the Group acquired 100% of African Potash Mauritius Limited ("AFPM") which holds a 70% interest in the equity of SPM, the company which holds the Lac Dinga exploration licence.

Deferred consideration is payable in two tranches:

- On commencement of commercial exploration activities, \$0.8m is payable in cash and the balance by the issue of new ordinary shares, the number of which is based on issuing the equivalent of \$3.3m at a price of 10p per share. The fair value of this tranche of shares is \$1.2m.
- On issuing a maiden resource statement a further \$4.3m is payable by the issue of new ordinary shares, the number of which is based on issuing the equivalent of \$4.3m at a price of 10p per share. The fair value of this tranche of shares is \$1.6m.

The equity element of deferred consideration is classified as shares to be issued.

The fair value of the shares issued and to be issued as consideration was determined on the basis of the market value at the date of acquisition.

21. Capital commitments

At 30 June 2015 the group had no contractual commitments. (At 30 June 2014 La Société des Potasses et des Mines S.A. had contracted with a drilling company for an exploratory drill programme at a cost of \$950,000).

22. Post balance sheet events

On 1 December 2015 it has entered into an agreement with Beryl Holdings Pty Limited ('Beryl Holdings'), a South African investment firm, to collaborate in terms of its fertiliser trading operations in Southern and Eastern Africa, whereby Beryl's main fertiliser trading activities (which include trading, logistics and financing) will be restructured and operated via a newly formed Mauritian company, which will become a wholly owned subsidiary of African Potash. On the basis that the new company achieves an EBITDA of at least US\$4m in the first twelve months from the date of acquisition, then the Company will issue 306,513,410 new ordinary shares representing a value of \$12,000,000.

On 2 December 2015, the Company announced that it has entered into a unsecured bridge loan agreement with a term of 9 months for an amount of \$1,125,000. An arrangement fee of \$90,000 was payable on drawdown and interest is charged at 1.5% per month.

On 16 December 2015, the Company subscribed for 8,750,000 ordinary shares at a price of 0.8 pence per ordinary share, representing 4.74 per cent. of the enlarged share capital of Blenheim Natural Resources Plc.



AFRICAN POTASH