DANAKALI

DANAKALI LIMITED

ABN 56 097 904 302

FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2017

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2016 and any public announcements made by Danakali Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Corporate Information

Directors

Seamus Ian Cornelius	(Non-Executive Chairman)
Paul Michael Donaldson	(Managing Director)
Liam Raymond Cornelius	(Non-Executive Director)
John Daniel Fitzgerald	(Non-Executive Director)
Jing Zhang	(Non-Executive Director)
Robert Gordon Connochie	(Non-Executive Director)

Executive Management

Paul Michael Donaldson	(Managing Director & Chief Executive Officer)
Stuart Tarrant	(Chief Financial Officer)

Joint Company Secretaries

Catherine Grant-Edwards
Melissa Chapman

Registered Office & Principal Place of Business

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Churchill Court
SUBIACO WA 6008

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Facsimile:	+61 (0)8 9467 9119

Bank

ANZ
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WEST PERTH WA 6005

Share Register

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Level 11, 172 St Georges Terrace
PERTH WA 6000

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Telephone:	+61 (0)3 9415 4000 (Outside Australia)
Facsimile:	+61 (0)3 9473 2500

www.computershare.com

Auditors

Ernst & Young
11 Mounts Bay Road
PERTH WA 6000

Website

www.danakali.com.au

Stock Exchange Listing

Danakali Limited Shares (Code: DNK) are listed on the Australian Stock Exchange.

American Depository Receipts

The Bank of New York Mellon sponsors DNK's Level 1 American Depository Receipts Program (ADR) in the United States of America. DNK's ADRs are traded on the over-the-counter (OTC) securities market in the US under the symbol DNKLY and CUSIP: 23585T101. One ADR represents one ordinary share in DNK.

US OTC Market information is available here: http://www.otcmarkets.com/stock/DNKLY/quote

DNK's ADR information can also be viewed here: http://www.adrbnymellon.com/dr_profile.jsp?cusip=23585T101

ADR Holders seeking information on their shareholding should contact: shrrelations@bnymellon.com OR

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Directors' Report

Your directors submit their report together with the condensed financial statements of the consolidated entity, being Danakali Limited (**Danakali** or the **Company**) and its controlled entities (the **Group**) for the half year ended 30 June 2017.

DIRECTORS

The names of the directors who held office during or since the end of the half year are:

- Seamus Ian Cornelius (Non-Executive Chairman)
- Paul Michael Donaldson (Managing Director)
- Liam Raymond Cornelius (Non-Executive Director)
- John Daniel Fitzgerald (Non-Executive Director)
- Zhang Jing (Non-Executive Director)
- Robert Gordon Connochie (Non-Executive Director) – Appointed 6 February 2017
- Anthony William Kiernan (Non-Executive Director) – Resigned 6 February 2017

The Directors held their positions throughout the entire half year period and up to the date of this report unless stated otherwise.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the period was advancing the Colluli Potash Project in Eritrea, East Africa. There was no significant change in the nature of the Group's activities during the six months to 30 June 2017.

REVIEW AND RESULTS OF OPERATIONS

The net loss after tax of the Group for the half-year ended 30 June 2017 amounted to $4,870,508 (30 June 2016: $3,066,451).

Total consolidated cash on hand at the end of the period was $18,539,087 (31 December 2016: $10,904,760).

CORPORATE

Board Changes

Mr Robert Connochie was appointed as a non-executive director to the board of Danakali on 6 February 2017. Mr Connochie is a highly experienced potash and mining specialist with over 40 years of industry experience. He brings extensive senior line management experience from the potash industry, including marketing, corporate development, evaluations, financing and acquisitions.

Mr Connochie previously held positions as Chairman of Canpotex (a world leading potash exporter for 40 years) and Chairman of Behre Dolbear Capital, Inc. Further, Mr Connochie was Chairman and CEO of Potash Company of America, CEO of Asia Pacific Potash, Director of Athabasca Potash, Chairman of the Phosphate and Potash Institute, Director of Fertiliser Institute, and Director of the Saskachewan Potash Producers Association.

Mr Anthony Kiernan resigned as a non-executive director of the Company with effect from 6 February 2017.

Chief Financial Officer Appointment

During the period, the board announced the appointment of Mr Stuart Tarrant as the Company's new Chief Financial Officer effective 12 June 2017. Mr Tarrant, formerly Head of Finance of Danakali, a fellow of the Association of Chartered Certified Accountants (**ACCA**) and former accounting executive with both BHP and HWE Mining has extensive experience in the mining industry with core skills in financial modelling, financial systems development, procurement, budgeting, and cost analysis and optimisation. Mr Tarrant has established relationships with Endeavour Financial who are progressing the procurement led funding process for the project financing of the Colluli Suphate of Potash Project, and was responsible for the development and integrity of the Colluli financial model underpinning the prefeasibility and definitive feasibility studies.

Project Manager Appointment

During the period, Mr Tony Harrington was appointed as Project Manager for the construction phase of the Colluli Potash Project. Mr. Harrington has over 37 years' experience in the mining industry delivering EPC, lump sum and Engineering, Procurement, Construction Management (**EPCM**) projects in the capacity of both client representative and service provider over a diverse range of commodities, with a wide range of mineral processing units, across multiple jurisdictions including East Africa, West Africa, Southern Africa, China, Continental Europe, UK and Australia. Mr. Harrington has extensive experience in construction and assembly of surface infrastructure, materials handling systems, flotation circuits, pumping systems, tanks, cyclones, liberation circuits, thickeners and tailings storage facilities. He brings significant experience and an excellent track record in working in remote locations in developing jurisdictions.

Placement

On 23 May 2017, Danakali issued 19,920,645 shares (**Placement Shares**) to institutional and sophisticated investors in the United Kingdom and Australia to raise gross proceeds of A$12.35 million at an issue price of $0.62 cents per share (**Placement**).

The Placement Shares were issued using the Company's 15% capacity pursuant to Listing Rule 7.1.

Shares

During the period, the Company issued the following fully paid ordinary shares:

- 19,920,645 shares at an issue price of $0.62 each (being the Placement Shares);
- 1,134,546 shares on exercise of unlisted options at $0.35 each
- 351,000 shares on exercise of unlisted options at $0.405 each
- 200,000 shares on exercise of unlisted options at $0.408 each
- 775,000 shares on vesting of performance rights (Class 2: 75,000; Class 4: 700,000)

At 30 June 2017, there were a total of 246,875,868 fully paid ordinary shares on issue.

Options

During the period, the Company issued the following unlisted options:

- 1,440,000 unlisted options exercisable at $0.94 each expiring 19 May 2020
- 400,000 unlisted options exercisable at $0.96 each expiring 20 June 2019

The following unlisted options were exercised and converted to shares during the period:

- 1,134,546 unlisted options exercisable at $0.35 each expiring 30 March 2018
- 351,000 unlisted options exercisable at $0.405 each expiring 13 May 2018
- 200,000 unlisted options exercisable at $0.408 each expiring 4 November 2018

The following unlisted options were cancelled during the period:

- 800,000 unlisted options exercisable at $0.408 each expiring 4 November 2018 were cancelled

There were no unlisted options that expired during the period.

At 30 June 2017, there were a total of 24,567,640 unlisted options on issue at various exercise prices and expiry dates.

Performance Rights

During the period, the Company issued the following performance rights:

- 100,000 Class 5 performance rights
- 50,000 Class 6 performance rights

The following performance rights vested and were converted to shares during the period:

- 75,000 Class 2 performance rights vested and converted to shares
- 700,000 Class 4 performance rights vested and converted to shares

The following performance rights were forfeited during the period:

- 75,000 Class 2 performance rights were forfeited

At 30 June 2017, there were a total of 1,258,000 performance rights on issue in the following classes:

- 308,000 Class 1 performance rights
- 800,000 Class 4 performance rights
- 100,000 Class 5 performance rights
- 50,000 Class 6 performance rights

Annual General Meeting

The Company's annual general meeting was held on 19 May 2017 (**AGM**). All resolutions put to the meeting were passed.

PROJECT OVERVIEW

The Colluli Potash Project (**Colluli** or **the Project**), is located in the Danakil region of Eritrea, East Africa. Colluli is 100% owned by the Colluli Mining Share Company (**CMSC**), a 50:50 joint venture between Danakali and the Eritrean National Mining Corporation (**ENAMCO**).

The proven large resource, with low development capital intensity and, project scalability, estimated bottom quartile operating costs, product diversification potential and ease of access to global markets, supports a Tier 1 asset definition. An estimated mine life of over 200 years, at production rate increasing to 850ktpa defined during the definitive feasibility study demonstrates growth potential over decades.

The Project's resource comprises almost 1.3 billion tonnes of potassium-bearing salts suitable for the production of potash fertilisers, approximately 350 million tonnes of high quality rock salt (sodium chloride), which overlays the potash mineralisation, and over 85 million tonnes of kieserite (magnesium sulphate) which is a suitable fertiliser for magnesium deficient soils. Over 1.1 billion tonnes of the potassium bearing salts is included in the Ore Reserve.

Mineralisation commences at a depth from surface of 16m, making Colluli the world's shallowest evaporite deposit. The resource is amenable to open pit mining, which provides a very high resource to reserve conversion, and is generally safer, cheaper and more efficient than underground mining. Open cut mining is highly advantageous for low cost modular growth.

Colluli is located in close proximity to both a deep-water port and established infrastructure and is favourably positioned to supply the world's fastest growing markets. The deposit is approximately 60km from the Red Sea coast, making it one of the most accessible potash deposits globally. By road it is approximately 350km south-east of the capital, Asmara and 230km by road from the port of Massawa, a six-berth bulk and container loading facility, and which is Eritrea's key import / export operation.

Danakali has completed a two-phased definitive feasibility study (**DFS**) for the production of potassium sulphate (**Sulphate of Potash** or **SOP**). SOP is a chloride free, multi-nutrient, specialty fertiliser which carries a substantial price premium relative to the more common potash type; potassium chloride (**MOP**). Economic resources for primary production of SOP are geologically scarce and there are few current producers.

The unique composition of the Colluli resource favours low energy input, high potassium yield conversion to SOP using commercially proven technology. One of the key advantages of the resource is that the salts are present in solid form (in contrast with production of SOP from brines) which reduces infrastructure costs and substantially reduces the time required to achieve full production capacity.

The DFS results are highly attractive with project economics over the two-phase development resulting in an estimated internal rate of return (**IRR**) of 29%. The first phase of the development requires an estimated initial development capital of US$298m and as a standalone project has an IRR of over 25%.

In addition to the production of SOP, the Colluli resource has the capability of producing potassium magnesium sulphate (**SOPM**), potassium chloride (**MOP**), allowing production of three of the four key potash types traded globally. The multi-agri-commodity potential is further supported by the ability to produce polyhalite and magnesium sulphate monohydrate (kieserite).

With the award of the Mining Licences and approval of the Mining Agreement in February 2017 (as detailed below), the permitting process is now complete allowing the finalising of marketing activities, design engineering and financing through to construction and operation.

Mining Agreement Executed and Mining Licenses Awarded

As announced on 1 February 2017, the Colluli Mining Share Company (**CMSC**) entered into a mining agreement (**Mining Agreement**) with the Eritrean Ministry of Energy and Mines (**MoEM**) and was awarded mining licenses (**Mining Licenses**) for the exploitation of mineral resources within the Colluli tenements.

The Mining Agreement is applicable to the entire 1.3 billon tonne JORC-2012 compliant resource, and provides exclusive rights to CMSC to apply for mining licenses to exploit the potassium, magnesium, calcium and sodium salts within the resource, as well as bromine.

The award of the Mining Licenses follows the completion of a series of pre-requisites including the completion and submission of the DFS, submission of a comprehensive social and environmental impact assessment and associated management plans, a series of pre and post DFS stakeholder engagements with local and regional communities and stakeholders, and the signing of the Mining Agreement.

Fluor Appointed as Front-End Engineering Design (FEED) and Optimisation Lead for Colluli Project

As announced on 9 January 2017, internationally recognised and highly reputable construction and engineering company Fluor, was awarded the contract to conduct the FEED and optimisation work for the Colluli project. Global Potash Solutions, Elemental Engineering (**EE**) and Knight Piésold joined the FEED team to optimise and refine the DFS engineering, further refine capital and operating cost estimates and prepare the project for construction.

GPS oversaw the metallurgical test program, process flowsheet development and initial optimisation work for the Colluli potash project throughout the prefeasibility and definitive feasibility study phases of the project and have worked closely with the Fluor process engineering team and EE to finalise the process, select the plant equipment and develop commissioning procedures.

Since their appointment, Fluor has continued to successfully advance the FEED of the Colluli Project.

Other Project Highlights

Other key highlights during the period include:

- Commencement of value engineering and optimisation as part of FEED
- Increased expected production capacity following debottlenecking of plant configuration to deliver an additional 47kt per annum SOP
- Commissioning of telecommunications tower completed
- FEED level evaluation of in-country infrastructure, construction facilities, concrete production facilities and road transport delivery capacity completed
- Civil engineering site visit and in-country pre-construction evaluation completed
- Earthworks tendering packages developed and distributed
- Completion of pre-construction geotechnical investigations at the Colluli Project site
- Optimisation of plant site and pond material volumes completed with significant reduction in pond areas and earthworks volumes
- Improvement in brine circuit configuration to potentially reduce pond sizes
- Refinement of mining schedules and initiation of formal tendering process for the mining contract
- Completion of revised power consumption requirement for FEED production capacity

- Completion of comprehensive logistics survey for future construction activities
- Detailed procurement lists and tender packages for the FEED design developed and distributed
- Appointment of Turner & Townsend as project manager consultants for the execution of contract scope
- Appointment of Inglett and Stubbs as the preferred power provider
- Advancement of commercial terms for power generation

PROJECT UPDATE

OFFTAKE

Danakali is progressing its well-defined offtake strategy. The strategy is being executed in line with the planned time line and commercial discussions are progressing well. Negotiations are advancing towards final binding offtake agreements.

In line with the offtake strategy, binding agreements are expected to be finalised later in the year. Dialogue continues with a range of prominent offtake parties in Europe, Africa, America, and the Middle East including end-users, producers, and traders. Industry interest in securing SOP offtake remains high, with the aggregate offtake volumes requested by parties significantly exceeding the Company's revised stage one production forecast of 472,000 tonnes of SOP per annum.

In May 2017, Danakali attended the IFA Annual Fertiliser Conference in Marrakesh. This is recognised as the most prominent fertiliser conference on the industry calendar, and attended by key industry participants from many parts of the globe. The event presented an opportunity to further progress negotiations with key industry players, and broaden the number of parties that are progressing discussions.

Danakali was elected to Associate Membership of IFA at the general meeting held on 24 May 2017. Membership provides a range of benefits, including the opportunity to actively participate in the work of the Agriculture, Production and International Trade, Technical and SHE and Communications and Public Affairs Committees. Following the conference, requests were made from additional prospective offtake parties for Colluli SOP samples for testing in their respective laboratories. The feedback from parties following testing is consistent with previous feedback which confirms that the SOP produced from the Colluli resource and process meets the strict quality requirements of the industry.

FUNDING

In addition to its engineering capabilities, Fluor has extensive capability and experience in assisting clients to arrange procurement based financing for their projects. During the period, the procurement packaging phase continued. The information collated is used to contact Export Credit Agencies (**ECAs**) to explore export credit loans and loan guarantees that is closely aligned with the procurement sourcing strategy.

Danakali and CMSC's debt advisor, Endeavour Financial (**EF**) have identified ECA's and Development Fund Institutions (**DFIs**) and discussions continue to develop in line with the procurement packaging. Danakali and EF are also engaging commercial lenders to complement the procurement based solution and maintain discussions with selected commercial lenders who have shown interest in providing funding for the Project. Danakali continues to work closely with its equity advisors to optimise other opportunities that could form part of the overall funding solution.

RESERVE AND RESOURCE OVERVIEW

Within the JORC-2012 compliant, 1.289 billion tonnes, Mineral Resource Estimate, the JORC-2012 compliant Ore Reserve Estimate for Colluli's potassium sulphate potash fertiliser is approximately 1.1 billion tonnes comprising 287 million tonnes of Proved and 827 million tonnes of Probable Ore Reserve and is shown below in Table 1. There have been no changes to the Ore Reserve since 30 November 2015.

Table 1: JORC-2012 Colluli Potassium Sulphate Ore Reserve as at 30 November 2015

Occurrence	Proved		Probable		Total			
	Mt	K_2O Equiv %	Mt	K_2O Equiv %	Mt	K_2O Equiv %	K_2SO_4 Equiv %	K_2SO_4 Equiv Mt[1]
Sylvinite **(KCl.NaCl)**	78	15	174	12	253	13		
Carnallitite **($KCl.MgCl_2.H_2O$)**	79	7	284	8	363	8		
Kainitite **($KCl.MgSO_4.H_2O$)**	130	12	368	11	497	11		
Total	**287**	**11**	**827**	**10**	**1,113**	**10**	**18.5**	**205**

In addition to the potassium sulphate resource, substantial quantities of rock salt exist that will be mined at a rate of approximately 2 million tonnes per year. This presents the opportunity for commercialisation to offset a proportion of the mining costs as well as other potential benefits. A JORC-2012 compliant Rock Salt Mineral Resource Estimate of over 300

[1] Equivalent K_2SO_4 (SOP) calculated by multiplying %K_2O by 1.85.

million tonnes has been completed for the area considered for mining in the DFS (Table2). There have been no changes to the Mineral Resource estimate since 23 September 2015.

Table 2: JORC 2012 Colluli Rock Salt Mineral Resource as at 23 September 2015

Classification	Tonnes (Mt)	NaCl	K	Mg	$CaSO_4$	Insolubles
Measured	28	97.2	0.05	0.05	2.2	0.23
Indicated	180	96.6	0.07	0.06	2.3	0.24
Inferred	139	97.2	0.05	0.05	1.8	0.25
Total	**347**	**96.9**	**0.06**	**0.05**	**2.1**	**0.24**

INTERESTS IN MINING TENEMENTS

The exploration license for the Colluli Potash Project covers over 200km^2 and the seven mining licenses awarded to CMCS span over 60km^2 of the 100km^2 Agreement area. Further details are provided below. There was no change in tenement holding during the period.

Tenement: Colluli, Eritrea
License Type: Mining License
Nature of Interest: Owned
Current Equity: 50%

SUSTAINABLE DEVELOPMENT FRAMEWORK

Danakali and the Colluli Mining Share Company (**CMSC**) has a strong commitment to sustainable development which is underpinned by the principles that mineral projects should be financially, technically and environmentally sound and socially responsible.

The company has a Sustainable Development Framework to govern its Corporate Social Responsibilities (**CSR**) and Sustainability, which is aligned with its Corporate Governance Framework. The following policies have been implemented and will directly support the management plans associated with the SEIA and SEMP for the project.

- DNK Human Rights Policy
- DNK Health and Safety Policy
- DNK Environmental Policy
- DNK Community Policy
- DNK Anti-Corruption Policy

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no other significant changes in the Company's state of affairs other than that referred to in the financial statements or notes thereto.

EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Effective 7 July 2017, Ms Catherine Grant-Edwards and Ms Melissa Chapman were appointed joint company secretaries of Danakali. Mr Christiaan Els resigned as company secretary of the Company on 7 July 2017.

On 7 August 2017, the Company announced the commencement of the bidding process for the mining contract.

There are no other events subsequent to 30 June 2017 and up to the date of this report that would materially affect the operations of the Group or its state of affairs which have not otherwise been disclosed in this financial report.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

This report is made in accordance with a resolution of directors.

Seamus Ian Cornelius
CHAIRMAN

Perth, 13 September 2017

Competent Persons and Responsibility Statement

Competent Persons Statement (Rock Salt Resource)

Colluli has a JORC 2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 347Mt @97% NaCl. The resource contains 28Mt @ 97% NaCl of Measured Resources, 180Mt @ 97% NaCl of Indicated Resources and 139Mt @ 97% NaCl of Inferred Resources.

The information relating to the Colluli Rock Salt Mineral Resource estimate was compiled by Mr. John Tyrrell. Mr. Tyrrell is a member of the Australasian Institute of Mining and Metallurgy (AusIMM) and a full-time employee of AMC. Mr. Tyrrell has more than 25 years' experience in the field of Mineral Resource estimation. He has sufficient experience relevant to the style of mineralisation and type of the deposit under consideration, and in resource model development, to qualify as a Competent Person as defined in the JORC Code.

Mr Tyrrell consents to the inclusion of the information relating to the rock salt Mineral Resource in the form and context in which it appears.

Competent Persons Statement (Sulphate of Potash Resource)

Colluli has a JORC 2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 1,289Mt @11% K20. The resource contains 303Mt @ 11% K20 of Measured Resources, 951Mt @ 11% K20 of Indicated Resources and 35Mt @ 10% K20 of Inferred Resources.

The information relating to the 2015 Colluli Mineral Resource estimate was compiled by Mr. John Tyrrell, under the supervision of Mr. Stephen Halabura M. Sc. P. Geo. Fellow of Engineers Canada (Hon), Fellow of Geoscientists Canada, and as a geologist with over 25 years' experience in the potash mining industry. Mr. Tyrrell is a member of the Australian Institute of Mining and Metallurgy and a full-time employee of AMC. Mr. Tyrrell has more than 25 years' experience in the field of Mineral Resource estimation.

Mr. Halabura is a member of the Association of Professional Engineers and Geoscientists of Saskatchewan, a Recognised Professional Organisation (RPO) under the JORC Code and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code).

Mr. Tyrrell & Mr. Halabura consent to the inclusion of information relating to the 2015 Resource Statement in the form and context in which it appears.

Competent Persons Statement (Sulphate of Potash Reserve)

The November 2015 Colluli Ore Reserve is reported according to the JORC Code and estimated at 1,113Mt @10% K2O Equiv. The Ore Reserve is classed as 286Mt @ 11% K2O Equiv Proved and 827Mt @ 10% K2O Equiv Probable. The Competent Person for the estimate is Mr Mark Chesher, a mining engineer with more than 30 years' experience in the mining industry. Mr. Chesher is a Fellow of the AusIMM, a Chartered Professional, a full-time employee of AMC Consultants Pty Ltd, and has sufficient open pit mining activity experience relevant to the style of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the JORC Code. Mr Chesher consents to the inclusion of information relating to the Ore Reserve in the form and context in which it appears.

In reporting the Mineral Resources and Ore Reserves referred to in this public release, AMC Consultants Pty Ltd acted as an independent party, has no interest in the outcome of the Colluli Project and has no business relationship with Danakali Ltd other than undertaking those individual technical consulting assignments as engaged, and being paid according to standard per diem rates with reimbursement for out-of-pocket expenses. Therefore, AMC Consultants Pty Ltd and the Competent Persons believe that there is no conflict of interest in undertaking the assignments which are the subject of the statements.

Quality Control and Quality Assurance

Danakali Exploration programs follow standard operating and quality assurance procedures to ensure that all sampling techniques and sample results meet international reporting standards. Drill holes are located using GPS coordinates using WGS84 Datum, all mineralisation intervals are downhole and are true width intervals.

The samples are derived from HQ diamond drill core, which in the case of carnallite ores, are sealed in heat sealed plastic tubing immediately as it is drilled to preserve the sample. Significant sample intervals are dry quarter cut using a diamond saw and then resealed and double bagged for transport to the laboratory.

Halite blanks and duplicate samples are submitted with each hole. Chemical analyses were conducted by Kali-UmwelttechnikGmBHSondershausen, Germany utilising flame emission spectrometry, atomic absorption spectroscopy and ionchromatography. Kali- Umwelttechnik (KUTEC) Sondershausen1 have extensive experience in analysis of salt rock and brine samples and is certified according by DIN EN ISO/IEC 17025 by the Deutsche AkkreditierungssystemPrüfwesen GmbH (DAR). The laboratory follows standard procedures for the analysis of potash salt rocks chemical analysis (K+, Na+, Mg2+, Ca2+, Cl-, SO42-, H2O) and X-ray diffraction (XRD) analysis of the same samples as for chemical analysis to determine a qualitative mineral composition, which combined with the chemical analysis gives a quantitative mineral composition.

Forward Looking Statements and Disclaimer

The information in this document is published to inform you about Danakali (the “Company” or “DNK”) and its activities. DNK has endeavoured to ensure that the information enclosed is accurate at the time of release, and that it accurately reflects the Company’s intentions. All statements in this document, other than statements of historical facts, that address future production, project development, reserve or resource potential, exploration drilling, exploitation activities, corporate transactions and events or developments that the Company expects to occur, are forward-looking statements. Although the Company believes the expectations expressed in such statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements.

Factors that could cause actual results to differ materially from those in forward-looking statements include market prices of potash and, exploitation and exploration successes, capital and operating costs, changes in project parameters as plans continue to be evaluated, continued availability of capital and financing and general economic, market or business conditions, as well as those factors disclosed in the Company’s filed documents.

There can be no assurance that the development of the Colluli Project will proceed as planned. Accordingly, readers should not place undue reliance on forward looking information. Mineral Resources and Ore Reserves have been reported according to the JORC Code, 2012 Edition. To the extent permitted by law, the Company accepts no responsibility or liability for any losses or damages of any kind arising out of the use of any information contained in this document. Recipients should make their own enquiries in relation to any investment decisions.

Mineral Resource, Ore Reserve and financial assumptions made in this presentation are consistent with assumptions detailed in the Company’s ASX announcements dated 25 February 2015, 4 March 2015, 19 May 2015, 23 September 2015, 30 November 2015, 15 August 2016 and 1 February 2017 which continue to apply and have not materially changed. The Company is not aware of any new information or data that materially affects assumptions made.

Building a better working world

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Auditor's Independence Declaration to the Directors of Danakali Limited

As lead auditor for the review of Danakali Limited for the half-year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Danakali Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
13 September 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE HALF YEAR ENDED 30 JUNE 2017

		Half Year Ended	
		30 June 2017	30 June 2016
	Notes	$	$
REVENUE			
Interest income		102,303	40,259
Accretion relating to the unwinding of discount	5	573,325	905,588
EXPENSES			
Depreciation expense		(1,525)	(2,746)
Administration expenses		(870,577)	(1,388,819)
Share based payment expense		(1,026,210)	(484,856)
Loss on re-measurement of loan to joint venture carried at amortised cost	5	(1,005,001)	(1,838,616)
Share of net loss of joint venture	5	(2,211,406)	(104,548)
Foreign exchange loss		(431,417)	(192,713)
LOSS BEFORE INCOME TAX		**(4,870,508)**	**(3,066,451)**
Income tax expense		-	-
NET LOSS FOR THE PERIOD		**(4,870,508)**	**(3,066,451)**
OTHER COMPREHENSIVE LOSS			
Items that may be reclassified to profit and loss			
Share of foreign currency translation reserve relating to joint venture		(733,109)	(225,595)
TOTAL OTHER COMPREHENSIVE LOSS FOR THE PERIOD		**(733,109)**	**(225,595)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(5,603,617)**	**(3,292,046)**
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic loss per share (cents per share)		(2.14)	(1.66)
Diluted loss per share (cents per share)		(2.14)	(1.66)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements .

Consolidated Statement of Financial Position

AS AT 30 JUNE 2017

	Notes	30 June 2017 $	31 December 2016 $
CURRENT ASSETS			
Cash and cash equivalents		18,539,087	10,904,760
Trade and other receivables	4	180,505	93,985
Prepayments		12,550	25,101
TOTAL CURRENT ASSETS		**18,732,142**	**11,023,846**
NON-CURRENT ASSETS			
Receivables	4	9,588,053	9,519,503
Investment in joint venture	5	14,029,994	13,502,312
Plant and equipment		10,953	7,920
TOTAL NON-CURRENT ASSETS		**23,629,000**	**34,053,581**
TOTAL ASSETS		**42,361,142**	**34,053,581**
CURRENT LIABILITIES			
Trade and other payables	6	756,601	210,742
Provisions		171,675	134,701
TOTAL CURRENT LIABILITIES		**928,276**	**345,443**
NON-CURRENT LIABILITIES			
Provisions		44,305	45,450
TOTAL NON-CURRENT LIABILITIES		**44,305**	**45,450**
TOTAL LIABILITIES		**972,581**	**387,893**
NET ASSETS		**41,388,561**	**33,665,688**
EQUITY			
Issued capital	7	74,058,600	61,758,320
Reserves	8	12,759,880	12,466,779
Accumulated losses	9	(45,429,919)	(40,559,411)
TOTAL EQUITY		**41,388,561**	**33,665,688**

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 30 JUNE 2017

	Notes	Issued Capital $	Reserves: Share Based Payments $	Reserves: Foreign Currency Translation $	Accumulated Losses $	Total Equity $
BALANCE AT 1 JANUARY 2017		**61,758,320**	**10,427,536**	**2,039,243**	**(40,559,411)**	**33,665,688**
Loss for the period		-	-	-	(4,870,508)	(4,870,508)
Other comprehensive loss		-	-	(733,109)	-	(733,109)
Total comprehensive income for the period		**-**	**-**	**(733,109)**	**(4,870,508)**	**(5,603,617)**
Transactions with owners in their capacity as owners:						
Shares issued during the period	7	12,971,646	-	-	-	12,971,646
Costs of capital raised	7	(671,366)	-	-	-	(671,366)
Share based payments		-	1,026,210	-	-	1,026,210
BALANCE AT 30 JUNE 2017		**74,058,600**	**11,453,746**	**1,306,134**	**(45,429,919)**	**41,388,561**
BALANCE AT 1 JANUARY 2016		**48,983,913**	**9,137,189**	**1,769,318**	**(35,633,853)**	**24,256,567**
Loss for the period		-	-	-	(3,066,451)	(3,066,451)
Other comprehensive loss		-	-	(225,595)	-	(225,595)
Total comprehensive income for the period		**-**	**-**	**(225,595)**	**(3,066,451)**	**(3,292,046)**
Transactions with owners in their capacity as owners:						
Shares issued during the period		5,489,048	-	-	-	5,489,048
Costs of capital raised		(232,175)	-	-	-	(232,175)
Share based payments		-	484,856	-	-	484,856
BALANCE AT 30 JUNE 2016		**54,240,786**	**9,622,045**	**1,543,723**	**(38,700,304)**	**26,706,250**

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 30 JUNE 2017

	Notes	Half Year Ended 30 June 2017 $	30 June 2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		85,782	37,071
Payments to suppliers and employees		(1,004,043)	(1,338,206)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(918,261)	(1,301,135)
CASH FLOWS FROM INVESTING ACTIVITIES			
Funding of joint venture		(3,743,134)	(1,536,127)
Payments for plant and equipment		(4,558)	(755)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(3,747,692)	(1,536,882)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares	7	12,971,646	5,489,048
Costs of capital raised	7	(671,366)	(232,175)
NET CASH INFLOW FROM FINANCING ACTIVITIES		12,300,280	5,256,873
NET INCREASE IN CASH AND CASH EQUIVALENTS		7,634,327	2,418,856
Cash and cash equivalents at the beginning of the financial period		10,904,760	2,756,341
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**18,539,087**	**5,175,197**

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

Danakali Limited (**Danakali** or the **Company**) is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange (**ASX**). The consolidated half year financial report of the consolidated group as at, and for the six months ended 30 June 2017 comprises the Company and its subsidiaries (together referred to as the **Group**).

The financial report of Danakali for the half year ended 30 June 2017 was authorised for issue by the Directors on 13 September 2017.

The nature of the operations and principal activities of the consolidated entity are described in the Directors' Report.

2. BASIS OF PREPARATION

(a) Basis of preparation

This condensed general purpose financial report for the half year ended 30 June 2017 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. It is recommended that the half year financial report be read in conjunction with the annual financial report for the financial year ended 31 December 2016 and considered together with any public announcements made by the Company during the half year ended 30 June 2017 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The half year financial report has been prepared on a historical cost basis and is presented in Australian dollars.

(b) New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of the new standards and interpretations effective as of 1 January 2017. Adoption of these standards and interpretations did not have any effect on the statements of financial position or performance of the Group. The Group has not elected to early adopt any new standards or amendments.

The following standards and interpretations apply for the first time for entities with year ending 31 December 2017:

Reference	Title	Summary
AASB 2016-1	*Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*	This Standard makes amendments to AASB 112 *Income Taxes* to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.
AASB 2016-2	*Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*	The amendments to AASB 107 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).
AASB 2017-2	*Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*	This Standard clarifies the scope of AASB 12 *Disclosure of Interests in Other Entities* by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

3. SEGMENT INFORMATION

The Group operates in the mining industry in Eritrea. For management purposes, the Group is organised into one main operating segment which involves the exploration of minerals in Eritrea. All of the Group's activities are interrelated and discrete financial information is reported to the Board (Chief Operating Decision Maker) as a single segment.

Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

With the exception of fixed assets which are located in Australia, the Group's non-current assets are geographically located in Eritrea.

4. TRADE AND OTHER RECEIVABLES

	30 June 2017 $	31 December 2016 $
Current		
Net GST receivable	80,676	28,546
Accrued interest	27,025	10,504
Trade debtors	-	652
Other receivables	1,554	2,283
Security bonds	71,250	52,000
	180,505	93,985
Non-Current		
Loan to Colluli Mining Share Company	9,588,053	9,519,503
	9,588,053	9,519,503

Danakali's wholly owned subsidiary, STB Eritrea Pty Ltd, is presently funding the Colluli Mining Share Company (**CMSC**) for the development of the Colluli Potash Project and 50% of the funding is represented in the form of a shareholder loan.

Repayment of this loan, as defined in the CMSC Shareholders Agreement, will be made preferentially from future operating cash flows. The shareholder loan is denominated in USD, non-interest bearing, unsecured and subordinate to any loans from third party secured lenders, under which CMSC may enter into in order to fund the Project Development Capital. For accounting purposes, the value of the loan has been discounted by applying an effective interest rate of 25%.

The undiscounted underlying loan balance at 30 June 2017 is $25,578,066 (31 December 2016: $24,993,066).

5. INVESTMENT IN JOINT VENTURE

The Group has an interest in the following joint arrangement:

		Equity Interest		Carrying Value	
Project	Activities	30 June 2017 %	31 December 2016 %	30 June 2017 $	31 December 2016 $
Colluli Potash	Mineral Exploration	50	50	14,029,994	13,502,312

The Group acquired an interest in Colluli Mining Share Company (**CMSC**) at the date of its incorporation on 5 March 2014. This acquisition was in accordance with a shareholders agreement entered into with the Eritrean National Mining Corporation (**ENAMCO**) and executed in November 2013 (**Shareholders Agreement**). CMSC was incorporated in Eritrea, in accordance with the Shareholders Agreement, to hold the Colluli project with Danakali and ENAMCO holding 50% of the equity each.

Pursuant to the terms of the Shareholders Agreement, at the date of incorporation of CMSC, consideration for the acquisition of shares in CMSC equates to half of the allowable historical exploration costs transferred to CMSC by STB Eritrea Pty Ltd, a wholly owned subsidiary of Danakali. The balance of the allowable historic exploration costs transferred to CMSC are recoverable via a shareholder loan account (see note 4).

The Group's 50% interest in CMSC is accounted for as a joint venture using the equity method. The following tables summarise the financial information of the Group's investment in CMSC at 30 June 2017.

	30 June 2017 $	31 December 2016 $
Investment in joint venture – Colluli Mining Share Company	14,029,994	13,502,312

	Half Year to 30 June 2017 $	Financial Year to 31 December 2016 $
Reconciliation of movement in investments accounted for using the equity method:		
Carrying amount at the beginning of the period	13,502,312	12,064,742
Additional investment during the period	3,472,197	1,868,088
Share of net losses for the period	(2,211,406)	(700,443)
Other comprehensive income for the period	(733,109)	269,925
Carrying amount at the end of the period	14,029,994	13,502,312

Summarised financial information of joint venture:

Notes to the Consolidated Financial Statements

	30 June 2017 $	31 December 2016 $
Financial position (Aligned to Danakali accounting policies)		
Current assets:		
Cash and cash equivalents	167,940	26,653
Other current assets	297,354	90,123
	465,294	116,776
Non-current assets:		
Fixed assets	92,313	99,346
Mineral property	28,029,965	30,500,729
	28,122,278	30,600,075
Current liabilities:		
Trade & other payables and accruals	302,410	151,648
	302,410	151,648
Non-current liabilities:		
Loan from Danakali Limited	9,588,053	9,519,503
	9,588,053	9,519,503
NET ASSETS	18,697,109	21,045,700
Group's share of net assets	9,348,555	10,522,850
Reconciliation of Equity Investment:		
Group's share of net assets	9,348,555	10,522,850
Share of initial contribution on establishment of the Joint Venture not recognised by Danakali	(4,305,107)	(4,305,107)
Outside shareholder interest in equity contributions by Danakali	8,986,546	7,284,569
Carrying amount at the end of the period	14,029,994	13,502,312

	Half Year to 30 June 2017 $	Half Year to 30 June 2016 $
Financial performance		
Interest expense relating to the unwinding of discount	(573,325)	(905,588)
Gain on re-measurement of loan	1,005,001	1,838,616
Exploration and evaluation expenditure	(4,854,487)	(1,142,124)
LOSS FOR THE PERIOD	(4,422,811)	(209,096)
Group's share of total loss for the period	(2,211,406)	(104,548)

There were no material commitments or contingencies within Colluli Mining Share Company for the financial periods above.

6. TRADE AND OTHER PAYABLES

	30 June 2017 $	31 December 2016 $
Trade payables	385,956	132,827
Accrued expenses	242,925	42,125
Other payables	127,720	35,790
	756,601	210,742

7. ISSUED CAPITAL

	Half Year to 30 June 2017 Number of shares	Half Year to 30 June 2017 $	Financial Year to 31 December 2016 Number of shares	Financial Year to 31 December 2016 $
(a) Share capital				
Ordinary shares fully paid	246,875,868	74,058,600	224,494,667	67,758,320
Total issued capital	246,875,868	74,058,600	224,494,667	61,758,320
(b) Movements in ordinary share capital				
Beginning of the period	224,494,677	61,758,320	175,772,167	48,983,913
Issued during the period*:*				
– Issued at $0.220 per share	-	-	24,870,464	5,471,548
– Issued at $0.278 per share on option exercise	-	-	400,000	111,200
– Issued at $0.330 per share	-	-	20,200,000	6,666,000
– Issued at $0.340 per share on option exercise	-	-	2,630,000	894,200
– Issued at $0.350 per share on option exercise	1,134,546	397,091	622,046	217,716
– Issued at $0.405 per share on option exercise	351,000	142,155	-	-
– Issued at $0.408 per share on option exercise	200,000	81,600	-	-
– Issued at $0.620 per share	19,920,645	12,350,800	-	-
– Issued on vesting of performance rights	775,000	-	-	-
– Costs of capital raised	-	(671,366)	-	(586,257)
End of the period	246,875,868	74,058,600	224,494,677	61,758,320

8. RESERVES

	Half Year to 30 June 2017 $	Financial Year to 31 December 2016 $
(a) Reserves		
Share-based payments reserve		
Balance at beginning of the period	10,427,536	9,137,189
Employee and contractor share options & performance rights	1,026,210	1,290,347
Balance at end of the period	11,453,746	10,427,536
Foreign currency translation reserve		
Balance at beginning of the period	2,039,243	1,769,318
Currency translation differences arising during the period	(733,109)	269,925
Balance at end of the period	1,306,134	2,039,243
Total reserves	**12,759,880**	**12,466,779**

(b) Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of share options and performance rights issued.

Foreign currency translation reserve

The foreign currency translation reserve records the exchange differences arising on translation of a foreign joint arrangement.

9. ACCUMULATED LOSSES

	Half Year to 30 June 2017 $	Financial Year to 31 December 2016 $
Balance at beginning of the period	(40,559,411)	(35,633,853)
Loss for the period	(4,870,508)	(4,925,558)
Balance at end of the period	(45,429,919)	(40,559,411)

10. SHARE BASED PAYMENTS

(a) Options

During the period, 1,079,546 unlisted options were exercised by retail shareholders at $0.35 per share.

On 2 February 2017, 55,000 unlisted options were exercised by KMP at $0.35 per share.

During the period, 351,000 unlisted options were exercised by KMP at $0.405 per share.

On 26 May 2017, 1,440,000 unlisted options exercisable at $0.94 per share on or before 19 May 2020 were issued to directors and management.

On 13 June 2017, 200,000 unlisted options were exercised by KMP at $0.408 per share.

On 20 June 2017, 800,000 unlisted options to a KMP exercisable at $0.408 on or before 4 November 2018 were cancelled.

On 20 June 2017, 400,000 unlisted options, exercisable at $0.96 per share on or before 20 June 2019 were granted to a service provider for work done.

A total of 24,567,640 options were outstanding at the end of the half year.

(b) Performance Rights

The Company has a Performance Rights Plan which was re-approved at the annual general meeting of the Company held 17 November 2014. The purpose of the Plan is to provide recognition to employees and advisors of the Company and its subsidiaries for their continued and ongoing support of the Company.

At 30 June 2017, a total of 1,258,000 Performance Rights were on issue as follows:

Class 1:
- 308,000 upon completion of securing finance for the development of the Colluli Potash Project

Class 4:
- 800,000 upon commencement of construction of the production facility for Colluli.

Class 5:
- 20,000 upon commencement of the first development work on the ground at the Colluli site within 1 week of the scheduled development time;
- 60,000 upon 6-month construction mark if safety, costs and schedule are all on target; and
- 20,000 upon completion of commissioning and completion of performance testing (performance testing to meet contractual requirements).

Class 6:
- 10,000 upon successful completion of a dual listing of the Company on the London stock exchange;
- 15,000 upon Endeavour Financial being paid its first milestone success fee which is linked to a letter of finance support from a lending institution; and
- 25,000 upon term sheets being signed for the project financing of the Colluli project.

There were 150,000 performance rights issued during the half year, 775,000 performance rights that vested during the half year and 75,000 performance rights cancelled during the half year.

Notes to the Consolidated Financial Statements

11. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 30 June 2017:

		Fair value	
	Loans and receivables $	through profit and loss $	through other comprehensive income $
Financial Assets:			
Trade and other receivables	180,505	-	-
Total current	180,505	-	-
Other receivable	9,588,053	-	-
Total non-current	9,588,053	-	-
Total Assets	9,768,558	-	-
Financial liabilities:			
Trade and other payables	756,601	-	-
Total current	756,601	-	-
Total Liabilities	756,601	-	-

Fair values:

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 30 June 2017:

	Carrying amount $	Fair value $
Financial Assets:		
Trade and other receivables	180,505	180,505
Total current	180,505	180,505
Other assets	9,588,053	9,588,053
Total non-current	9,588,053	9,588,053
Total Assets	9,768,558	9,768,558
Financial liabilities:		
Trade and other payables	756,601	756,601
Total current	756,601	756,601
Other payables	-	-
Total non-current	-	-
Total Liabilities	756,601	756,601

12. CONTINGENCIES

There are no material contingent liabilities or contingent assets for the Group at the balance date.

13. COMMITMENTS

	30 June 2017 $	31 December 2016 $
Lease commitments: Group as lessee		
Operating leases (non-cancellable):		
Minimum lease payments		
- within one year	46,667	47,885
- later than one year but not later than five years	-	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	46,667	47,885
Technical services commitment:		
Minimum payment		
- within one year	-	1,214,793
- later than one year but not later than five years	-	-
	-	1,214,793
Total commitments	-	1,262,678

Operating Leases:

On 30 January 2017, the Company entered into an office premises lease agreement for twelve months, commencing 1 March 2017 for a total annual cost of $70,000.

14. SUBSIDARY

Interest in subsidiary

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy:

Name	Principal Activities	Country of Incorporation	Class of Shares	Equity Holding 30 June 2017 %	Equity Holding 31 December 2016 %
STB Eritrea Pty Ltd	Investment in Potash Exploration	Australia	Ordinary	100	100

The proportion of ownership interest is equal to the proportion of voting power held.

15. RELATED PARTY INFORMATION

Key Management Personnel (KMP)

With respect to new key management personnel (**KMP**) appointments during the half-year ended 30 June 2017, the Company has entered into arrangements regarding remuneration for services provided, the key terms of which are summarised below.

Mr Robert Connochie, Non-executive Director (Appointed 6 February 2017):

- Entitled to receive $40,000 per annum for the provision of non-executive director services

Mr Stuart Tarrant, Chief Financial Officer (Appointed 12 June 2017):

- Engaged as an employee under fixed term contract
- Initial term of 8 months
- Base salary of $240,000 per annum (plus statutory superannuation)
- Notice period of 3 months, required to be given by either party for termination

Transactions with directors, director related entities and other related parties

During the half year to 30 June 2017 the following transactions with related parties took place:

Options:

- On 26 May 2017, 1,440,000 unlisted options were issued to directors and management, subsequent to approval by shareholders at the annual general meeting held on 19 May 2017. The options are exercisable at $0.94 each on or before 19 May 2020;
- On 2 February 2017, 55,000 unlisted options were exercised by KMP at $0.35 per share;
- On 2 February 2017 and 13 June 2017, a collective total of 300,000 unlisted options were exercised by KMP at $0.405 per share;
- On 13 June 2017, 200,000 unlisted options were exercised by KMP at $0.408 per share; and
- On 20 June 2017, 800,000 unlisted options to a KMP exercisable at $0.408 on or before 4 November 2018 were cancelled.

Performance Rights:

- On 1 February 2017, 775,000 shares were issued to KMP upon vesting of performance rights;
- On 6 February 2017, 75,000 performance rights were forfeited by KMP; and
- On 20 June 2017, 150,000 performance rights were issued to KMP.

Shares:

- A total of 555,000 shares were issued to KMP upon exercise of unlisted options; and
- A total of 775,000 shares were issue to KMP upon vesting of performance rights.

16. DIVIDENDS

No dividends were paid during the financial period. No recommendation for payment of dividends has been made.

17. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Effective 7 July 2017, Ms Catherine Grant-Edwards and Ms Melissa Chapman were appointed joint company secretaries of Danakali. Mr Christiaan Els resigned as company secretary of the Company on 7 July 2017.

On 7 August 2017, the Company announced the commencement of the bidding process for the mining contract.

There are no other events subsequent to 30 June 2017 and up to the date of this report that would materially affect the operations of the Group or its state of affairs which have not otherwise been disclosed in this financial report.

Directors' Declaration

In the directors' opinion:

1. the financial statements and notes set out on pages 11 to 22 are in accordance with the *Corporations Act 2001*, including:

   a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   b) giving a true and fair view of the entity's financial position as at 30 June 2017 and of its performance for the half year ended on that date; and

2. there are reasonable grounds to believe that Danakali Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Seamus Ian Cornelius

CHAIRMAN

Perth, 13 September 2017

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Independent auditor's review report to the Members of Danakali Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Danakali Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
13 September 2017