



**DANAKALI**

**DANAKALI LTD**

ABN 56 097 904 302

**AUDITED FINANCIAL REPORT**

FOR THE YEAR ENDED

31 DECEMBER 2018

# Corporate Information

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## Directors

Seamus Cornelius	(Executive Chairman)
Paul Donaldson	(Non-Executive Director)
Zhang Jing	(Non-Executive Director)
Robert Connochie	(Independent Non-Executive Director)
John Fitzgerald	(Independent Non-Executive Director)
Andre Liebenberg	(Independent Non-Executive Director)

## Executive Management

Stuart Tarrant (Chief Financial Officer)

## Joint Company Secretary

Catherine Grant Edwards  
Melissa Chapman

## Registered Office and Principal Place of Business

Level 11, 125 St George's Terrace  
PERTH WA 6000  
Telephone: +61 (0)8 6189 8635

## Bank

National Australia Bank  
Level 12, 100 St Georges Terrace  
PERTH WA 6005

## Auditors

Ernst and Young  
11 Mounts Bay Road  
PERTH WA 6000

## Share Register (Australia)

Computershare Investor Services Pty Limited  
Level 11, 172 St Georges Terrace  
PERTH WA 6000  
Telephone: 1300 850 505 (Inside Australia)  
Telephone: +61 (0)3 9415 4000 (Outside Australia)  
Facsimile: +61 (0)3 9473 2500  
[www.computershare.com](http://www.computershare.com)

## Share Register (United Kingdom)

Computershare Investor Services PLC  
The Pavilions, Bridgwater Road  
Bristol BS13 8AE, United Kingdom  
Telephone: +44 (0) 370 702 0003

[www.computershare.com](http://www.computershare.com)

To facilitate trading of Danakali's shares on the Standard Segment of the London Stock Exchange (**LSE**) Main Market, Danakali has established a Depositary Interest (**DI**) facility, under which it has appointed Computershare Investor Services Plc as the depositary. Securities of Australian issuers such as Danakali cannot be directly registered, transferred or settled through CREST (which is the electronic settlement system in the UK). The DI facility overcomes this by creating entitlements to Danakali's shares (the DIs), which are deemed to be UK securities and therefore admissible to CREST. The underlying shares are listed and traded on the Standard Segment of the LSE Main Market, while the DIs are transferred in CREST to settle those trades.

## Website

[www.danakali.com](http://www.danakali.com)

## Stock Exchange Listing

Danakali Limited Shares are listed on the Australian Stock Exchange (ASX:DNK) and the London Stock Exchange (LSE:DNK).

## American Depositary Receipts

The Bank of New York Mellon sponsors DNK's Level 1 American Depositary 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.otcm Markets.com/stock/DNKLY/quote>

DNK's ADR information can also be viewed here: <https://www.adrbnymellon.com/?cusip=23585T101>

ADR Holders seeking information on their shareholding should contact: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com) OR

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# Directors' Report

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The directors present their report together with the financial statements of the consolidated entity being, Danakali Limited (**Danakali** or the **Company**) and its controlled entities (the **Group**) for the financial year ended 31 December 2018.

## DIRECTORS

The names and details of the Company's directors in office during the financial period and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

### Names, qualifications, experience and special responsibilities:

#### Seamus Ian Cornelius

*Executive Chairman, LLB, LLM, initially appointed Non-Executive Chairman 15 July 2013, transitioned to Executive Chairman 14 June 2018*

Mr Cornelius is a corporate lawyer and former partner of one of Australia's leading international law firms. He has a high degree of expertise in cross-border transactions, particularly in the resources and finance sectors.

Mr Cornelius has been based in China since 1993, and has advised global companies, banks, major resource companies and Chinese State-owned entities on resource project investments both within China and abroad.

Mr Cornelius is currently the Non-Executive Chairman of Buxton Resources Ltd (appointed 29 November 2010), Element 25 Limited (appointed 30 June 2011), and Duketon Mining Ltd (appointed 8 February 2013).

#### *Special Responsibilities:*

Mr Cornelius is a member of the Audit Committee and a member of the Technical and Risk Committee.

#### Paul Michael Donaldson

*Non-Executive Director, Master's Degree - Mining Engineering, Master's Degree - Business and Technology, BEng Chemical (Honours, University Medal), Assoc Dip. Applied Science (Metallurgy), initially appointed Chief Operating Officer 29 November 2012, transitioned to Chief Executive Officer 1 February 2013 and additionally appointed Managing Director 29 April 2014, transitioned from Chief Executive Office and Managing Director role to Non-Executive Director role on 21 December 2017*

Mr Donaldson has over 25 years of experience in senior management roles at BHP Billiton. At BHP Billiton Mr Donaldson managed large scale, open cut mining operations, significant growth and sustaining capital projects, and complex pyro metallurgical, beneficiation and manufacturing processes. Mr Donaldson headed the BHP Carbon Steel Materials Technical Marketing Team, managed the Port Hedland iron ore facility as well as occupying key roles in product and infrastructure planning across large scale supply chains. Mr Donaldson also brings extensive experience in high-level business improvement and logistics from base metal operations and a high degree of integrated supply chain management, technical operational management and frontline leadership experience in the steel industry. Mr. Donaldson, in his previous role as the Company's CEO and Managing Director, redefined the product and development path and process for the Project, overseeing the pre-feasibility, definitive feasibility and FEED study phases. In December 2017, he transitioned to his role as Non-Executive Director. Mr Donaldson is also currently Chief Transformation Officer at Pacific National, Australia's largest rail operator.

#### *Special Responsibilities:*

Mr Donaldson is a Chairman of the Technical and Risk Committee and a member of the Remuneration and Nomination Committee.

#### John Daniel Fitzgerald

*Independent Non-Executive Director, CA, appointed 19 February 2015*

Mr Fitzgerald has over 30 years of finance and corporate advisory experience in the resource sector.

Previously, he held senior positions at NM Rothschild and Sons, Investec Bank Australia, Commonwealth Bank, HSBC Precious Metals and Optimum Capital.

Mr Fitzgerald is Non-Executive Chairman of Exore Resources Limited (appointed 23 December 2015) and a Non-Executive Director of Northern Star Resources Limited (appointed 30 November 2012).

Previously Mr Fitzgerald was Non-Executive Chairman of Carbine Resources Limited (13 April 2016 to 23 March 2018).

Mr Fitzgerald is a Chartered Accountant, a Fellow of the Financial Services Institute of Australasia (FINSIA) and a graduate member of the Australian Institute of Company Directors.

#### *Special Responsibilities:*

Mr Fitzgerald is Chairman of the Audit Committee and member of the Remuneration and Nomination Committee.

# Directors' Report

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## **Zhang Jing**

*Non-Executive Director, M. Sc, appointed 17 June 2016*

Ms Zhang has more than 15 years of international trading and business development experience in China and previously held investment and project managerial roles in public listed companies.

Ms Zhang holds a Master's degree in International Consultancy and Accounting from the university of Reading in the United Kingdom.

*Special Responsibilities:*

None.

## **Robert Gordon Connochie**

*Independent Non-Executive Director, B.A. Sc, M.B.A., appointed 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.

Previously, Mr. Connochie held positions as Chairman of Canpotex (a world leading potash exporter for over 40 years) and Chairman of Behre Dolbear Capital, Inc.

Further, Mr Connochie was Chairman and CEO of Potash Company of America, CEO Asia Pacific Potash, Director of Athabasca Potash, Chairman of the Phosphate and Potash Institute, Director of the Fertiliser Institute, and Director of the Saskatchewan Potash Producers Association.

*Special Responsibilities:*

Mr Connochie is a member of the Technical and Risk Committee.

## **Andre Liebenberg**

*Independent Non-Executive Director, MBA, BSc (Elec) Eng., appointed 2 October 2017*

Mr Liebenberg is an experienced mining industry professional with extensive investor, market, finance, business development and leadership experience, and has spent over 25 years in private equity, investment banking, and held senior roles within QKR Corporation and BHP Billiton.

In addition to the CFO role at QKR Corporation, Mr. Liebenberg occupied senior executive roles within BHP including Head of Group Investor Relations, as well as CFO roles for the Energy Coal and Diamonds and Speciality Products divisions. These roles were based in London, Melbourne and Sydney.

Mr Liebenberg's experience within BHP Billiton also included key roles in the BHP Billiton merger, the bid for Rio Tinto and the bid for Potash Corp. of Saskatchewan. Prior to BHP Billiton, Mr Liebenberg worked at UBS in London and Standard Bank Group in South Africa.

Mr Liebenberg is currently the Executive Director and Chief Executive Officer of Yellow Cake Plc.

*Special Responsibilities:*

Mr Liebenberg is Chairman of the Remuneration and Nomination Committee and a member of the Audit Committee.

## **COMPANY SECRETARY**

### **Catherine Grant-Edwards and Melissa Chapman**

*Appointed Joint Company Secretary 7 July 2017*

Ms Melissa Chapman (*Certified Practising Accountant (CPA), AGIA/ACIS, GAICD*) and Ms Catherine Grant-Edwards (*Chartered Accountant (CA)*) were appointed as Joint Company Secretary on 7 July 2017. Ms Chapman and Ms Grant-Edwards are directors of Bellatrix Corporate Pty Ltd (**Bellatrix**), a company that provides company secretarial and accounting services to a number of ASX listed companies. Between them, Ms Chapman and Ms Grant-Edwards have over 30 years' experience in the provision of accounting, finance and company secretarial services to public listed resource and private companies in Australia and the UK, and in the field of public practice external audit.

# Directors' Report

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## INTERESTS IN SHARES, OPTIONS AND PERFORMANCE RIGHTS OF THE COMPANY

As at the date of this report, the interests of the directors in the shares, options and performance rights on issue by Danakali Limited were:

Director	Ordinary Shares	Options over Ordinary Shares	Performance Rights
S Cornelius	10,328,965	300,000	-
P Donaldson	2,957,751	100,000	800,000
J Fitzgerald	526,453	250,000	-
Z Jing	-	100,000	-
R Connochie	-	500,000	-
A Liebenberg	-	-	-

## 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 financial year ended 31 December 2018.

## CORPORATE STRUCTURE

Danakali Limited is a company limited by shares that is incorporated and domiciled in Australia.

# Directors' Report

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## REVIEW OF OPERATIONS

### PROJECT OVERVIEW

The Colluli Potash Project (**Colluli**, or the **Project**) is located in the Danakil Depression region of Eritrea, East Africa. Colluli is approximately 177km south-east of the capital, Asmara, and 180km from the port of Massawa, which is Eritrea's key import/export facility. The Project is a joint venture between the Eritrean National Mining Company (**ENAMCO**) and Danakali with each having 50% ownership of the joint venture company, the Colluli Mining Share Company (**CMSC**). CMSC is responsible for the development of the Project.

The Danakil Depression is an emerging potash province, which commences in Eritrea and extends south across the border into Ethiopia. It is one of the largest unexploited potash basins globally; over 6Bt of potassium bearing salts suitable for production of potash fertilisers have been identified in the region to date (*ASX announcement 25 February 2015 and <http://circumminerals.com/resources>*).

Colluli is located approximately 75km from the Red Sea coast providing unrivalled future logistics potential. The Project resides on the Eritrean side of the border, giving Colluli a significant advantage relative to all other potash development projects in the Danakil Depression, which need to ship from the Tadjoura Port in Djibouti – over 600km by road from the closest project on the Ethiopian side of the border.

Colluli boasts the shallowest mineralisation in the Danakil Depression. Mineralisation commences at just 16m below surface. In addition, the potassium bearing salts are present in solid form (in contrast with production of SOP from brines). Shallow access to salts in solid form provides Colluli with significant mining, logistics and, in turn, capital and operating cost advantages over other potash development projects globally. The Project also carries a significantly lower level of complexity as a consequence of predictable processing plant feed grade and predictable production rates due to low reliance on ambient conditions.

Shallow mineralisation makes the resource amenable to open cut mining: a proven, high productivity mining method. Open cut mining provides higher resource recoveries relative to underground and solution mining methods, is generally safer, and can be more easily expanded.

The Colluli resource comprises three potassium bearing salts in solid form: Sylvinit, Carnallite and Kainite. These salts are suitable for high yield, low energy production of Sulphate of Potash (**SOP**), which is a high-quality potash fertiliser carrying a price premium over the more common Muriate of Potash (**MOP**). SOP is chlorine free and is commonly applied to high value crops such as fruit, vegetables, nuts, and coffee. Economic resources for primary production of SOP are geologically scarce and there are few current primary producers.

The JORC-2012 compliant Mineral Resource for Colluli is estimated at 1.289Bt @ 11% K<sub>2</sub>O for 260Mt of contained SOP equivalent (*ASX announcement 25 February 2015*). The JORC-2012 compliant Ore Reserve estimate for Colluli is estimated at 1,100Mt @ 10.5% K<sub>2</sub>O for 203Mt of contained SOP equivalent (*ASX announcement 19 February 2018*). The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves.

Colluli will be developed to its full potential by adopting the principles of risk management, resource utilisation and modularity, using the first module as a platform for growth. The Colluli Front-End Engineering Design (**FEED**) modules are:

- Module I – 472ktpa SOP production
- Module II – additional 472ktpa SOP production commencing in year 6

The massive Colluli Ore Reserve has significant capacity to underpin further expansions and support decades of growth beyond Modules I and II.

Colluli has significant diversification potential beyond SOP, including the option to produce additional potash and salt products such as MOP, SOP-M, kieserite (MgSO<sub>4</sub>·H<sub>2</sub>O), gypsum (CaSO<sub>4</sub>·2H<sub>2</sub>O), magnesium chloride (MgCl<sub>2</sub>), and rock salt (NaCl). The Colluli SOP Mineral Resource also comprises an 85Mt Kieserite (magnesium sulphate) Mineral Resource (*ASX announcement 15 August 2016*). Kieserite is a suitable fertiliser for magnesium deficient soils. A 347Mt Rock Salt (sodium chloride) Mineral Resource (*ASX announcement 23 September 2015*) has also been established at Colluli. Unprocessed Rock Salt can be used for de-icing, processed Rock Salt can be used as table salt.

A FEED for Colluli was undertaken to provide offtakers and funders with a high level of study detail and accuracy and is the final study stage before project execution. FEED firmly establishes Colluli as the most progressed, economically attractive, and fundable SOP greenfield development project globally (*ASX announcement 29 January 2018*). The FEED results reaffirm the outstanding project economics of Colluli. Industry leading capital intensity achieved in the DFS (*ASX announcement 30 November 2015*) further reduced as a result of lower development capital requirements for Module I and increased annual production rate. This, combined with forecast first quartile operating costs, resulted in a Project Net Present Value (**NPV**<sub>10</sub>) of US\$902M and Internal Rate of Return (**IRR**) of 29.9%. The Danakali economic outcomes were an NPV<sub>10</sub> of US\$439M and IRR of 31.3%.

### Mining Agreement Executed and Mining Licenses Awarded

The Project is fully permitted and ready to advance into engineering and construction upon securing funding.

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 (*ASX announcement 1 February 2017*).

# Directors' Report

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The Mining Agreement is applicable to the entire 1.3Bt JORC-2012 compliant Mineral 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.

A Social and Environmental Impact Assessment (**SEIA**) and associated Social and Environmental Management Plans (**SEMPs**) have been completed to ensure consistency with the Equator Principles. Stakeholder engagements have been completed throughout the study phases, and the Project has strong support from local communities. Following a period of consultation and further works, between the Eritrean Ministry of Land, Water & Environment and CMSC, the SEMP's finalised by CMSC have been signed off in August 2018 following an extensive review process. The SEMP's are a cornerstone of the environmental, social and safety management system being developed by CMSC and provide the foundation for compliance.

## MARKETING AND PROJECT FINANCE UPDATE

### Off-take

A binding take-or-pay offtake agreement has been reached with EuroChem Trading GmbH (**EuroChem**) for up to 100% of Module I SOP production from the Colluli Potash Project. EuroChem will take, pay, market and distribute up to 100% (minimum 87%) of Colluli Module I SOP production. The term of the agreement is 10 years from the date of commissioning of the Colluli SOP processing plant, with an option to extend for a further 3 years if agreed by EuroChem and CMSC. EuroChem is an outstanding partner with global reach and extensive fertiliser expertise and experience, and the agreement is instrumental in unlocking project funding.

### Project Financing

Danakali successfully executed a mandate to provide fully underwritten debt finance facilities of US\$200M to fund the construction and development of the Colluli Potash Project. African development financial institutions African Export-Import Bank (**Afreximbank**) and Africa Finance Corporation (**AFC**) are acting as Mandated Lead Arrangers. The execution of the mandate is a critical project financing and execution milestone.

Following the execution of the US\$200M debt mandate, remaining key debt funding milestones include the finalisation of key operational contracts and final credit approval from debt financiers. The Project is "shovel ready" and Danakali continues to evaluate strategies to raise final funding required to commence construction at Colluli.

### Key Operational Contracts

The following operational contracts are defined as project documents, and are necessary to advance the completion of debt due diligence referred to above.

#### *Mining – Mining contract technical and commercial evaluation complete*

Following a comprehensive bidding process for the Colluli mining contract, the technical and commercial compliance process is complete. Participating bidders visited Eritrea, the Port of Massawa, and the future Colluli mine site. A comprehensive review of the Colluli mine plan and selected mining method was also undertaken.

The technical and commercial compliance was evaluated and confirmed by AMC Consultants.

The mining bids have been shortlisted to two competitive bids from highly qualified bidders. Commercial negotiations are currently in progress.

#### *Power – Finalising negotiations with preferred power provider*

Inglett and Stubbs International has been appointed as the preferred power provider with commercial terms materially agreed.

#### *EPCM – Evaluations underway, preliminary negotiations expected in March 2019 Quarter*

CMSC has confirmed DRA Global as the preferred Engineering, Procurement and Construction Management (**EPCM**) contractor for Colluli. DRA is a high quality multi-disciplinary global Project Management and Engineering group with strong African experience and EPCM delivery capability. The commercial and legal position is materially agreed.

## CORPORATE

### LSE Main Market Listing

The Company's ordinary shares were admitted to the Standard Segment of the Official List of the Financial Conduct Authority and to trading on the LSE Main Market at 8.00am BST on 24 July 2018 (LSE:DNK).



# Directors' Report

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## Board Changes

Mr Seamus Cornelius was appointed as Executive Chairman on 14 June 2018. Mr Cornelius has served as Non-Executive Chairman of Danakali since July 2013. He has a high degree of expertise in cross-border transactions, particularly in the resources and finance sectors.

Mr Cornelius is a member of the Company's Audit Committee, and Technical and Risk Committee, and is the Chairman of the CMSC (the 50:50 joint venture between Danakali and ENAMCO and 100% owner of the Colluli Potash Project. Mr Cornelius has to this point been an integral part of the Company's progression from Scoping Study through to Front End Engineering Design, signing of a Mining Agreement, awarding of Mining Licences, and, as announced on Tuesday, 12 June 2018, the achievement of a binding take-or-pay offtake agreement with EuroChem.

## Management Changes

Mr Danny Goeman resigned as Chief Executive Officer (CEO) of the company with effect from 3 August 2018. The Company is well advanced in the recruitment of a new CEO.

## Shares

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

- 10,381,821 shares on exercise of unlisted options at \$0.35 each
- 400,000 shares on exercise of unlisted options at \$0.405 each
- 200,000 shares on exercise of unlisted options at \$0.450 each
- 738,346 shares on cashless exercise of 1,949,000 unlisted options at \$0.405 each
- 116,586 shares on cashless exercise of 750,000 unlisted options at \$0.527 each
- 458,338 shares on cashless exercise of 2,350,000 unlisted options at \$0.550 each
- 65,000 shares on vesting of performance rights (Class 6: 10,000; Class 7: 20,000; Class 8: 35,000)
- 364,620 shares issued in lieu of fees to corporate advisors

At 31 December 2018, there were a total of 264,422,398 fully paid ordinary shares on issue.

## Options

There were no unlisted options issued during the year.

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

- 10,381,821 unlisted options exercised at \$0.35 each raising \$3,633,637
- 400,000 unlisted options exercised at \$0.405 each raising \$162,000
- 200,000 unlisted options exercised at \$0.450 each raising \$90,000
- 1,949,000 unlisted options with an exercise price of \$0.405 were cashless exercised
- 750,000 unlisted options with an exercise price of \$0.527 were cashless exercised
- 2,350,000 unlisted options with an exercise price of \$0.550 were cashless exercised

The following unlisted options expired or lapsed during the year:

- 75,000 unlisted options at \$0.350 each expired on 29 May 2018
- 100,000 unlisted options at \$0.558 each lapsed on 3 August 2018

At 31 December 2018, there were a total of 2,990,000 unlisted options on issue at various exercise prices and expiry dates.

## Performance Rights

There were no performance rights issued during the year.

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

- 10,000 Class 6 performance rights
- 20,000 Class 7 performance rights
- 35,000 Class 8 performance rights

The following performance rights lapsed during the year:

- 28,000 Class 1 performance rights

At 31 December 2018, there were a total of 1,315,000 performance rights on issue in the following classes:

- 280,000 Class 1 performance rights
- 800,000 Class 4 performance rights
- 100,000 Class 5 performance rights
- 40,000 Class 6 performance rights
- 30,000 Class 7 performance rights
- 65,000 Class 8 performance rights

## Annual General Meeting

The Company's annual general meeting was held on 11 May 2018 (**AGM**). For more information, refer to the Notice of AGM and Results available via the Company's website.

# Directors' Report

## Sustainable Development Framework

Danakali and CMSC have 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 implemented a Sustainable Development Framework to govern its Corporate Social Responsibilities (CSR) and Sustainability and is aligned with its Corporate Governance Framework. The policies developed using this framework directly supported the management plans associated with the SEIA and SEMP for the project.

Danakali has committed to release a CSR report. This report details the policies and frameworks in place to ensure that Danakali continues to operate in a sustainable manner.

Danakali framework and policies are endorsed and adopted by joint venture partner, CMSC.

## RESERVE AND RESOURCE OVERVIEW

Colluli has a JORC-2012 compliant resource of 1.289 billion tonnes as shown in Table 1 as at 31 December 2018. Apart from the inclusion of Kieserite (announced 15 August 2016), there have been no changes to the Mineral Resource since 25 February 2015.

The Colluli JORC-2012 compliant mineral resource estimate as at 31 December 2018 is as follows:

Table 1: Colluli Mineral Resource Estimate announced on 25 February 2015 with Kieserite added(announced on 15 August 2016)

Rock Unit	Tonnes Mt	Density t/m <sup>3</sup>	K <sub>2</sub> O Equiv. %	Kieserite %
Sylvinite	265	2.2	12%	0.03%
Upper Carnallite	51	2.1	12%	3%
Lower Carnallite	347	2.1	7%	22%
Kainite	626	2.1	12%	1%
<b>Total</b>	<b>1,289</b>	<b>2.1</b>	<b>11%</b>	<b>7%</b>

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 285 million tonnes of Proved and 815 million tonnes of Probable Ore Reserve and is shown below in Table 2. The Ore Reserve was updated in line with FEED and this update is included below (ASX announcement 19 February 2018).

The Colluli JORC-2012 compliant Ore Reserve estimate by potash mineral as at 31 December 2018 is as follows:

Table 2: JORC-2012 Colluli Potassium Sulphate Ore Reserve announced on 29 January 2018 and 19 February 2018

Occurrence	Proved		Probable		Total			
	Mt	K <sub>2</sub> O Equiv %	Mt	K <sub>2</sub> O Equiv %	Mt	K <sub>2</sub> O Equiv %	K <sub>2</sub> SO <sub>4</sub> Equiv %	K <sub>2</sub> SO <sub>4</sub> Equiv Mt <sup>1</sup>
Sylvinite (KCl.NaCl)	77	15.0%	173	12.1%	250	13.0%		
Carnallite (KCl.MgCl <sub>2</sub> .H <sub>2</sub> O)	77	6.9%	279	7.8%	356	7.6%		
Kainite (KCl.MgSO <sub>4</sub> .H <sub>2</sub> O)	131	11.8%	363	11.2%	494	11.4%		
<b>Total</b>	<b>285</b>	<b>11.3%</b>	<b>815</b>	<b>10.3%</b>	<b>1,100</b>	<b>10.5%</b>	<b>18.5</b>	<b>203</b>

<sup>1</sup> Equivalent K<sub>2</sub>SO<sub>4</sub> (SOP) calculated by multiplying %K<sub>2</sub>O by 1.85

In addition to potassium sulphate, substantial quantities of rock salt exist. A JORC-2012 compliant Rock Salt Mineral Resource Estimate of over 300 million tonnes has been completed for the area considered for mining in the DFS as shown in Table 3. There have been no changes to the Mineral Resource estimate since 23 September 2015.

As at 31 December 2018, the JORC-2012 compliant Rock Salt Mineral Resource is as follows:

Table 3: JORC 2012 Colluli Rock Salt Mineral Resource announced on 23 September 2015

Classification	Tonnes (Mt)	NaCl	K	Mg	CaSO <sub>4</sub>	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%
<b>Total</b>	<b>347</b>	<b>96.9%</b>	<b>0.06%</b>	<b>0.05%</b>	<b>2.1%</b>	<b>0.24%</b>

# Directors' Report

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## SAFETY

Danakali is committed to ensuring all work activities are carried out safely with all practical measures taken to remove risks to health, safety and welfare of workers, contractors, authorised visitors, and anyone else who may be affected by the Group's activities.

Since the Company commenced exploration in 2010, no injuries have been reported. This safety performance, along with a strong safety culture, bodes well for the company as it moves into the construction and production phases at Colluli.

## ENVIRONMENT

The Group is subject to environmental regulation in respect to its exploration and development activities. Danakali aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with relevant environmental legislation. There were no breaches of environmental legislation for the period under review.

## EVENTS OCCURRING AFTER THE BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## ACTIVITIES PLANNED FOR 2019

The following key activities are scheduled over the coming year:

- Appointment of new Company CEO
- Finalise credit approval from debt financiers
- Finalise contract with preferred EPCM contractor DRA Global
- Determine preferred mining services contractor and finalise negotiations
- Finalise contract with preferred power provider Inglett & Stubbs International
- Finalise arrangements with commercial lenders
- Finalise funding to advance Colluli to construction

## FINANCE REVIEW

The Group recorded a net loss after tax of \$6,944,413 for the financial year to 31 December 2018 compared to a loss of \$6,839,936 for the financial year to 31 December 2017. As the Group is still in the exploration and development stage, revenue streams mainly relate to interest earned on investing of surplus funds from capital raisings. The net losses after tax reflect the Groups' exploration and development expenditure on the Colluli Potash Project and ongoing administration costs.

Total consolidated cash on hand at the end of the financial year was \$9,550,585 (31 December 2017: \$15,559,980).

Operating activities utilised \$3,430,463 (31 December 2017: \$1,279,679 utilised) of net cash flows. Net cash outflow from investing activities of \$6,464,570 (31 December 2017: \$7,721,815) was primarily in relation to expenditure made to advance the Colluli Project in relation to:

- Completion of the FEED
- Completion of off-take agreement negotiations
- Advancing financing negotiations
- Advancing key operational contracts

Net cash inflow from financing activities of \$3,885,638 in the financial year to 31 December 2018 was attributable to consideration received upon exercise of options (31 December 2017: \$13,656,714 funds received in respect of a placement of shares and the exercise of options).

## 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.

# Directors' Report

## DEVELOPMENTS AND EXPECTED RESULTS

Details of important developments occurring in this financial year have been covered in the Review of Operations section of the Directors' Report. The Group will continue to invest in the Colluli Potash Project to advance activities in the exploration, evaluation and development of the project with the objective of developing a significant mining operation. Any significant information or data will be released to the market and the shareholders pursuant to the Continuous Disclosure rules as and when they arise.

## DIVIDENDS

No dividends were paid or declared during the financial year to 31 December 2018. No recommendation for payment of dividends has been made.

## DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the financial year ended 31 December 2018 and the number of meetings attended by each Director were:

Director	Board of Directors		Audit Committee		Remuneration and Nomination Committee		Technical and Risk Committee	
	Total meetings held / eligible to attend	Total attended	Total meetings held / eligible to attend	Total attended	Total meetings held / eligible to attend	Total attended	Total meetings held / eligible to attend	Total attended
S Cornelius	13	13	2	2	-	-	1	1
P Donaldson	13	13	-	-	6	5	1	1
J Fitzgerald	13	12	2	2	6	6	-	-
J Zhang	13	8	-	-	-	-	-	-
R Connochie	13	12	-	-	-	-	1	1
A Liebenberg	13	10	2	2	6	6	-	-

# Directors' Report

## OPTIONS

At the date of this report, unissued ordinary shares in respect of which options are outstanding are as follows:

	Number of options
Balance at the beginning of the year	19,195,821
<i>Movements of share options during the financial year ended 31 December 2018:</i>	
Exercised, exercisable at \$0.405, expiry date 13 May 2018	(2,349,000)
Exercised, exercisable at \$0.350, expiry date 30 March 2018	(9,656,821)
Exercised, exercisable at \$0.350, expiry date 13 May 2018	(725,000)
Exercised, exercisable at \$0.527, expiry date 29 May 2018	(750,000)
Exercised, exercisable at \$0.550, expiry date 31 May 2018	(600,000)
Exercised, exercisable at \$0.450, expiry date 23 June 2018	(200,000)
Exercised, exercisable at \$0.550, expiry date 4 November 2018	(750,000)
Exercised, exercisable at \$0.550, expiry date 31 December 2018	(1,000,000)
Cancelled, exercisable at \$0.350, expiry date 13 May 2018	(75,000)
Cancelled, exercisable at \$0.558, expiry date 8 August 2019	(100,000)
<b>Share options outstanding at 31 December 2018</b>	<b>2,990,000</b>
<i>Movements since the financial year ended 31 December 2018:</i>	
Issued, exercisable at \$1.031, expiry date 24 January 2022	1,724,015
<b>Total number of share options outstanding as at the date of this report</b>	<b>4,714,015</b>

Expiry date	Exercise price	Number of options
8 August 2019	\$0.558	900,000
7 October 2019	\$0.543	250,000
19 May 2020	\$0.940	1,440,000
20 June 2019	\$0.960	400,000
24 January 2022	\$1.031	1,724,015
<b>Total number of share options outstanding at the date of this report</b>		<b>4,714,015</b>

No option holder has any right under the option to participate in any share issue of the Company or any other entity.

The following remuneration options were granted (or agreed to be granted subject to receipt of shareholder approval in the case of director options) to key management personnel of the Company since the end of the financial year and up to the date of this report:

- 301,040 unlisted options at \$1.031 each expiring 24 January 2022 to director Seamus Cornelius or his nominee
- 583,000 unlisted options at \$1.108 each expiring 13 March 2022 to nominee of Stuart Tarrant

No other options were granted to key management personnel of the Company since the end of the financial year.

## PERFORMANCE RIGHTS

Details of performance rights over unissued shares in Danakali Ltd as at the date of this report are set out below:

	Number of rights
Balance at the beginning of the year	1,408,000
<i>Movements of performance rights during the financial year ended 31 December 2018:</i>	
Issued	-
Vested and Exercised (a)	(65,000)
Forfeited (b)	(28,000)
<b>Performance rights outstanding at 31 December 2018</b>	<b>1,315,000</b>
<i>Movements since the financial year ended 31 December 2018:</i>	
None	-
<b>Total number of performance rights as at the date of this report</b>	<b>1,315,000</b>

Note:

- Performance rights vested upon announcement of binding a offtake agreement (10,000 rights), associated with completion of FEED (20,000 rights), LSE listing (30,000 rights), and in respect of investor roadshows (5,000 rights).
- Performance rights forfeited in respect of former employees.

No performance rights holder has any right to participate in any other share issue of the company or any other entity.

# Directors' Report

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

### Indemnification

An indemnity agreement has been entered into with each of the directors and company secretary of the Company named earlier in this report. Under the agreements, the Company has agreed to indemnify those officers against any claim or for any expense or cost which may arise as a result of work performed in their respective capacities to the extent permitted by law. There is no monetary limit to the extent of this indemnity.

### Insurance

During the period, the Company paid an insurance premium in respect of Directors' and Officers' insurance. The premiums relate to costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome, and other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage. Premiums totalling \$56,384 (2017: \$35,625) were paid in respect of directors' and officers' liability cover. The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

## INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst and Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst and Young during or since the financial year.

## NON-AUDIT SERVICES

The Board has considered the non-audit services provided during the financial year by the auditor and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor's independence requirements of the *Corporations Act 2001*.

All non-audit services provided during the financial year were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

During the period, Ernst and Young, the Company's auditors, performed the following services in addition to their statutory duties:

- Preparation and lodgement of income tax returns
- Assistance with preparation of employee share scheme reporting
- General tax advice
- Corporate advisory services
- LSE listing

	2018 \$	2017 \$
<b>(a) Audit services</b>		
Ernst and Young	44,837	41,391
	<b>44,837</b>	<b>41,391</b>
<b>(b) Non-audit services</b>		
Ernst and Young – LSE listing	123,332	-
Ernst and Young – Other	55,973	6,000
	<b>179,305</b>	<b>6,000</b>

## CORPORATE GOVERNANCE

The Company's corporate governance statement can be found at the following URL: <http://www.danakali.com.au/our-business/corporate-governance>.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

No proceedings have been brought or intervened in or on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

## 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 separately in this report.

# Directors' Report

## REMUNERATION REPORT (AUDITED)

The Remuneration Report outlines the director and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 (Cth) and its Regulations. For the purposes of this report, Key Management Personnel (**KMP**) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Company. For the purposes of this report, the term 'Executive' includes the Chief Executive Officer and key management personnel of the Group.

The Key Management Personnel of Danakali Ltd and the Group during the financial year to 31 December 2018 were:

### Directors

S Cornelius	Executive Chairman (Transitioned from Non-Executive Chairman to Executive Chairman 14 June 2018)
P Donaldson	Non-Executive Director
J Fitzgerald	Non-Executive Director
J Zhang	Non-Executive Director
R Connachie	Non-Executive Director
A Liebenberg	Non-Executive Director

### Named Key Management Personnel

D Goeman	Chief Executive Officer (Appointed 21 December 2017) (Resigned 3 August 2018)
S Tarrant	Chief Financial Officer
C Grant-Edwards	Joint Company Secretary
M Chapman	Joint Company Secretary

All of the above persons were key management personnel during the financial year to 31 December 2018 unless otherwise stated. The information provided in this remuneration report has been audited as required by section 308 (3C) of the *Corporations Act 2001*.

### Key Elements of Key Management Personnel Remuneration Strategy

The remuneration strategy for Danakali Ltd is designed to provide rewards that achieve the following:

- Attract, retain, motivate and reward KMP;
- Reward KMP for Company and individual performance against targets set by reference to appropriate benchmarks;
- Link reward with the strategic goals and performance of the Company;
- Provide remuneration that is competitive by market standards;
- Align executive interests with those of the Company's shareholders; and
- Comply with applicable legal requirements and appropriate standards of governance.

The Company is satisfied that its remuneration framework reflects current business needs, shareholder views and contemporary market practice and is appropriate to attract, motivate, retain and reward employees.

A summary of the key elements of the current remuneration arrangement is as follows:

Remuneration Component	Item	Purpose	Link to Performance
Fixed Remuneration	<ul style="list-style-type: none"><li>• Base salary</li><li>• Superannuation contributions</li><li>• Other benefits</li></ul>	Provide competitive remuneration with reference to the role and responsibilities, market and experience, to attract high calibre people.	Executive performance and remuneration packages are reviewed at least annually by the Board and Remuneration and Nomination Committee. The review process includes consideration of the individual's performance in addition to the overall performance of the Group.
Performance Based Short Term Incentive (STI)	<ul style="list-style-type: none"><li>• Cash bonus</li></ul>	Provide reward to KMP for the achievement of individual and Group performance targets linked to the Company's strategic objectives.	Award of STI linked directly to achievement of KPI's and performance targets.
Performance Based: Long Term Incentive (LTI)	<ul style="list-style-type: none"><li>• Shares</li><li>• Options</li><li>• Performance Rights</li></ul>	Provide reward to KMP for their continued service and their contribution to achieving corporate objectives set by the Board to ensure the long-term growth of the Company.	Award of LTI linked directly to achievement of strategic Company objectives.



# Directors' Report

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The Remuneration Report has been set out under the following headings:

- a) Decision Making Authority for Remuneration
- b) Principles Used to Determine the Nature and Amount of Remuneration
- c) Voting and Comments Made at the Last Annual General Meeting
- d) Details of Remuneration
- e) Service Agreements
- f) Details of Share Based Compensation
- g) Equity Instruments Held by Key Management Personnel
- h) Loans to Key Management Personnel
- i) Other Transactions with Key Management Personnel
- j) Additional Information

## **a) Decision Making Authority for Remuneration**

The Company's remuneration policy and strategies are overseen by the Remuneration and Nomination Committee on behalf of the Board. The Remuneration and Nomination Committee is responsible for making recommendations to the Board on all aspects of remuneration arrangements for key management personnel including:

- the Company's remuneration policy and framework;
- the remuneration arrangements for the Chief Executive Officer and other KMP;
- the terms and conditions of long term incentives and short-term incentives for the Chief Executive Officer and other KMP;
- the terms and conditions of employee incentive schemes; and
- the appropriate remuneration to be paid to non-executive Directors.

The Remuneration and Nomination Committee Charter is approved by the Board and is published on the Company's website. Remuneration levels of the Directors and Key Management Personnel are set by reference to other similar sized mining and exploration companies with similar risk profiles and are set to attract and retain KMP capable of managing the Group's operations.

Remuneration levels for the Chief Executive Officer and key management personnel are determined by the Board based upon recommendations from the Remuneration and Nomination Committee. Remuneration of non-executive directors is determined by the Board within the maximum levels approved by the shareholders from time to time.

## **b) Principles Used to Determine the Nature and Amount of Remuneration**

The Company's remuneration practices are designed to attract, retain, motivate and reward high calibre people capable of delivering the strategic objectives of the Company. The Company's Key Management Personnel remuneration framework aligns their remuneration with the achievement of strategic objectives and the creation of value for shareholders and conforms with market practice for delivery of reward.

The Remuneration and Nomination Committee ensures that the remuneration of Key Management Personnel is competitive and reasonable, acceptable to shareholders and aligns remuneration with performance. The structure and level of remuneration for key management personnel is conducted annually by the Remuneration and Nomination Committee relative to the Company's circumstances, size, nature of business and performance.

## **Remuneration of Non-Executive Directors**

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of the directors. Non-executive Directors are remunerated with both cash salary and option grants to enable the company to preserve cash reserves and to align the Directors interests to those of the shareholders. The Board views this approach to be reasonable relative to the stage of development of its flagship project. Non-executive directors' fees and payments are reviewed annually by the Board. The Board at times receives advice from independent remuneration consultants to ensure non-executive Directors fees and payments are appropriate and in line with the market. No advice was received during the period.

The general principles of non-executive Directors compensation are:

- Non-executive Directors are paid a base fee (\$40,000 per annum) prior to any statutory superannuation payments;
- Additional fees are paid to Directors who serve on the board sub-committees;
- Under the current remuneration structure and subject to shareholder approval, a grant of Options may be made;
- Any options granted and approved will be struck at significant premium to VWAP; and
- Adjustments may be made in the event that a specific non-executive Director's contribution warrants an adjustment. Such adjustments are at the recommendation of the board.

Fees for the non-executive directors are determined within an aggregate directors' fee pool limit of \$400,000 as approved by shareholders on 17 November 2014.



# Directors' Report

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## **Remuneration of Chairman**

Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market and the specific requirements that the Company has of the Chairman.

The Chairman is not present at any of the discussions relating to the determination of his own remuneration.

## **Remuneration of Key Management Personnel**

The Company's remuneration and reward framework is designed to ensure reward structures are aligned with shareholders' interest by:

- Being market competitive to attract and retain high calibre individuals;
- Rewarding high individual performance;
- Recognising the contribution of each key management personnel to the contributed growth and success of the Company; and
- Ensuring that long term incentives are linked to shareholder value.

To achieve these objectives, the remuneration of key management personnel may comprise a fixed salary component and an 'at risk' variable component linked to performance of the individual and the Company as a whole. Fixed remuneration comprises base salary, superannuation contributions and other defined benefits. 'At risk' variable remuneration comprises both short term and long-term incentives.

The remuneration and reward framework for key management personnel may consist of the following areas:

- i) Fixed Remuneration
- ii) Variable Short-Term Incentives
- iii) Variable Long-Term Incentives

The combination of these would comprise the key management personnel's total remuneration.

### ***i) Fixed Remuneration***

The fixed remuneration for each senior executive is influenced by the nature and responsibilities of each role and knowledge, skills and experience required for each position. Fixed remuneration provides a base level of remuneration which is market competitive and comprises a base salary and statutory superannuation. It is structured as a total employment cost package, which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Key management personnel are offered a competitive base salary that comprises the fixed component of pay and rewards. External remuneration consultants may provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. No external advice was taken this period. Base salary for key management personnel is reviewed annually to ensure the executives' pay is competitive with the market. The pay of key management personnel is also reviewed on promotion. There is no guaranteed pay increase included in any key management personnel's contract.

### ***ii) Variable Remuneration – Short Term Incentives (STI)***

The Danakali Ltd Short-Term Incentive Scheme applies to executives in the Company and is designed to link any STI payment with the achievement by each Key Management Personnel of specified key performance indicators (KPI's) which are in turn linked to the Company's strategic objectives and targets.

The Board has the discretion to reduce or suspend any bonus payments where Company circumstances render it appropriate.

Given the current phase of Danakali's life cycle, the Board deems that LTI's are the most appropriate incentive measure to align KMP performance with company objectives. No KPI's were set and no STI's granted in the current period.

### ***iii) Variable Remuneration – Long Term Incentives (LTI)***

At the 11 May 2019 AGM, the Company failed to obtain shareholder approval of its proposed Long Term Incentive Plan (LTIP). There were no long term incentives provided to directors and employees during the current period under the LTIP or otherwise.

In previous financial years, long term incentives were provided to directors and employees through the issue of options and performance rights. The Company previously issued performance rights to its employees (including KMP) under the Performance Rights Plan (PRP). The PRP was re-approved by shareholders at the general meeting held 17 November 2014. The PRP provided incentives, which promote the long-term performance and growth of the Company. The performance conditions were chosen to strengthen the links between the Company objectives and the role performed by its Directors and employees.

The PRP was designed to increase the range of potential incentives available to Directors and employees and to recognise their contribution to the Company's success.

# Directors' Report

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Under the PRP, performance rights were granted over ordinary shares in the Company on an annual basis, up until 17 November 2017 (three years from re-approval date of PRP). The vesting conditions in respect of performance rights issued to KMP under the PRP that are outstanding at 31 December 2018 are as follows:

Class 4:

- 800,000 upon commencement of construction of the production facility.

Class 6:

- 15,000 upon Endeavour Financial being paid its first milestone success fee which is linked to the granting of Credit Approval for the Colluli project finance; and
- 25,000 upon execution of Colluli project finance facility documents.

Class 7:

- 15,000 upon completion of a strategic investment on satisfactory terms; and
- 15,000 upon execution of Colluli project finance facility documents.

Details of options issued to key management personnel can be found in section f(i) below.

Details of performance rights issued to key management personnel can be found in section f(ii) below.

Further performance rights details can be found in Note 22 to the financial statements.

All performance rights will automatically expire on the earlier of the expiry date or the date the holder ceases to be an employee of the Company, unless the Board determines to vary the expiry date in the event the holder ceased to be an employee because of retirement, redundancy, death or total and permanent disability and such other cases the Board may determine. Performance rights granted under the PRP will carry no dividend or voting rights. When the vesting conditions have been met, each performance right will be converted into one ordinary share.

## **c) Voting and Comments Made at the Last Annual General Meeting**

The Company received approximately 99% of votes in favour of its Remuneration Report for the financial year ending 31 December 2017 and received no specific feedback on its Remuneration Report at the Annual General Meeting or throughout the period.

## **d) Details of Remuneration**

Details of the remuneration of the directors and other key management personnel of Danakali Ltd are set out in the following table. The disclosed directors' fees are inclusive of committee fees.

# Directors' Report

Key management personnel of the Company for the financial year to 31 December 2018:

Financial Year to 31 December 2018	Short-Term		Post- Employment	Long Term Benefits	LTI <sup>(d)</sup> Share Based Payments			Total  \$	Options percentage of total remuneration  %
	Salary and Fees \$	Annual Leave <sup>(e)</sup> \$	Super- annuation \$	Long Service Leave <sup>(f)</sup> \$	Shares \$	Options <sup>(g)</sup> \$	Performance Rights <sup>(g)</sup> \$		
<b>Non-Executive Directors</b>									
S Cornelius <sup>(a)</sup>	43,269	-	-	-	-	-	-	43,269	-
P Donaldson	171,819	-	6,293	-	-	-	3,600	181,712	-
J Fitzgerald	56,154	-	5,335	-	-	-	-	61,489	-
J Zhang	38,987	-	-	-	-	-	-	38,987	-
R Connochie	44,987	-	-	-	-	-	-	44,987	-
A Liebenberg	64,987	-	-	-	-	17,101	-	82,088	21%
<b>Executive Directors</b>									
S Cornelius <sup>(a)</sup>	110,878	-	-	-	-	-	-	110,878	-
<b>Other Key Management Personnel</b>									
D Goeman <sup>(b)</sup>	225,406	-	14,729	(8,178)	-	-	-	231,957	-
S Tarrant	261,082	9,915	24,146	10,377	-	-	3,880	309,400	-
C Grant-Edwards <sup>(c)</sup>	43,000	-	-	-	-	-	-	43,000	-
M Chapman <sup>(c)</sup>	43,000	-	-	-	-	-	-	43,000	-
<b>TOTAL</b>	<b>1,103,569</b>	<b>9,915</b>	<b>50,503</b>	<b>2,199</b>	<b>-</b>	<b>17,101</b>	<b>7,480</b>	<b>1,190,767</b>	<b>1%</b>

Note:

- (a) Mr S Cornelius transitioned from the role of Non-Executive Chairman to Executive Chairman on 14 June 2018.
- (b) Mr Goeman resigned as Chief Executive Officer on 3 August 2018. At resignation Mr Goeman retained 900,000 unlisted vested options exercisable at \$0.558 expiring 8 August 2019.
- (c) Company secretarial services are provided through Bellatrix Corporate Pty Ltd. Fees charged are on an arms-length basis.
- (d) The recorded values of options will only be realised by the KMP's in the event the Company's share price exceeds the option exercise price. The recorded values of performance rights will only be realised by the KMP's in the event the Company achieves its stated objectives, which is expected to create further value for shareholders.
- (e) Annual leave amount included in this table refers to movements during the year.
- (f) Long service leave amount included in this table refers to movements during the year.
- (g) This amount refers to the share-based payment expense recorded in the statement of comprehensive income during the period in respect of the Director Options and performance rights (refer details below).

# Directors' Report

Key management personnel of the Company for the financial year to 31 December 2017:

Financial Year to 31 December 2017	Short-Term		Post- Employment	Long Term Benefits	LTI <sup>(i)</sup> Share Based Payments			Total \$	Options percentage of total remuneration %
	Salary and Fees \$	Annual Leave <sup>(k)</sup> \$	Super- annuation \$	Long Service Leave <sup>(l)</sup> \$	Shares \$	Options \$	Performance Rights \$		
<b>Non-Executive Directors</b>									
S Cornelius	88,762	-	-	-	-	60,734	-	149,496	41
P Donaldson <sup>(a)</sup>	1,534	-	146	-	-	-	-	1,680	-
J Fitzgerald	56,298	-	5,348	-	-	50,612	-	112,258	45
J Zhang	41,013	-	-	-	-	20,245	-	61,258	33
R Connochie <sup>(b)</sup>	39,944	-	-	-	-	101,224	-	141,168	72
A Liebenberg <sup>(c)</sup>	13,622	-	-	-	-	-	-	13,622	-
L Cornelius <sup>(d)</sup>	39,049	-	3,710	-	-	38,465	7,050	88,274	44
A Kiernan <sup>(e)</sup>	5,667	-	538	-	-	-	4,500	10,705	-
<b>Executive Directors</b>									
P Donaldson <sup>(a)</sup>	347,481	4,235	29,452	(25,917)	-	20,245	266,189 <sup>(m)</sup>	641,685	3
<b>Other Key Management Personnel</b>									
D Goeman <sup>(f)</sup>	252,878	18,336	24,023	6,533	-	99,330	-	401,100	25
S Tarrant <sup>(g)</sup>	133,846	9,942	12,715	2,417	-	-	49,513	208,433	-
C Grant-Edwards <sup>(h)</sup>	9,000	-	-	-	-	-	-	9,000	-
M Chapman <sup>(h)</sup>	9,000	-	-	-	-	-	-	9,000	-
C Els <sup>(i)</sup>	161,564	-	13,637	(5,403)	-	(78,691)	-	91,107	(82)
<b>TOTAL</b>	<b>1,199,658</b>	<b>32,513</b>	<b>89,569</b>	<b>(22,370)</b>	<b>-</b>	<b>312,164</b>	<b>327,252</b>	<b>1,938,786</b>	<b>16</b>

Note:

- (a) Mr Donaldson transitioned from role of Executive Director to Non-Executive Director 21 December 2017. Annual leave entitlements owing to Mr Donaldson at date of transition of \$105,536 were paid out in January 2018.
- (b) Mr Connochie was appointed Non-Executive Director 6 February 2017.
- (c) Mr Liebenberg was appointed Non-Executive Director 2 October 2017.
- (d) Mr L Cornelius resigned as Non-Executive Director 17 November 2017. The share price on the date of resignation was \$0.70. At resignation Mr Cornelius retained 50,000 Class 1 performance rights, 400,000 unlisted options exercisable at \$0.405 expiring 13 May 2018, 190,000 unlisted options exercisable at \$0.94 expiring 19 May 2020 and 500,000 unlisted option exercisable at \$0.35 expiring 30 March 2018. The value of Mr Cornelius's options and performance rights had been fully amortised at the date of resignation.
- (e) Mr Kiernan resigned as Non-Executive Director 6 February 2017. The share price on the date of resignation was \$0.745. At resignation Mr Kiernan retained 75,000 Class 2 performance rights, 400,000 unlisted options exercisable at \$0.405 expiring 13 May 2018, 50,000 unlisted options exercisable at \$0.35 expiring 13 May 2018 and 1,300,000 unlisted option exercisable at \$0.278 expiring 17 November 2017. The value of Mr Kiernan's options and performance rights had been fully amortised at the date of resignation.
- (f) Mr Goeman was appointed Chief Executive Officer 21 December 2017.
- (g) Mr Tarrant was appointed Chief Financial Officer 12 June 2017.

## Directors' Report

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- (h) Ms Grant-Edwards and Ms Chapman were appointed joint Company Secretary 7 July 2017. Company secretarial services are provided through Bellatrix Corporate Pty Ltd. Fees charged are on an arms-length basis.
- (i) Mr Els resigned as Chief Financial Officer on 12 June 2017 and Company Secretary 7 July 2017. The options held by Mr Els at resignation were cancelled.
- (j) The recorded values of options will only be realised by the KMP's in the event the Company's share price exceeds the option exercise price. The recorded values of performance rights will only be realised by the KMP's in the event the Company achieves its stated objectives, which is expected to create further value for shareholders.
- (k) Annual leave amount included in this table refers to movements during the year.
- (l) Long service leave amount included in this table refers to movements during the year.
- (m) The amount disclosed in the 31 December 2017 financial report was \$394,800 which was based on an incorrect calculation. This comparative figure has been adjusted to reflect the value based on the corrected calculation.

# Directors' Report

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Financial Year to 31 December 2018		
	Fixed Remuneration	At risk – STI	At risk - LTI
<b>Non-Executive Directors</b>			
S Cornelius	100%	-	-
P Donaldson	98%	-	2%
J Fitzgerald	100%	-	-
J Zhang	100%	-	-
R Connachie	100%	-	-
A Liebenberg	79%	-	21%
<b>Executive Directors</b>			
S Cornelius	100%	-	-
<b>Other Key Management Personnel</b>			
D Goeman	100%	-	-
S Tarrant	99%	-	1%
C Grant-Edwards	100%	-	-
M Chapman	100%	-	-

## e) Service Agreements

Remuneration and other terms of employment for the executive managers are formalised in employment contracts. Other major provisions of the agreements relating to remuneration are set out below.

*S Cornelius, Executive Chairman (Transitioned from Non-Executive to Executive Chairman 14 June 2018):*

- Under an executive services agreement for the provision of executive duties, the term of which will be three months after the appointment of a new CEO, Mr Cornelius received:
  - For the period 14 June 2018 to 31 October 2018: \$40,875
  - For the period 1 November 2018 to 31 December 2018: \$23,667
- In addition, Mr Cornelius remains entitled to receive his pre-existing director fees (approximately \$89,000 per annum)

*S Tarrant, Chief Financial Officer*

- Appointed 12 June 2017
- Original agreement was for a fixed term expiring 31 August 2018. Effective 1 June 2018, Mr Tarrant was engaged as a permanent full-time employee under a revised employment agreement.
- For the period 1 January 2018 to 31 May 2018: Base salary of \$240,000 per annum plus statutory superannuation
- For the period 1 June 2018 to 31 December 2018: Remuneration of \$300,000 per annum inclusive of statutory superannuation
- Notice period of three months, required to be given by either party for termination

*D Goeman, Chief Executive Officer:*

- Appointed 21 December 2017 (Resigned 3 August 2018)
- No set term of agreement
- Base salary of \$330,000 per annum plus statutory superannuation
- Notice period of six months, required to be given by either party for termination

## f) Details of Share Based Compensation

### (i) Options

On 19 October 2018, the Directors agreed to issue 500,000 unlisted options with no vesting conditions to Mr Andre Liebenberg at an exercise price of \$0.912 each and an expiry date of 11 May 2020, subject to receipt of shareholder approval (**Director Options**).

Shareholder approval for the issue of the Director Options will be sought at an upcoming general meeting of the Company. The grant date is therefore after the period in which services have begun to be rendered. Therefore, the grant date fair value presented in the 31 December 2018 financial statements is provisional, estimated by reference to the period end share price. Once the date of the grant is known, this provisional estimate of the grant date fair value will be revised.

There were no new options granted to key management personnel during the year, other than the 500,000 options granted to a director, subject to receipt of shareholder approval (the Director Options).

## Directors' Report

The terms and conditions of each grant of options constituting key management personnel remuneration that remain on issue to current key management personnel at 31 December 2018 are set out in the following table. The Director Options have been included in this table:

Grant date	Vesting and first exercise date	Expiry date	Number of Options	Exercise price	Value per option at grant date	Vested and exercisable %
19 May 2017	19 May 2017 <sup>(a)</sup>	19 May 2020	1,250,000	\$0.940	\$0.202	100%
19 October 2018	On or before 31 May 2019	11 May 2020	500,000 <sup>(b)</sup>	\$0.912	\$0.105	-
<b>Total Options</b>			<b>1,750,000</b>			

Note:

- (a) The options were issued in recognition of skill and expertise brought to the Company and therefore, there were no conditions attached to the options.
- (b) Options will be issued following receipt of shareholder approval. The options are to be issued in recognition of skill and expertise brought to the Company and therefore, there will be no conditions attached to the options.

Details of options over ordinary shares in the Company, provided as remuneration to key management personnel are set out in the following table.

Options will automatically expire on the earlier of the expiry date or the date the holder ceases to be an employee of the Company, unless the Board determines to vary the expiry date in the event the holder ceased to be an employee because of retirement, redundancy, death or total and permanent disability and such other cases the Board may determine.

When exercisable, each option is convertible into one ordinary share. Further information on the options is set out in note 22.

Name	Year of grant	Year in which options vest	Number of options granted	Value of options at grant date	Number of options vested during the period	Vested and exercisable	Number of options forfeited during the period
S Cornelius	2017	2017	300,000	\$60,734	300,000	100%	-
P Donaldson	2017	2017	100,000	\$20,245	100,000	100%	-
J Fitzgerald	2017	2017	250,000	\$50,612	250,000	100%	-
Z Jing	2017	2017	100,000	\$20,245	100,000	100%	-
R Connachie	2017	2017	500,000	\$101,224	500,000	100%	-
A Liebenberg	2018	2019	500,000	\$52,476	-	-	-
<b>Total Options</b>			<b>1,750,000</b>		<b>1,250,000</b>		-

A total of 2,900,000 remuneration options were cashless exercised by key management personnel during the year, as follows:

Name	Cashless Exercise			
	Number of options exercised	Amount paid	Number of shares acquired	Fair value of shares acquired
S Cornelius	1,250,000	-	405,781	\$290,750
P Donaldson	500,000	-	189,417	\$123,500
J Fitzgerald	1,150,000	-	268,119	\$171,550
<b>Total Options</b>	<b>2,900,000</b>	<b>-</b>	<b>863,317</b>	<b>\$585,800</b>

### (ii) Performance Rights

There were no new performance rights granted to key management personnel during the year.

The terms and conditions of each grant of performance rights constituting key management personnel remuneration that remain on issue at 31 December 2018 are as set out in the following table:

Name	Year of grant	Performance rights granted		Number of performance rights vested		Performance rights cancelled	Total Unvested
		Class	Number	In prior periods	In current period		
P M Donaldson	2014	Class 4	2,450,000	1,650,000	-	-	33%
S Tarrant	2017	Class 6	50,000	-	10,000	-	80%
S Tarrant	2017	Class 7	50,000	-	20,000	-	60%

# Directors' Report

The performance rights on issue to key management personnel, as set out above, vest, subject to the following vesting conditions:

## Class 4:

- 300,000 upon completion of a Prefeasibility Study and the release of the study results to market (vested March 2015);
- 650,000 upon completion of a Definitive Feasibility Study and release of study results to market (vested November 2015);
- 700,000 upon awarding of the Colluli mining licence (vested February 2017); and
- 800,000 upon commencement of construction of the production facility.

## Class 6:

- 10,000 upon successful completion of a dual listing of the Company on the London stock exchange (vested during 2018 and shares issued July 2018);
- 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.

## Class 7:

- 10,000 upon market announcement of a binding offtake agreement to support debt funding of the project (vested during 2018 and shares issued June 2018);
- 10,000 upon market announcement on completion of FEED (vested during 2018 and shares issued March 2018);
- 15,000 upon completion of a strategic investment at greater than 30-day VWAP plus 10%; and
- 15,000 on signing a debt terms sheet for project financing or debt is secured from a strategic investor.

No performance rights held by key management personnel were forfeited during the year.

## g) Equity Instruments Held by Key Management Personnel

### (i) Shares

No shares were granted as remuneration during the year ended 31 December 2018.

The number of shares in the Company held during the financial period by each director of Danakali Ltd and other key management personnel of the Group, including their personally related parties, are set out in the following tables.

Financial Year to 31 December 2018	Balance at 31 December 2017	Granted as compensation	Received on exercise of remuneration options <sup>(b)</sup>	Received on conversion of performance rights	On market purchases/ (sales)	Other <sup>(c)</sup>	Balance at 31 December 2018
<b>Shares</b>							
<b>Directors</b>							
S Cornelius	9,798,184	-	405,781	-	-	125,000	10,328,965
P Donaldson	2,718,334	-	189,417	-	-	50,000	2,957,751
J Fitzgerald	258,334	-	268,119	-	-	-	526,453
J Zhang	-	-	-	-	-	-	-
R Connochie	-	-	-	-	-	-	-
A Liebenberg	-	-	-	-	-	-	-
<b>Other Key Management Personnel</b>							
D Goeman <sup>(a)</sup>	-	-	-	-	-	-	-
S Tarrant	200,874	-	-	30,000	(41,017)	-	189,857
C Grant-Edwards	-	-	-	-	-	-	-
M Chapman	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>12,975,726</b>	<b>-</b>	<b>863,317</b>	<b>30,000</b>	<b>(41,017)</b>	<b>175,000</b>	<b>14,003,026</b>

Note:

- (a) Upon his resignation on 3 August 2018, Mr Goeman held nil shares
- (b) Via cashless exercise
- (c) Shares issued upon traditional exercise of non-remuneration unlisted options at \$0.35 expiry date 13 May 2018



# Directors' Report

## (ii) Options

The numbers of options over ordinary shares in the Company held during the financial period by each director of Danakali Ltd and other Key Management Personnel of the Group, including their personally related parties, are set out in the following tables.

Financial Year to 31 December 2018	Balance at 31 December 2017	Granted	Exercised	Expired / Cancelled	Other	Balance at 31 December 2018	Vested and exercisable	Unvested
<b>Options</b>								
<b>Directors</b>								
S Cornelius	1,675,000	-	(1,375,000)	-	-	300,000	300,000	-
P Donaldson	650,000	-	(550,000)	-	-	100,000	100,000	-
J Fitzgerald	1,475,000	-	(1,150,000)	(75,000)	-	250,000	250,000	-
J Zhang	100,000	-	-	-	-	100,000	100,000	-
R Connochie	500,000	-	-	-	-	500,000	500,000	-
A Liebenberg <sup>(a)</sup>	-	500,000	-	-	-	500,000	-	500,000
<b>Other Key Management Personnel</b>								
D Goeman <sup>(b)</sup>	1,000,000	-	-	(100,000)	(900,000)	-	-	-
S Tarrant	-	-	-	-	-	-	-	-
C Grant-Edwards	-	-	-	-	-	-	-	-
M Chapman	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>5,400,000</b>	<b>500,000</b>	<b>(3,075,000)</b>	<b>(175,000)</b>	<b>(900,000)</b>	<b>1,750,000</b>	<b>1,250,000</b>	<b>500,000</b>

Note:

- (a) Refers to 500,000 unlisted options with no vesting conditions granted to director at an exercise price of \$0.912 each and an expiry date of 11 May 2020, subject to receipt of shareholder approval (the Director Options).
- (b) Upon his resignation on 3 August 2018, Mr Goeman held 900,000 vested options.

## (iii) Performance Rights held by Key Management Personnel

Movements in Performance Rights held by Key Management Personnel are as set out in the following table:

Financial Year to 31 December 2018	Balance At 31 December 2017	Granted as Remuneration	Vested	Cancelled	Other	Unvested Balance at 31 December 2018
<b>Performance Rights</b>						
<b>Directors</b>						
S Cornelius	-	-	-	-	-	-
P Donaldson	800,000	-	-	-	-	800,000
J Fitzgerald	-	-	-	-	-	-
J Zhang	-	-	-	-	-	-
R Connochie	-	-	-	-	-	-
A Liebenberg	-	-	-	-	-	-
<b>Other Key Management Personnel</b>						
D Goeman <sup>(a)</sup>	-	-	-	-	-	-
S Tarrant	100,000	-	(30,000)	-	-	70,000
C Grant-Edwards	-	-	-	-	-	-
M Chapman	-	-	-	-	-	-
<b>TOTAL</b>	<b>900,000</b>	<b>-</b>	<b>(30,000)</b>	<b>-</b>	<b>-</b>	<b>870,000</b>

Note:

- (a) Upon his resignation on 3 August 2018, Mr Goeman held nil performance rights

## h) Loans to Key Management Personnel

There were no loans to key management personnel during the period.

## i) Other Transactions with Key Management Personnel

There were no other transactions with key management personnel during the period.

# Directors' Report

## j) Additional Information

The remuneration structure has been set up with the objective of attracting and retaining the highest calibre staff who contribute to the success of the Company's performance and individual rewards. The remuneration policies seek a balance between the interests of stakeholders and competitive market remuneration levels. The overall level of key management personnel compensation takes into account the performance of the Group over a number of years and the stage of activities the Company is engaged in.

During the period, there was a high level of corporate and project development activity to progress the Colluli Potash Project. The remuneration paid during the period is commercially reasonable for an exploration and development stage mining company. Company performance is measured against a comparable list of companies operating in the same market segment.

The Group is still in the exploration and development stage and revenue streams only relate to interest earned on investing surplus funds from capital raisings. The net losses after tax reflect the ongoing costs of the Group's exploration programs and development on the Colluli Potash Project. The table below shows the performance of the Group over the last 5 reporting periods:

Financial Year	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014 <sup>(a)</sup>
Basic (loss)/income EPS (Cents)	(2.66)	(2.85)	(2.35)	(4.01)	2.18
Share Price	\$0.740	\$0.715	\$0.48	\$0.29	\$0.19
(Loss)/income for the period	(\$6,944,413)	(\$6,839,936)	(\$4,925,558)	(\$6,792,685)	\$2,999,972

Note:

<sup>(a)</sup> 31 December 2014 was a six-month transitional period while adjusting to a December year end.

The Company continues to review its remuneration framework to ensure it reflects current business needs, shareholder views and contemporary market practice and remains appropriate to attract, motivate, retain and reward employees.

**-- END OF REMUNERATION REPORT --**

Signed in accordance with a resolution of the directors.



Seamus Cornelius  
**EXECUTIVE CHAIRMAN**  
Perth, 20 March 2019

# Directors' Report

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## Competent Persons and Responsibility Statements

### Competent Persons Statement (Sulphate of Potash and Kieserite Mineral Resource)

Colluli has a JORC-2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 1,289Mt @ 11% K<sub>2</sub>O Equiv. and 7% Kieserite. The Mineral Resource contains 303Mt @ 11% K<sub>2</sub>O Equiv. and 6% Kieserite of Measured Resource, 951Mt @ 11% K<sub>2</sub>O Equiv. and 7% Kieserite of Indicated Resource and 35Mt @ 10% K<sub>2</sub>O Equiv. and 9% Kieserite of Inferred Resource.

The information relating to the Colluli Mineral Resource estimate is extracted from the report entitled "Colluli Review Delivers Mineral Resource Estimate of 1.289Bt" disclosed on 25 February 2015 and the report entitled "In excess of 85 million tonnes of Kieserite defined within Colluli Project Resource adds to multi agri-commodity potential" disclosed on 15 August 2016, which are available to view at [www.danakali.com.au](http://www.danakali.com.au). The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

### Competent Persons Statement (Sulphate of Potash Ore Reserve)

Colluli Proved and Probable Ore Reserve is reported according to the JORC Code and estimated at 1,100Mt @ 10.5% K<sub>2</sub>O Equiv. The Ore Reserve is classified as 285Mt @ 11.3% K<sub>2</sub>O Equiv. Proved and 815Mt @ 10.3% K<sub>2</sub>O Equiv. Probable. The Colluli SOP Mineral Resource includes those Mineral Resources modified to produce the Colluli SOP Ore Reserves.

The information relating to the January 2018 Colluli Ore Reserve is extracted from the report entitled "Colluli Ore Reserve update" disclosed on 19 February 2018 and is available to view at [www.danakali.com.au](http://www.danakali.com.au). The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

### Competent Persons Statement (Rock Salt Mineral Resource)

Colluli has a JORC-2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 347Mt @ 96.9% NaCl. The Mineral Resource estimate contains 28Mt @ 97.2% NaCl of Measured Resource, 180Mt @ 96.6% NaCl of Indicated Resource and 139Mt @ 97.2% NaCl of Inferred Resource.

The information relating to the Colluli Rock Salt Mineral Resource estimate is extracted from the report entitled "+300M Tonne Rock Salt Mineral Resource Estimate Completed for Colluli" disclosed on 23 September 2015 and is available to view at [www.danakali.com.au](http://www.danakali.com.au). The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

### AMC Consultants Pty Ltd (AMC) independence

In reporting the Mineral Resources and Ore Reserves referred to in this public release, AMC acted as an independent party, has no interest in the outcomes of Colluli and has no business relationship with Danakali 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 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-Umwelttechnik GmbH, Sondershausen, Germany, utilising flame emission spectrometry, atomic absorption spectroscopy and ion chromatography. Kali-Umwelttechnik (KUTECH) has extensive experience in analysis of salt rock and brine samples and is certified according to DIN EN ISO/IEC 17025 by the Deutsche Akkreditierungsstelle GmbH (DAR). The laboratory follows standard procedures for the analysis of potash salt rocks chemical analysis (K<sup>+</sup>, Na<sup>+</sup>, Mg<sup>2+</sup>, Ca<sup>2+</sup>, Cl<sup>-</sup>, SO<sub>4</sub><sup>2-</sup>, H<sub>2</sub>O) 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 and its activities. Danakali 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

# Directors' Report

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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 Colluli 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, production target, forecast financial information and financial assumptions made in this announcement are consistent with assumptions detailed in the Company's ASX announcements dated 25 February 2015, 23 September 2015, 15 August 2016, 1 February 2017, 29 January 2018, and 19 February 2018 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.

No representation or warranty, express or implied, is or will be made by or on behalf of the Company, and no responsibility or liability is or will be accepted by the Company or its affiliates, as to the accuracy, completeness or verification of the information set out in this announcement, and nothing contained in this announcement is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or the future. The Company and each of its affiliates accordingly disclaims, to the fullest extent permitted by law, all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this announcement or any such statement.

The distribution of this announcement outside the United Kingdom may be restricted by law and therefore any persons outside the United Kingdom into whose possession this announcement comes should inform themselves about and observe any such restrictions in connection with the distribution of this announcement. Any failure to comply with such restrictions may constitute a violation of the securities laws of any jurisdiction outside the United Kingdom.

## Auditor's Independence Declaration to the Directors of Danakali Limited.

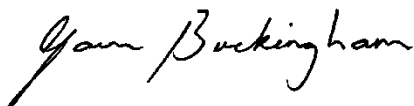
As lead auditor for the audit of the financial report of Danakali Limited for the financial year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



Gavin Buckingham  
Partner  
20 March 2019

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 \$	2017 \$
<b>REVENUE</b>			
Interest revenue calculated using the effective interest rate method	4	172,252	221,189
Accretion relating to the unwinding of discount on joint venture loan	8	-	1,362,780
Sundry		1,959	4,218
<b>EXPENSES</b>			
Depreciation expense		(8,282)	(3,588)
Administration expenses	5	(2,747,713)	(1,684,367)
Share based payment expense	22	(91,257)	(988,573)
Loss on re-measurement of loan to joint venture carried at amortised cost	8	-	(216,909)
Net loss on financial assets at fair value through profit or loss	8	(4,862,775)	-
Share of net loss of joint venture	10	(389,239)	(5,111,085)
Foreign exchange gain/(loss)		980,642	(423,601)
<b>LOSS BEFORE INCOME TAX</b>		<b>(6,944,413)</b>	<b>(6,839,936)</b>
Income tax expense	7	-	-
<b>LOSS FOR THE YEAR</b>		<b>(6,944,413)</b>	<b>(6,839,936)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that may be reclassified to profit or loss in subsequent periods</i>			
Share of foreign currency translation reserve relating to equity accounted investment	10,14	873,940	(933,753)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>873,940</b>	<b>(933,753)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(6,070,473)</b>	<b>(7,773,689)</b>
<b>Earnings per share for loss attributable to the ordinary equity holders of the Company:</b>			
Basic loss per share (cents per share)	17	(2.66)	(2.85)
Diluted loss per share (cents per share)	17	(2.66)	(2.85)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2018

	Notes	2018 \$	2017 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	9,550,585	15,559,980
Receivables	8	108,477	174,321
Prepayments		17,474	50,094
<b>TOTAL CURRENT ASSETS</b>		<b>9,676,536</b>	<b>15,784,395</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	8	9,283,670	12,216,952
Investment in joint venture	10	19,829,489	13,811,946
Plant and equipment	9	22,952	15,110
<b>TOTAL NON-CURRENT ASSETS</b>		<b>29,136,111</b>	<b>26,044,008</b>
<b>TOTAL ASSETS</b>		<b>38,812,647</b>	<b>41,828,403</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	223,854	1,097,087
Provisions	12	86,180	166,219
<b>TOTAL CURRENT LIABILITIES</b>		<b>310,034</b>	<b>1,263,306</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	12	58,903	27,811
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>58,903</b>	<b>27,811</b>
<b>TOTAL LIABILITIES</b>		<b>368,937</b>	<b>1,291,117</b>
<b>NET ASSETS</b>		<b>38,443,710</b>	<b>40,537,286</b>
<b>EQUITY</b>			
Issued capital	13	79,576,117	75,415,034
Reserves	14	13,211,353	12,521,599
Accumulated losses	15	(54,343,760)	(47,399,347)
<b>TOTAL EQUITY</b>		<b>38,443,710</b>	<b>40,537,286</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

			Reserves			
	Notes	Issued Capital	Share Based Payments	Foreign Currency Translation	Accumulated Losses	Total Equity
		\$	\$	\$	\$	\$
<b>BALANCE AT 1 JANUARY 2018</b>		<b>75,415,034</b>	<b>11,416,109</b>	<b>1,105,490</b>	<b>(47,399,347)</b>	<b>40,537,286</b>
Loss for the period		-	-	-	(6,944,413)	(6,944,413)
Other comprehensive income	14	-	-	873,940	-	873,940
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>873,940</b>	<b>(6,944,413)</b>	<b>(6,070,473)</b>
<b>Transactions with owners in their capacity as owners:</b>						
Shares issued	13	4,161,083	-	-	-	4,161,083
Costs of capital raised	13	-	-	-	-	-
Options and performance rights issued	14	-	(184,186)	-	-	(184,186)
<b>BALANCE AT 31 DECEMBER 2018</b>		<b>79,576,117</b>	<b>11,231,923</b>	<b>1,979,430</b>	<b>(54,343,760)</b>	<b>38,443,710</b>
<b>BALANCE AT 1 JANUARY 2017</b>		<b>61,758,320</b>	<b>10,427,536</b>	<b>2,039,243</b>	<b>(40,559,411)</b>	<b>33,665,688</b>
Loss for the period		-	-	-	(6,839,936)	(6,839,936)
Other comprehensive income	14	-	-	(933,753)	-	(933,753)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>(933,753)</b>	<b>(6,839,936)</b>	<b>(7,773,689)</b>
<b>Transactions with owners in their capacity as owners:</b>						
Shares issued	13	14,328,083	-	-	-	14,328,083
Costs of capital raised	13	(671,369)	-	-	-	(671,369)
Options and performance rights issued	14	-	988,573	-	-	988,573
<b>BALANCE AT 31 DECEMBER 2017</b>		<b>75,415,034</b>	<b>11,416,109</b>	<b>1,105,490</b>	<b>(47,399,347)</b>	<b>40,537,286</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.



# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 \$	2017 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		171,783	231,693
Realised foreign exchange gain		38,504	71,924
Payments to suppliers and employees		(3,640,750)	(1,583,296)
NET CASH OUTFLOW USED IN OPERATING ACTIVITIES	16	(3,430,463)	(1,279,679)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Funding of joint venture		(6,448,446)	(7,711,037)
Payments for plant and equipment		(16,124)	(10,778)
NET CASH OUTFLOW USED IN INVESTING ACTIVITIES		(6,464,570)	(7,721,815)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of ordinary shares		3,885,638	14,328,083
Costs of capital raised		-	(671,369)
NET CASH INFLOW FROM FINANCING ACTIVITIES		3,885,638	13,656,714
NET INCREASE / (DECREASE) IN CASH		(6,009,395)	4,655,220
Cash at the beginning of the financial year		15,559,980	10,904,760
<b>CASH AT THE END OF THE YEAR</b>	6	<b>9,550,585</b>	<b>15,559,980</b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

## 1. GENERAL INFORMATION

Danakali Ltd (**Danakali** or the **Company**) is a for profit company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange (**ASX**) and the London Stock Exchange (**LSE**). The consolidated financial report of the group as at, and for the year ended 31 December 2018 comprises the Company and its subsidiaries (together referred to as the **Group**). The address of the registered office is Level 11, 125 St George's Terrace, Perth, WA, 6000.

The financial statements are presented in the Australian currency.

The financial report of Danakali for the year ended 31 December 2018 was authorised for issue by the Directors on 20 March 2019. The directors have the power to amend and reissue the financial statements.

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

## 2. BASIS OF PREPARATION

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

These general purpose consolidated financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

The consolidated financial statements of the Danakali Ltd Group also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

These financial statements have been prepared under the historical cost convention, except for the loan to the joint venture that has been measured at fair value.

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

The Group applied all new and amended Accounting Standards and Interpretations that were effective as at 1 January 2018, including:

#### AASB 9 Financial Instruments (AASB 9)

The Group has adopted AASB 9 retrospectively with the date of initial application being 1 January 2018. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated which continues to be reported under AASB 139 *Financial Instruments: Recognition and Measurement* ("AASB 39"). AASB 9 replaces parts of AASB 139, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The accounting policies have been updated to reflect the application of AASB 9 for the period from 1 January 2018 (see note 2(l) for details of the new accounting policy for receivables).

#### Classification and Measurement

Under AASB 9, debt instruments are subsequently measured at fair value through profit or loss (**FVPL**), amortised cost, or fair value through other comprehensive income (**FVOCI**). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). The SPPI test is applied to the entire financial asset, even if it contains an embedded derivative. Consequently, a derivative embedded in a debt instrument is not accounted for separately.

At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. The assessment was conducted on instruments that had not been derecognised as at 1 January 2018. In this regard, the Group has determined that the adoption of AASB 9 has impacted the classification of financial instruments at 1 January 2018 as follows:

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB139 (prior to 1 January 2018)	New measurement category under AASB 9 (from 1 January 2018)
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Loan receivable	Loans and receivables	Financial assets at Fair Value Through Profit and Loss
Trade and other payables	Financial liability at amortised cost	Financial liabilities at amortised cost

The change in classification of financial instruments has not resulted in any re-measurement adjustments at 1 January 2018 and has had no impact on the measurement of carrying value of the amount disclosed.

The loan to Colluli Mining Share Company (see note 8) failed the SPPI test due to the limited recourse nature of the loan.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

Accordingly, on adoption of AASB 9, the loan has been classified as a financial asset at FVPL.

## Impairment of financial assets

In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information. The result of the assessment is as follows:

Items existing as at 1 January 2018 that are subject to the impairment provisions of AASB 9	Credit risk attributes	Cumulative additional loss allowance recognised on 1 January 2018 \$'000:
Cash and cash equivalents and deposits	All bank balances are assessed to have low credit risk as they are held with a reputable financial institution with a Moody's Credit Rating of AA3.	-
Security Bond	The security is assessed to have low credit risk as they are held with a reputable institution.	-
Receivables at amortised cost	As these receivables have short term maturities, the Group has concluded that the lifetime ECL for these assets would be negligible and therefore no loss allowance was required at 1 January 2018.	-

## Hedge accounting

The Group has not applied hedge accounting.

## **AASB 15 Revenue from Contracts with Customers (AASB 15)**

The Group has adopted AASB 15 with the date of initial application being 1 January 2018.

AASB 15 supersedes AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

At 1 January 2017 and at 1 January 2018 it was determined that the adoption of AASB 15 had no impact on the Group as the entity does not generate revenue.

## **AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions**

The Group has adopted AASB 2016-5 with the date of initial application being 1 January 2018.

This standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
- Share-based payment transactions with a net settlement feature for withholding tax obligations
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled

At 1 January 2017 and at 1 January 2018 it was determined that the adoption of AASB 2016-5 had no impact on the Group as the Group had no share-based payment transactions with features described in the amendment.

## **AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration**

The Group has adopted Interpretation 22 with the date of initial application being 1 January 2018.

The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

entity must determine a date of the transaction for each payment or receipt of advance consideration.

At 1 January 2017 and at 1 January 2018 it was determined that the adoption of Interpretation 22 had no impact on the Group.

## (b) New accounting standards and interpretations not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting year ended 31 December 2018 are outlined in the table below. The potential effect of these Standards is yet to be fully determined.

Reference	Title	Summary	Application date	
			of standard*	for Group
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.</p> <p>AASB 2015-10 deferred the mandatory effective date (application date) of AASB 2014-10 so that the amendments were required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. AASB 2017-5 further defers the effective date of the amendments made in AASB 2014-10 to periods beginning on or after 1 January 2022.</p>	1 January 2022	1 January 2022
AASB 16	Leases	<p>The key features of AASB 16 are as follows:</p> <p>Lessee accounting</p> <ul style="list-style-type: none"> <li>Lessees are required to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</li> <li>Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</li> <li>AASB 16 contains disclosure requirements for lessees.</li> </ul> <p>Lessor accounting</p> <ul style="list-style-type: none"> <li>AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</li> <li>AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</li> </ul> <p>AASB 16 supersedes:</p> <ol style="list-style-type: none"> <li>AASB 117 Leases</li> <li>Interpretation 4 Determining whether an Arrangement contains a Lease</li> <li>SIC-15 Operating Leases—Incentives</li> <li>SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease</li> </ol> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. The Group has not yet performed its detailed assessment on the impact of this new standard on</p>	1 January 2019	1 January 2019

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

Reference	Title	Summary	Application date	
			of standard*	for Group
		the basis that it is not material to the financial statements.		
AASB Interpretation 23, and relevant amending standards	Uncertainty over Income Tax Treatments	<p>The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:</p> <ul style="list-style-type: none"> <li>• Whether an entity considers uncertain tax treatments separately</li> <li>• The assumptions an entity makes about the examination of tax treatments by taxation authorities</li> <li>• How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• How an entity considers changes in facts and circumstances.</li> </ul>	1 January 2019	1 January 2019
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	This Standard amends AASB 128 Investments in Associates and Joint Ventures to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128.	1 January 2019	1 January 2019
AASB 2018-1	Australian Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle	<p>The amendments clarify certain requirements in:</p> <ul style="list-style-type: none"> <li>• AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation</li> <li>• AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity</li> <li>• AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation.</li> </ul>	1 January 2019	1 January 2019
Not yet issued by the AASB	Conceptual Framework for Financial Reporting and relevant amending standards	<p>The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:</p> <ul style="list-style-type: none"> <li>• Chapter 1 – The objective of financial reporting</li> <li>• Chapter 2 – Qualitative characteristics of useful financial information</li> <li>• Chapter 3 – Financial statements and the reporting entity</li> <li>• Chapter 4 – The elements of financial statements</li> <li>• Chapter 5 – Recognition and derecognition</li> <li>• Chapter 6 – Measurement</li> <li>• Chapter 7 – Presentation and disclosure</li> <li>• Chapter 8 – Concepts of capital and capital maintenance</li> </ul> <p><i>Amendments to References to the Conceptual Framework in IFRS Standards</i> has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying IFRS 3 and developing accounting policies for regulatory account balances using IAS 8, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the</p>	1 January 2020	1 January 2020

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

Reference	Title	Summary	Application date	
			of standard*	for Group
		2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework.		
AASB 2018-7	Definition of Material (Amendments to AASB 101 and AASB 108)	This Standard amends AASB 101 <i>Presentation of Financial Statements</i> and AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.	1 January 2020	1 January 2020

## (c) Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

At balance date, the Group had cash and cash equivalents of \$9,550,585 (31 December 2017: \$15,559,980) and a net working capital surplus of \$9,366,502 (31 December 2017: \$14,521,089). Whilst the existing cash reserves are sufficient to cover the working capital requirements of the Group for the next 12 months, it is anticipated that the Group will commence execution of the project development during this period and as such, additional funding will be necessary to carry out these planned activities.

Under the mining agreement entered into between the Government of the State of Eritrea and Colluli Mining Share Company (**CMSC**) dated 31 January 2017 (**Mining Agreement**), CMSC is obliged to spend US\$200 million on infrastructure and mine development within the area of the Colluli project mining licences in the 36 months following the provision of formal notice to the Ministry of Energy and Mines that development has commenced. The notice, not a primary obligation under the mining agreement, was scheduled to be submitted by 30 October 2018 and then 31 December 2018. CMSC will now submit the notice once sufficient funding has been raised to allow the advancement of infrastructure and mine development.

At the date of this report, the directors are satisfied there are reasonable grounds to believe that the Group will be able to continue its planned activities and the Group will be able to meet its obligations as and when they fall due. The directors are confident that the Group will be able to obtain the additional funding requirement via equity raising and the securing of debt. If it appeared that such financing was likely to be delayed, the directors would seek to defer its planned capital expenditure on the project and, if necessary, seek an extension of the deadline to meet its expenditure obligations pursuant to the Colluli Mining Agreement.

Should the Group not achieve the matters set out above, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

## (d) Principles of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## (e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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## **(f) Foreign currency translation**

### **(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Danakali's functional and presentation currency.

### **(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency 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 at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### **(iii) Foreign operations**

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

## **(g) Interest revenue**

Interest revenue is recognised using the effective interest rate method.

## **(h) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements at the reporting date. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

## **(i) Leases**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

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classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## **(j) Impairment of assets**

Assets are reviewed for impairment annually to determine if events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are consolidated at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## **(k) Cash and cash equivalents**

For Consolidated Statement of Cash Flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

## **(l) Receivables (new policy applied from 1 January 2018 due to adoption of AASB 9)**

### **(i) Initial recognition**

Receivables are initially recognised and measured at fair value. Receivables that are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest are classified and subsequently measured at amortised cost. Receivables that do not meet the criteria for amortised cost are measured at fair value through profit or loss. This latter category includes the loan to Colluli Mining Share Company.

### **(ii) Subsequent measurement**

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

### **(iii) Impairment**

The group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on financial assets are estimated based on the Group's historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast conditions at the reporting date.

In relation to all other receivables measured at amortised cost, the Group applies the credit loss model. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, the Group measures the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

The Group considers an event of default has occurred when a financial asset is more than 90 days past due or external sources indicate that the debtor is unlikely to pay its creditors, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovering the contractual cash flow.

## **(m) Receivables (old policy applied to 31 December 2017)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are measured at amortised cost and are included in receivables in the statement of financial position.

## **(n) Investment in joint venture**

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investment in a joint venture is accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition



# Notes to the Consolidated Financial Statements

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date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognises the loss as 'Share of profit of the equity accounted investment' in profit or loss.

Upon loss of joint control over a joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

## **(o) Plant and equipment**

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is de-recognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value.

The assets' residual values and useful lives are reviewed, and adjusted prospectively if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group's policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

## **(p) Exploration and evaluation costs**

Acquired exploration and evaluation costs are capitalised. Ongoing exploration and evaluation costs are expensed in the period they are incurred.

## **(q) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

## **(r) Employee benefits**

### ***(i) Wages and salaries, annual leave and long service leave***

Liabilities for wages and salaries, including non-monetary benefits, and other short terms benefits expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

### ***(ii) Share-based payments***

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for options or rights over shares ('equity-settled transactions') refer to note 22.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of options is determined by an internal valuation using a Black-Scholes option pricing

# Notes to the Consolidated Financial Statements

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model. The fair value of performance rights determined by consideration of the Company's share price at the grant date.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options or rights that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition or awards with non-vesting conditions.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

## **(s) Issued capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## **(t) Earnings per share**

### ***(i) Basic earnings per share***

Basic earnings per share is calculated by dividing the profit or loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period.

### ***(ii) Diluted earnings per share***

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## **(u) Critical accounting judgements, estimates and assumptions**

The preparation of these financial statements 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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

### ***(i) Impairment***

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. The major assets are tested for impairment when there is objective evidence of impairment. As at 31 December 2018 the Group assessed that, no indicator of impairment existed (31 December 2017: Nil).

### ***(ii) Interest in Joint Arrangement and measurement of loan receivable***

The Group accounts for its 50% interest in CMSC as a joint venture using the equity method.

Danakali holds 3 of 5 CMSC Board seats, however in reference to certain material decisions which are reserved for Majority Shareholder approval it has been determined that the interest in CMSC is more appropriately classified as an interest in a joint venture and has been accounted for using the equity method. These shareholder voting rights are considered to be substantive rights particularly in the early stages of the project development.

The assumptions applied in determining the fair value of the loan to the joint venture includes determining the timing of cash receipts and the discount rate applied. The fair value of the loan has been measured using valuation techniques under a discounted cash flow (**DCF**) model, as fair value cannot be measured on quoted prices in active markets. The inputs to a DCF are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value. Judgements include consideration of inputs including foreign exchange risk, interest rate risk, and credit risk. At 31 December 2018 a discount rate of 25% was applied, based on management's judgement of the underlying risks. The timing of cash receipts has been adjusted according to management's best estimate and it is currently estimated that receipts commence in the December 2023 quarter.

Further context is detailed in note 10.

### ***(iii) Share based payment transactions***

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined by an internal valuation using a

# Notes to the Consolidated Financial Statements

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Black-Scholes option pricing model, using the assumptions detailed in note 22.

The fair value of performance rights is determined by the share price at the date of grant and consideration of the probability of the vesting condition being met.

#### **(iv) Fair value measurement of financial instruments**

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as discount rate, exchange rate, repayment terms etc. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See note 8 for further disclosures.

#### **(v) Provision for Expected Credit Loss (ECL)**

The accounting estimates and judgments related to the impairment of receivables is a critical accounting estimate because the underlying assumptions used for assessed impairment can change from period to period and may significantly affect the Group's results of operations.

In assessing assets for impairments, management judgment is required, particularly in relation to economic and financial conditions, the timing of the completion of construction, timing of project financing and alignment to the indicative debt financing terms and changes to expected cash flows can occur.

The determination for a provision for expected credit loss is determined using the credit loss model. The use of this model incorporates numerous estimates and judgements. The group performs a regular review of the models and underlying data and assumptions.

#### **(v) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

#### **(w) Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

### **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.

The Group's non-current assets are geographically located in Eritrea.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

## 4. REVENUE

	2018 \$	2017 \$
Interest	172,252	221,189

## 5. EXPENSES

	2018 \$	2017 \$
Employee benefits (net of recharges)	309,176	267,256
Director fees	439,612	295,631
Compliance and regulatory expenses (a)	1,386,915	392,626
Lease payments relating to operating leases	91,893	144,152
Other administration expenses	520,117	584,702
	2,747,713	1,684,367

(a) Expenditure in the areas of legal, consultants and other compliance and regulatory expenses increased during the year as a result of the LSE listing and corporate transactions.

## 6. CASH AND CASH EQUIVALENTS

	2018 \$	2017 \$
Cash at bank and in hand	9,550,585	15,559,980

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

## 7. INCOME TAX

	2018 \$	2017 \$
<b>(a) Income tax recognised in profit or loss</b>		
Current tax	-	-
Deferred tax	-	-
Total tax benefit/(expense)	-	-
<b>(b) Reconciliation of income tax expense to prima facie tax payable</b>		
Loss before income tax expense	(6,944,413)	(6,839,936)
Prima facie tax benefit at the Australian tax rate of 27.5% (2017: 27.5%)	(1,909,712)	(1,880,982)
Adjustment of under-provision of deferred tax in prior year	(433,978)	-
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
<i>Share-based payments</i>	25,096	271,858
<i>Share of net loss of equity accounted associate</i>	107,041	1,405,548
<i>Accretion relating to the unwinding of discount on joint venture loan</i>	-	(315,115)
<i>Net loss on financial assets at fair value through profit or loss</i>	1,337,263	-
Movements in unrecognised temporary differences and tax effect of current year tax losses:	874,290	518,691
Income tax expense/(benefit)	-	-

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

## (c) Deferred Income Tax

Deferred income tax at 31 December relates to the following:

	Statement of Financial Position		Statement of Comprehensive Income	
	2018	2017	2018	2017
	\$	\$	\$	\$
<i>Deferred Tax Liabilities:</i>				
Interest receivable	(129)	-	(129)	3,151
<i>Deferred Tax Assets:</i>				
Provision for employee entitlements	39,898	53,358	(13,460)	213
Accrued expenditure	1,973	12,309	(10,336)	5,709
s.40-880 expenditure	188,041	270,029	(81,988)	87,420
Revenue tax losses	5,228,743	4,248,669	980,074	(411,724)
Deferred tax assets not brought to account as realisation is not probable	(5,458,526)	(4,584,365)	(874,161)	315,231
	-	-	-	-

## 8. RECEIVABLES

	2018	2017
	\$	\$
<b>Current</b>		
Net GST receivable	31,863	112,705
Accrued interest	469	-
Other receivables	1,895	2,366
Security bonds	74,250	59,250
	108,477	174,321
<b>Non-Current</b>		
Loan to Colluli Mining Share Company – at fair value	9,283,670	-
Loan to Colluli Mining Share Company – at amortised cost	-	12,216,952
Carrying value of loans	9,283,670	12,216,952
Impairment of receivables	-	-
	9,283,670	12,216,952

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 a market effective interest rate of 25% (2017: effective interest rate of 25%).

During the year ended 31 December 2018, the repayment profile of the receivable was updated to consider the timing of the completion of construction, timing of project financing and alignment to the indicative debt financing terms. This resulted in a loss on financial assets at fair value through profit or loss of \$4,862,775 (see note 10).

During the year ended 31 December 2017, the repayment profile of the receivable was updated to consider the results generated by the completion of the Front-End Engineering Design (**FEED**) on 29 January 2018 and timing of the completion of construction. This resulted in a loss on the re-measurement of the loan amounting to \$216,909 (see note 10).

The undiscounted underlying loan balance at 31 December 2018 is \$33,571,559 (USD 23,676,610) (31 December 2017: \$27,176,517) (USD 21,216,239).

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 \$	2017 \$
<b>Reconciliation of movement in loan to Colluli Mining Share Company</b>		
Opening carrying amount at beginning of the year	12,216,952	9,519,503
Additional loans during the year	987,356	1,881,697
Foreign exchange gain/(loss)	942,137	(330,121)
Loss on re-measurement of loan to joint venture carried at amortised cost	-	(216,909)
Accretion relating to the unwinding of discount on joint venture loan	-	1,362,780
Net loss on financial assets at fair value through profit or loss	(4,862,775)	-
Closing carrying amount at end of the year	9,283,670	12,216,952

## 9. PLANT AND EQUIPMENT

	2018 \$	2017 \$
<b>Plant and equipment</b>		
Gross carrying value – at cost	74,561	58,437
Accumulated depreciation	(51,609)	(43,327)
Net book amount	22,952	15,110
<b>Plant and equipment</b>		
Opening net book amount at beginning of the year	15,110	7,920
Additions	16,124	10,778
Disposals	-	-
Depreciation charge	(8,282)	(3,588)
Closing net book amount at end of the year	22,952	15,110

## 10. INVESTMENT IN JOINT VENTURE

The Group has an interest in the following joint arrangement:

Project	Activities	Equity Interest		Carrying Value	
		2018 %	2017 %	2018 \$	2017 \$
Colluli Potash	Mineral Exploration	50	50	19,829,489	13,811,946

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 the Shareholders Agreement entered into with the Eritrean National Mining Corporation (**ENAMCO**) and executed in November 2013. 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.

Under the terms of the Shareholders Agreement, at the date of incorporation of CMSC, consideration for the acquisition of shares in CMSC equated to half of the allowable historical exploration costs transferred to CMSC by STB Eritrea Pty Ltd, a wholly owned subsidiary of Danakali Limited. The balance of the allowable historic exploration costs transferred to CMSC are recoverable via a shareholder loan account (see note 8).

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 31 December 2018.

	2018 \$	2017 \$
<b>Reconciliation of movement in investments accounted for using the equity method:</b>		
Opening carrying amount at beginning of the year	13,811,946	13,502,312
Additional investment during the year	5,532,842	6,354,472
Share of net (loss)/profit for the year	(389,239)	(5,111,085)
Other comprehensive income for the year	873,940	(933,753)
Closing carrying amount at end of the year	19,829,489	13,811,946



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

## Summarised financial information of joint venture:

	2018 \$	2017 \$
<b>Financial position (Aligned to Danakali accounting policies)</b>		
<i>Current Assets:</i>		
Cash	110,666	43,901
Other current assets	104,928	83,582
	<u>215,594</u>	<u>127,483</u>
<i>Non-current assets</i>		
Fixed Assets	135,013	108,727
Mineral Property	31,125,894	27,610,315
	<u>31,260,907</u>	<u>27,719,042</u>
<i>Current liabilities</i>		
Trade & other payables and provisions	(311,850)	(250,832)
	<u>(311,850)</u>	<u>(250,832)</u>
<i>Non-current liabilities</i>		
Loan from Danakali Ltd – at amortised cost	(9,283,670)	(12,216,952)
	<u>(9,283,670)</u>	<u>(12,216,952)</u>
<b>NET ASSETS</b>	<u>21,880,981</u>	<u>15,378,741</u>
Group's share of net assets	<u>10,940,491</u>	<u>7,689,371</u>
<b>Reconciliation of Equity Investment:</b>		
Group's share of net assets	10,940,491	7,689,371
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	13,194,105	10,427,682
Carrying amount at the end of the period	<u>19,829,489</u>	<u>13,811,946</u>

	2018 \$	2017 \$
<b>Financial performance</b>		
Interest expense relating to the unwinding of discount on joint venture loan	(3,859,850)	(1,362,780)
Gain on re-measurement of loan to joint venture carried at amortised cost	8,722,625	216,909
Exploration and evaluation expenditure	(5,641,253)	(9,076,298)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<u>(778,478)</u>	<u>(10,222,169)</u>
Group's share of total loss for the year	<u>(389,239)</u>	<u>(5,111,085)</u>

During the year ended 31 December 2018 no dividends were paid or declared (2017: Nil).

Colluli Mining Share Company has the following commitments or contingencies at 31 December 2018:

### Government

Under the mining agreement entered into between the Government of the State of Eritrea and Colluli Mining Share Company (CMSC) dated 31 January 2017, CMSC is obliged to spend US\$200 million on infrastructure and mine development within the area of the Colluli project mining licences in the 36 months following the provision of formal notice to the Ministry of Energy and Mines that development has commenced.

### Funding

CMSC successfully executed a mandate to provide fully underwritten debt finance facilities of US\$200M to fund the construction and development of the Project. African development financial institutions African Export-Import Bank (Afreximbank) and Africa Finance Corporation (AFC) are acting as Mandated Lead Arrangers (MLAs).

Under the terms of the mandate, CMSC is responsible to pay all reasonable costs and expenses related to external technical, financial, insurance, tax and legal consultants required by the MLAs to assist in the due diligence. The mandate letter includes various fees, payable by CMSC to the MLAs, based on various future outcomes, including termination by CMSC.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

## 11. TRADE AND OTHER PAYABLES

	2018 \$	2017 \$
Trade payables	122,362	925,470
Accrued expenses	65,868	103,453
Other payables	35,624	68,164
	<u>223,854</u>	<u>1,097,087</u>

## 12. PROVISIONS

	2018 \$	2017 \$
<b>Current</b>		
Employee entitlements	86,180	166,219
<b>Non-Current</b>		
Employee entitlements	58,903	27,811
	<u>145,083</u>	<u>194,030</u>

Employee entitlements relate to the balance of annual leave and long service leave accrued by the Group's employees. Recognition and measurement criteria have been disclosed in note 2.

## 13. ISSUED CAPITAL

	2018		2017	
	Number of shares	\$	Number of shares	\$
<b>(a) Share capital</b>				
Ordinary shares fully paid	264,422,398	79,576,117	251,697,687	75,415,034
Total issued capital	<u>264,422,398</u>	<u>79,576,117</u>	<u>251,697,687</u>	<u>75,415,034</u>
<b>(b) Movements in ordinary share capital</b>				
Balance at the beginning of the year	251,697,687	75,415,034	224,494,677	61,758,320
<i>Issued during the year:</i>				
– Issued at \$0.278 per share on option exercise	-	-	4,600,000	1,278,800
– Issued at \$0.350 per share on option exercise	10,381,821	3,633,640	1,356,365	474,728
– Issued at \$0.405 per share on option exercise	400,000	162,000	351,000	142,155
– Issued at \$0.408 per share on option exercise	-	-	200,000	81,600
– Issued at \$0.450 per share on option exercise	200,000	90,000	-	-
– Issued at \$0.652 per share via cashless exercise of 1,949,000 options with an exercise price of \$0.405	738,346	-	-	-
– Issued at \$0.624 per share via cashless exercise of 750,000 options with an exercise price of \$0.527	116,586	-	-	-
– Issued at \$0.648 per share via cashless exercise of 1,600,000 options with an exercise price of \$0.550	241,974	-	-	-
– Issued at \$0.773 per share via cashless exercise of 750,000 options with an exercise price of \$0.550	216,364	-	-	-
– Issued on vesting of performance rights	65,000	-	775,000	-
– Issued at \$0.755 per share in lieu of advisor fees (refer note 22(b))	356,049	268,817 <sup>(a)</sup>	-	-
– Issued at \$0.773 per share in lieu of advisor fees (refer note 22(b))	8,571	6,626 <sup>(b)</sup>	-	-
– Issued at \$0.620 per share pursuant to placement	-	-	19,920,645	12,350,800
– Costs of capital raised	-	-	-	(671,369)
Balance at the end of the year	<u>264,422,398</u>	<u>79,576,117</u>	<u>251,697,687</u>	<u>75,415,034</u>



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

Note:

- (a) The fair value for the consideration of these shares was calculated taking into accounts the Company's valuation on admission to the LSE, the Company's share price and the USD/AUD exchange rate on the date of issue.
- (b) The fair value for the consideration of these shares was calculated taking into accounts the Company's 10-day VWAP share price and the GBP/AUD exchange rate on the date of issue.

## (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

	2018 Options	2017 Options
<b>(d) Movements in options on issue</b>		
Balance at beginning of the year	19,195,821	25,213,186
<i>Issued during the year:</i>		
– Exercisable at \$0.940, on or before 19 May 2020	-	1,440,000
– Exercisable at \$0.960, on or before 20 June 2019	-	400,000
<i>Exercised, cancelled or expired during the year:</i>		
– Exercised, exercisable at \$0.278 on or before 17 November 2017	-	(4,600,000)
– Exercised, exercisable at \$0.350 on or before 30 March 2018	(9,656,821)	(1,356,365)
– Exercised, exercisable at \$0.350 on or before 13 May 2018	(725,000)	(351,000)
– Exercised, exercisable at \$0.405 on or before 13 May 2018	(2,349,000)	-
– Exercised, exercisable at \$0.408 on or before 4 November 2018	-	(200,000)
– Exercised, exercisable at \$0.450 on or before 23 June 2018	(200,000)	-
– Exercised, exercisable at \$0.527 on or before 29 May 2018	(750,000)	-
– Exercised, exercisable at \$0.550 on or before 31 May 2018	(600,000)	-
– Exercised, exercisable at \$0.550 on or before 4 November 2018	(750,000)	-
– Exercised, exercisable at \$0.550 on or before 31 December 2018	(1,000,000)	-
– Expired, exercisable at \$0.350, on or before 13 May 2018	(75,000)	-
– Cancelled, exercisable at \$0.558, on or before 8 August 2019	(100,000)	-
– Cancelled, exercisable at \$0.408 on or before 4 November 2018	-	(800,000)
– Cancelled, exercisable at \$0.543 on or before 7 October 2019	-	(550,000)
Balance at end of the year	2,990,000	19,195,821

## 14. RESERVES

	2018 \$	2017 \$
<b>(a) Reserves</b>		
<b><i>Share-based payments reserve</i></b>		
Balance at beginning of the year	11,416,109	10,427,536
Employee and contractor share options and performance rights (note 22)	(184,186)	988,573
Balance at end of the year	11,231,923	11,416,109
<b><i>Foreign currency translation reserve</i></b>		
Balance at beginning of the year	1,105,490	2,039,243
Currency translation differences arising during the year/ period	873,940	(933,753)
Balance at end of the year	1,979,430	1,105,490
<b>Total reserves</b>	13,211,353	12,521,599

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

## (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.

## 15. ACCUMULATED LOSSES

	2018 \$	2017 \$
Balance at beginning of the year	(47,399,347)	(40,559,411)
Loss for the year	(6,944,413)	(6,839,936)
Balance at end of the year	(54,343,760)	(47,399,347)

## 16. STATEMENT OF CASH FLOWS

	2018 \$	2017 \$
<b>(a) Reconciliation of net loss after income tax to net cash outflow from operating activities</b>		
Net loss for the year	(6,944,413)	(6,839,936)
<i>Non-Cash Items:</i>		
Depreciation of plant and equipment	8,282	3,588
Loss of disposal of plant and equipment	-	-
Share-based payment expense	91,257	988,573
Accretion relating to the unwinding of discount on joint venture loan	-	(1,362,780)
Share of net loss of associate	389,239	5,111,085
Foreign exchange loss/(gain)	(942,138)	495,525
Loss on re-measurement of loan to joint venture carried at amortised cost	-	216,909
Net loss on financial assets at fair value through profit or loss	(4,862,775)	-
<i>Change in operating assets and liabilities:</i>		
Decrease/(increase) in trade and other receivables	17,602	(33,890)
Decrease/(increase) in trade and other payables	(864,120)	124,368
Increase/(decrease) in provisions	(48,947)	16,879
Net cash outflow from operating activities	(3,430,463)	(1,279,679)
<b>(b) Funding of joint venture operations</b>		
Cash contribution to joint venture operations during the period	(6,448,446)	(7,711,037)

## 17. EARNINGS PER SHARE

### (a) Reconciliation of earnings used in calculating earnings per share (EPS)

	2018 \$	2017 \$
Loss attributable to the owners of the Company used in calculating basic and diluted loss per share	(6,944,413)	(6,839,936)

### (b) Weighted average number of shares used as the denominator

	2018 No. of Shares	2017 No. of Shares
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	261,076,051	239,710,693

As the Group incurred a loss for the period, the options on issue have an anti-dilutive effect, therefore the diluted EPS is equal to the basic EPS. A total of 2,990,000 (2017: 19,195,821) share options and 1,315,000 (2017: 1,408,000) performance rights which could potentially dilute basic EPS in the future have been excluded from the diluted EPS calculation because they are anti-dilutive for the current year presented.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

## 18. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to market, liquidity and credit risks arising from its financial instruments.

The Group's management of financial risk is aimed at ensuring net cash flows are sufficient to meet all of its financial commitments and maintain the capacity to fund the Colluli project and ancillary exploration activities. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of risks.

Market (including foreign exchange and interest rate risks), liquidity and credit risks arise in the normal course of business. These risks are managed under Board approved treasury processes and transactions.

The principal financial instruments as at reporting date include cash, receivables and payables.

This note presents information about exposures to the above risks, the objectives, policies and processes for measuring and managing risk, and the management of capital.

### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements. The international operations are at the start-up stage and there is limited exposure at the reporting date to assets and liabilities denominated in foreign currencies.

The loan of \$9,283,670 (2017: \$12,216,952) to Colluli Mining Share Company is denominated in US Dollar.

The following table demonstrates the sensitivity to a reasonably possible change in US Dollar exchange rates, with all other variables held constant. A strengthening of the Australian Dollar rate results in an increased loss before tax. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD Rate %	Effect on Loss before tax \$
Year to 31 December 2018	+5%	(464,183)
	-5%	464,183
Year to 31 December 2017	+5%	(610,848)
	-5%	610,848

#### (ii) Interest rate risk

The Group is exposed to movements in market interest rates on cash. The Group's policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash for the Group of \$9,550,585 (2017: \$15,559,980) is subject to interest rate risk. The floating interest rates fluctuate during the period depending on current working capital requirements. The weighted average interest rate received on cash by the Group was 1.30% (2017: 1.51%).

The Group is also exposed to movements in market interest rates on the loan to Colluli Mining Share Company held at fair value through profit or loss.

#### Sensitivity analysis

At 31 December 2018, if interest rates had changed by +/- 80 basis points from the weighted average rate for the period with all other variables held constant, post-tax loss for the Group would have been \$105,766 higher/lower (2017: \$117,048 higher/lower) as a result of lower/higher interest income from cash and cash equivalents. The fair value of the loan has been determined using a discounted cash flow methodology. Due to the significant unobserved inputs the fair value is categorised as level 3 in the fair value hierarchy. The fair value of the loan is sensitive to the discount rate applied. A 50bps movement in the discount rate would change the valuation by \$209,105.

### (b) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings.

The Board of Directors constantly monitors the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the Consolidated Statement of Financial Position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

## (c) Credit risk

The Group's significant concentration of credit risk is cash, which is held with the major Australian bank with AA2 credit rating, accordingly the credit risk exposure is minimal. The maximum exposure to credit risk at balance date is the carrying amount of cash receivables as disclosed in the Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements.

Other than the loan to Colluli Mining Share Company, the Group does not presently have any material debtors. A formal credit risk management policy is not maintained in respect of debtors.

## (d) Fair values

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 31 December 2018:

	At amortised cost \$	Fair value through profit and loss \$	Fair value through other comprehensive income \$
<b>Financial Assets:</b>			
Receivables	108,477	-	-
Total current	108,477	-	-
Receivable	-	9,283,670	-
Total non-current	-	9,283,670	-
Total Assets	108,477	9,283,670	-
<b>Financial liabilities:</b>			
Trade and other payables	223,854	-	-
Total current	223,854	-	-
Total Liabilities	223,854	-	-

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 31 December 2018:

	Carrying Value \$	Fair Value \$
<b>Financial Assets:</b>		
Receivables	108,477	108,477
Total current	108,477	108,477
Receivable	9,283,670	9,283,670
Total non-current	9,283,670	9,283,670
Total Assets	9,392,147	9,392,147
<b>Financial liabilities:</b>		
Trade and other payables	223,854	223,854
Total current	223,854	223,854
Total Liabilities	223,854	223,854

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 31 December 2017:

	At amortised cost \$	Fair value through profit and loss \$	Fair value through other comprehensive income \$
<b>Financial Assets:</b>			
Receivables	174,321	-	-
Total current	174,321	-	-
Receivable	12,216,952	-	-
Total non-current	12,216,952	-	-
Total Assets	12,391,273	-	-
<b>Financial liabilities:</b>			
Trade and other payables	1,097,087	-	-
Total current	1,097,087	-	-
Total Liabilities	1,097,087	-	-

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 31 December 2017:

	Carrying Value \$	Fair Value \$
<b>Financial Assets:</b>		
Receivables	174,321	174,321
Total current	174,321	174,321
Receivable	12,216,952	12,216,952
Total non-current	12,216,952	12,216,952
Total Assets	12,391,273	12,391,273
<b>Financial liabilities:</b>		
Trade and other payables	1,097,087	1,097,087
Total current	1,097,087	1,097,087
Total Liabilities	1,097,087	1,097,087

The current receivables and payables carrying values approximates fair values due to the short-term maturities of these instruments.

The fair value of the long-term receivable was determined by discounting future cashflows using a current market interest rate of 25% (2017 – effective interest rate of 25%). The timing of cash receipts has been adjusted according to management's best estimate and it is currently estimated that receipts commence in the December 2023 quarter. The fair value measurement for 2018 (2017 - disclosure only) is categorised as Level 3 in the fair value hierarchy as the estimated market interest rate is an unobserved input in the valuation. An unobserved input is used to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

## 19. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

Capital managed by the Board includes Shareholder equity, which was \$37,427,542 (2017: \$40,537,286). The focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration and project development programmes plus corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

## 20. CONTINGENCIES

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

## 21. COMMITMENTS

	2018 \$	2017 \$
<b>Lease commitments: Group as lessee</b>		
<i>Operating leases (non-cancellable):</i>		
Minimum lease payments		
- within one year	11,667	70,000
- later than one year but not later than five years	-	11,667
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	11,667	81,667
Total Commitments	11,667	81,667

### Operating Leases:

The minimum future payments above relate to non-cancellable operating leases for offices. On 18 January 2018, the Company extended the Churchill avenue office lease by 12 months commencing on 1 March 2018 for a total annual cost of \$70,000.

## 22. SHARE-BASED PAYMENTS

### (a) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	2018 \$	2017 \$
Shares	275,443	-
Options issued to directors, employees and contractors	31,894	591,446
Performance Rights issued to directors, employees and contractors	(216,080)	397,127
	91,257	988,573

### (b) Shares

During the year, the Company issued a total of 364,620 shares to advisors in consideration for services rendered (refer note 13(b)). The share-based payment expense recorded in respect of these shares was determined in reference to the prevailing market value of the shares at time of issue.

### (c) Options

The Group provides benefits to employees (including directors), contractors and consultants of the Group in the form of share-based payment transactions, whereby employees, contractors and consultants render services in exchange for options to acquire ordinary shares.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights. Set out below is a summary of the options granted (being those the subject of share-based payments).

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	8,739,000	\$0.591	13,400,000	\$0.414
Granted	500,000	\$0.912	1,840,000	\$0.944
Exercised	(5,649,000)	\$0.483	(5,151,000)	\$0.292
Expired	(100,000)	\$0.558	(1,350,000)	\$0.463
Outstanding at end of the year	3,490,000	\$0.811	8,739,000	\$0.591
Exercisable at end of the year	2,990,000	\$0.794	8,389,000	\$0.592

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

Movements within specific classes of unlisted options (being those the subject of share-based payments) during the year is as follows:

Unlisted Options - Class	Opening balance 31 Dec 2017	Granted (subject to shareholder approval)	Exercised (Traditional)	Exercised (Cashless) (i)	Lapsed / Expired	Closing balance 31 Dec 2018
Exercise price \$0.405 expiry date 13/05/2018	2,349,000	-	(400,000)	(1,949,000)	-	-
Exercise price \$0.527 expiry date 29/05/2018	750,000	-	-	(750,000)	-	-
Exercise price \$0.550 expiry date 31/05/2018	600,000	-	-	(600,000)	-	-
Exercise price \$0.450 expiry date 23/06/2018	200,000	-	(200,000)	-	-	-
Exercise price \$0.550 expiry date 04/11/2018	750,000	-	-	(750,000)	-	-
Exercise price \$0.550 expiry date 31/12/2018	1,000,000	-	-	(1,000,000)	-	-
Exercise price \$0.558 expiry date 08/08/2019	1,000,000	-	-	-	(100,000)	900,000 (ii)
Exercise price \$0.543 expiry date 07/10/2019	250,000	-	-	-	-	250,000 (ii)
Exercise price \$0.940 expiry date 19/05/2020	1,440,000	-	-	-	-	1,440,000 (ii)
Exercise price \$0.960 expiry date 20/06/2019	400,000	-	-	-	-	400,000 (ii)
Exercise price \$0.912 expiry date 11/05/2020	-	500,000	-	-	-	500,000
	8,739,000	500,000	(600,000)	(5,049,000)	(100,000)	3,490,000 (iii)

(i) During the year, 1,313,270 ordinary shares were issued on the cashless exercise of 5,049,000 unlisted options previously granted as compensation to directors, employees and advisors. The number of shares issued was calculated using the cashless exercise mechanism in accordance with the terms and conditions as amended and approved by shareholders at the Company's annual general meeting held 11 May 2018.

(ii) Vested options.

(iii) The number of unlisted options on issue at 31 December 2018 is 2,990,000 (as detailed at note 13(d)). This table includes reference to an additional 500,000 unlisted options (being the Director Options as referred to below), the issue of which remains subject to shareholder approval.

## Remaining contractual life

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.97 years (31 December 2017: 1.05 years), with exercise prices ranging from \$0.543 to \$0.96.

## Options granted during the year

On 19 October 2018, the Directors agreed to issue 500,000 unlisted options with no vesting conditions to Mr Andre Liebenberg at an exercise price of \$0.912 each and an expiry date of 11 May 2020, subject to receipt of shareholder approval (**Director Options**).

Shareholder approval for the issue of the Director Options will be sought at an upcoming general meeting of the Company. The grant date is therefore after the period in which services have begun to be rendered. Therefore, the grant date fair value presented in the 31 December 2018 financial statements is provisional, estimated by reference to the period end share price. Once the date of the grant is known, this provisional estimate of the grant date fair value will be revised.

There were no new options granted to key management personnel during the year, other than the 500,000 options granted to a director, subject to receipt of shareholder approval (the Director Options).

A summary of options granted during the year ended 31 December 2018 is included in the following table. The weighted average fair value of the options granted during the year ended 31 December 2018 was \$0.105. The value was calculated by using the Black & Scholes Option Pricing Model applying the following inputs, to produce the fair value per option:

Number of Options	Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price at Grant Date	Risk Free Interest Rate	Estimated Volatility
500,000	19/10/2018 <sup>1</sup>	11/05/2020	\$0.105 <sup>2</sup>	\$0.912	\$0.740	1.95%	45.17%

<sup>1</sup> Options will be issued following receipt of shareholder approval

<sup>2</sup> Fair value per option will be updated upon receipt of shareholder approval



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

A summary of options granted during the year ended 31 December 2017 is included in the following table. The weighted average fair value of the options granted during the year ended 31 December 2017 was \$0.20. The value was calculated by using the Black & Scholes Option Pricing Model applying the following inputs, to produce the fair value per option:

Number of Options	Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price at Grant Date	Risk Free Interest Rate	Estimated Volatility
1,440,000	19/05/2017	19/05/2019	\$0.202	\$0.940	\$0.690	1.780%	56%
400,000	20/06/2017	20/06/2019	\$0.193	\$0.960	\$0.785	1.660%	55%

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate. The life of the options is based on historical exercise patterns, which may not eventuate in the future.

## (d) 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.

Movements in the number of performance rights on issue during the year is as follows:

Performance Rights - Class	Opening balance 31 Dec 2017	Granted	Vested	Cancelled	Closing balance 31 Dec 2018
Class 1	308,000	-	-	(28,000)	280,000
Class 4	800,000	-	-	-	800,000
Class 5	100,000	-	-	-	100,000
Class 6	50,000	-	(10,000)	-	40,000
Class 7	50,000	-	(20,000)	-	30,000
Class 8	100,000	-	(35,000)	-	65,000
	1,408,000	-	(65,000)	(28,000)	1,315,000

Movements in the number of performance rights during the period year is as follows:

Performance Rights - Class	Opening balance 31 Dec 2016	Granted	Vested	Cancelled	Closing balance 31 Dec 2017
Class 1	308,000	-	-	-	308,000
Class 2	150,000	-	(75,000)	(75,000)	-
Class 4	1,500,000	-	(700,000)	-	800,000
Class 5	-	100,000	-	-	100,000
Class 6	-	50,000	-	-	50,000
Class 7	-	50,000	-	-	50,000
Class 8	-	100,000	-	-	100,000
	1,958,000	300,000	(775,000)	(75,000)	1,408,000

Under the Performance Rights Plan, shares are issued in the future subject, to the performance-based vesting conditions being met. The 1,315,000 Performance Rights on issue at 31 December 2018 are subject to the following performance conditions:

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.

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).



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

Class 6:

- 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.

Class 7:

- 15,000 upon completion of a strategic investment at greater than 30-day VWAP plus 10%; and
- 15,000 on signing a debt terms sheet for project financing or debt is secured from a strategic investor.

Class 8:

- 5,000 on completion of an approval and issued CSR report befitting an ASX200 company prior to the London listing;
- 50,000 on securing a strategic equity partner; and
- 10,000 on finalising broker mandates which support the equity capital market strategy.

Subject to achievement of either one of these performance conditions, one share will be issued for each Performance Right that has vested.

## 23. RELATED PARTY TRANSACTIONS

### (a) Parent entity

The ultimate parent entity within the Group is Danakali Limited.

### (b) Subsidiary

Interests in the subsidiary is set out in note 25.

### (c) Investment in Joint Venture

Transactions with Colluli Mining Share Company are set out in note 8 and note 10 of this report.

### (d) Key management personnel compensation

	2018 \$	2017 \$
Short-term benefits	1,113,484	1,232,171
Post-employment and long-term benefits	52,702	67,199
Share-based payments	24,581	639,416
	<u>1,190,767</u>	<u>1,938,786</u>

### (e) Transactions with directors, director related entities and other related parties

There were no material related party transactions.

## 24. REMUNERATION OF AUDITORS

During the year, the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

	2018 \$	2017 \$
<b>(a) Audit services</b>		
Ernst and Young	<u>44,837</u>	<u>41,391</u>
	<u>44,837</u>	<u>41,391</u>
<b>(b) Non-audit services</b>		
Ernst and Young – LSE listing	123,332	-
Ernst and Young – Other	<u>55,973</u>	<u>6,000</u>
	<u>179,305</u>	<u>6,000</u>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

## 25. SUBSIDIARY

### 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	
				2018 %	2017 %
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.

## 26. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Danakali Limited. The information presented here has been prepared using accounting policies consistent with those presented in note 2.

	2018 \$	2017 \$
Current assets	9,676,536	15,784,395
Non-current assets	29,136,115	26,044,008
<b>Total assets</b>	<b>38,812,651</b>	<b>41,828,403</b>
Current liabilities	310,034	1,263,306
Non-current liabilities	58,903	27,811
<b>Total liabilities</b>	<b>368,937</b>	<b>1,291,117</b>
<b>Net Assets</b>	<b>38,443,714</b>	<b>40,537,286</b>
Issued capital	79,576,117	75,415,034
Share-based payments reserve	11,231,923	11,416,109
Accumulated losses	(52,364,326)	(46,293,857)
<b>Total equity</b>	<b>38,443,714</b>	<b>40,537,286</b>
Loss for the year	(6,070,468)	(7,773,689)
<b>Total Comprehensive loss for the year</b>	<b>(6,070,468)</b>	<b>(7,773,689)</b>

## 27. DIVIDENDS

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

## 28. EVENTS OCCURRING AFTER THE BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## Directors' Declaration

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In the Directors' opinion:

- (a) the financial statements and notes of Danakali Limited for the financial year ended 31 December 2018 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the year ended on that date;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2;
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable subject to achieving the matters set out in note 2(c); and

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



Seamus Cornelius  
**EXECUTIVE CHAIRMAN**

Perth, 20 March 2019

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Danakali Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Danakali Limited (the Company), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

In our opinion:

the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and of its consolidated financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material Uncertainty Related to Going Concern

We draw attention to Note 2(c) in the financial report. The matters as set forth in Note 2(c) indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

## Accounting for the Group's interest in Colluli Mining Share Company ("CMSC")

### Why significant

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

The group's interest in CMSC is accounted for as a joint venture using the equity method and as a shareholder loan receivable.

The accounting for the results of and investment in CMSC is significant to our audit due to the complexity involved in measuring both the investment as well as the shareholder loan receivable. Specifically, key assumptions underpinning the measurement of these balances relate to the timing as to when the group considers CMSC will have generated free cashflows from the project to enable repayment of monies loaned to them and an appropriate discount rate to reflect the risk applicable to the timing and repayment of the shareholder loan as well as the underlying credit risk.

Refer to note (2)(u)(ii) and notes 8 and 10 to the financial report for further detail explaining the key judgements underpinning the accounting discussed in the two preceding paragraphs.

At 31 December 2018, the Investment in CMSC amounted to \$19.8 million (refer to Note 10 in the financial statements) and the shareholder loan receivable from CMSC amounted to \$9.3 million (refer to Note 8 in the financial statements).

### How our audit addressed the key audit matter

Our procedures included the following:

- ▶ We reviewed the applicable Shareholders' Agreement and the group's position paper which concluded that it is appropriate for Danakali's investment in CMSC to be equity accounted.
- ▶ We assessed the group's calculations supporting the measurement of the investment and the shareholder loan. This calculation included the discounting of the shareholder loan balance based on the group's current best estimate of when the shareholder loan will be repaid.
- ▶ We involved our valuation specialists to assess the assumed discount rate having regard to factors such as the project risk, credit risk and country risk.
- ▶ We assessed the group's shareholder loan repayment assumptions having regard to the current status of the project and the group's best estimates of the timeline to finance, develop, commission and produce free cashflow from the project to repay the shareholder loan.
- ▶ We assessed the arithmetical accuracy of the group's calculations, including where applicable any foreign currency translations embedded in the measurement process.
- ▶ We performed appropriate audit procedures over the results of CMSC and confirmed that Danakali's 50% interest in these results were accounted for on an equity basis in the financial statements of the group.
- ▶ We considered whether there was any objective evidence to suggest that Danakali's investment in CMSC is impaired at the balance date.
- ▶ We assessed the adequacy of the group's disclosures in the financial report relating to the measurement and accounting for its investment in and loan to CMSC.

## **Information other than the financial statements and auditor's report**

The directors are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Directors' responsibilities for the financial report**

The Directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

## **Auditor's responsibilities for the audit of the financial report**

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

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- ▶ Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 31 December 2018.

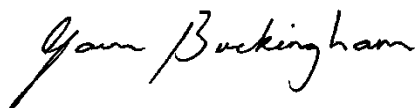
In our opinion, the Remuneration Report of Danakali Limited for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Gavin Buckingham  
Partner  
Perth  
20 March 2019

## ASX Additional Information

Additional information required by Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows.

The information is current as at 28 February 2019.

### (a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

		Holders	Securities	%
1	- 1,000	562	236,386	0.09%
1,001	- 5,000	802	2,066,893	0.78%
5,001	- 10,000	353	2,681,629	1.01%
10,001	- 100,000	624	20,593,083	7.79%
100,001	and over	165	238,844,407	90.33%
TOTAL		2,506	264,422,398	100.00%

The number of shareholders holding less than a marketable parcel was 402.

### (b) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	J P Morgan Nominees Australia Ltd	52,705,900	19.93
2	Citicorp Nominees Pty Ltd	38,974,793	14.74
3	HSBC Custody Nominees (Australia) Ltd	24,757,993	9.36
4	Liam Cornelius	14,479,997	5.48
5	Element 25 Limited	8,400,097	3.18
6	Computershare Clearing Pty Ltd	5,907,545	2.23
7	Merrill Lynch (Australia) Nominees Pty Ltd	5,449,266	2.06
8	Well Efficient Ltd	5,000,000	1.89
9	BNP Paribas Noms Pty Ltd	4,480,660	1.69
10	Seamus Cornelius	4,425,883	1.67
11	Kongming Investments Ltd	4,178,992	1.58
12	Alpha Boxer Limited	4,025,000	1.52
13	Ranguta Ltd	3,295,685	1.25
14	Paul Donaldson	2,957,751	1.12
15	BNP Paribas Nominees Pty Ltd	2,674,976	1.01
16	John Joseph Wallace	2,498,983	0.95
17	Duketon Consolidated Pty Ltd	2,456,500	0.93
18	Dongarra Ltd	2,313,398	0.87
19	Anthony Maslin + Marite Norris	2,095,000	0.79
20	National Nominees Ltd	2,007,152	0.76
		193,085,571	73.01

### (c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
Well Efficient Ltd	35,000,000
JP Morgan Asset Management (UK)	20,200,000
The Capital Group Companies, Inc.	15,011,458
Liam Cornelius	14,479,997

### (d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction. Holders of unlisted options and performance rights do not have voting rights.

## ASX Additional Information

### (e) Unquoted securities

At 28 February 2019 the Company has on issue 4,714,015 unlisted options over ordinary shares and 1,315,000 performance rights.

The names of security holders holding more than 20% of an unlisted class of security are listed below.

Holder	Unlisted Options				
	\$0.558 8/8/2019	\$0.543 7/10/2019	\$0.94 19/5/2020	\$0.96 20/6/2019	\$1.031 24/01/2022
Mr Seamus Cornelius	-	-	300,000	-	-
Mr Danny Goeman	900,000	-	-	-	-
Mr James Durrant	-	250,000	-	-	-
Mr Robert Connachie	-	-	500,000	-	-
Mr Hanns Huster	-	-	-	200,000	-
Mr Cedric Middleton	-	-	-	200,000	-
Toni-Louise Gianatti	-	-	-	-	455,800
Redgate Beach Investments Pty Ltd <Redgate Beach Invest A/C>	-	-	-	-	823,772
Holders individually less than 20%	-	-	640,000	-	444,443
<b>Total</b>	<b>900,000</b>	<b>250,000</b>	<b>1,440,000</b>	<b>400,000</b>	<b>1,724,015</b>

Holder	Performance Rights					
	Class 1	Class 4	Class 5	Class 6	Class 7	Class 8
Mr Zeray Lake	75,000	-	-	-	-	-
Mascots International Ltd	85,000	-	-	-	-	-
Mr Paul Donaldson	-	800,000	-	-	-	-
Mr Tony Harrington	-	-	100,000	-	-	-
Mr Stuart Tarrant	-	-	-	40,000	30,000	-
Redgate Beach Investments Pty Ltd	-	-	-	-	-	65,000
Holders individually less than 20%	120,000	-	-	-	-	-
<b>Total</b>	<b>280,000</b>	<b>800,000</b>	<b>100,000</b>	<b>40,000</b>	<b>30,000</b>	<b>65,000</b>

### (f) Schedule of Interests in Mining Tenements

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