DANAKALI LIMITED

ABN 56 097 904 302

FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2019

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2018 and any public announcements made by Danakali Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Corporate Information

Directors

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

Executive Management

Niels Wage (Chief Executive Officer)
Stuart Tarrant (Chief Financial Officer)

Joint Company Secretaries

Catherine Grant-Edwards
Melissa Chapman

Registered Office & Principal Place of Business

Level 11, Brookfield Place, 125 St Georges Terrace
PERTH WA 6000
Telephone: +61 (0)8 6189 8635

Bank

National Australia Bank
100 St Georges Terrace
PERTH WA 6000

Auditors

Ernst & 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

Share Register (United Kingdom)

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

Stock Exchange Listing

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

American Depository Receipts

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

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

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

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

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Directors' Report

Your directors submit their report together with the condensed financial statements of the consolidated entity, being Danakali Limited (**Danakali** or the **Company**) and its controlled entities (the **Group**) for the half year ended 30 June 2019.

DIRECTORS

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

- Seamus Cornelius — (Non-Executive Chairman) (transitioned from Executive Chairman to Non-Executive Chairman 25 June 2019)
- Paul Donaldson — (Non-Executive Director)
- John Fitzgerald — (Non-Executive Director)
- Zhang Jing — (Non-Executive Director)
- Robert Connochie — (Non-Executive Director)
- Andre Liebenberg — (Non-Executive Director)

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

PRINCIPAL ACTIVITIES

The principal activity of the Group during the half-year ended 30 June 2019 was advancing the Colluli Potash Project (**Colluli**, or the **Project**) in Eritrea, East Africa. There was no significant change in the nature of the Group's activities during the six months to 30 June 2019.

REVIEW AND RESULTS OF OPERATIONS

The net loss after tax of the Group for the half-year ended 30 June 2019 amounted to $1,540,083 (30 June 2018: $1,108,408). Total consolidated cash on hand at the end of the period was $6,279,862 (31 December 2018: $9,550,585).

REVIEW OF OPERATIONS

PROJECT OVERVIEW

Colluli 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 (*DNK announcement 19 February 2018 and 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: Sylvinite, Carnallitite and Kainitite. 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_2O for 260Mt of contained SOP equivalent (*DNK announcement 19 February 2018*). The JORC-2012 compliant Ore Reserve estimate for Colluli is estimated at 1,100Mt @ 10.5% K2O 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; and
- 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 ($MgSO_4.H_2O$), Gypsum ($CaSO_4.2H_2O$), Magnesium Chloride ($MgCl_2$), and Rock Salt (NaCl). The Colluli SOP Mineral Resource also comprises an 85Mt Kieserite (Magnesium Sulphate) Mineral Resource (*DNK announcement 15 August 2016*). Kieserite is a suitable fertiliser for magnesium deficient soils. A 347Mt Rock Salt (Sodium Chloride) Mineral Resource (*DNK 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 (*DNK announcement 29 January 2018*). The FEED results reaffirm the outstanding project economics of Colluli. Industry leading capital intensity as a result of low development capital requirements for Module I and high annual production rate. This, combined with forecast first quartile operating costs, resulted in a Project Net Present Value (**NPV_{10}**) of US$902M and Internal Rate of Return (**IRR**) of 29.9%. The Danakali attributable economic outcomes were an NPV_{10} of US$439M and IRR of 31.3%.

Mining Agreement and Mining Licenses in place

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 (*DNK announcement 1 February 2017*).

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 followed the completion of a series of pre-requisites including the completion and submission of the Definitive Feasibility Study (**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 SEMPs finalised by CMSC were signed off in August 2018 following an extensive review process. The SEMPs are a cornerstone of the environmental, social and safety management system being developed by CMSC and provide the foundation for compliance.

Offtake agreement signed and debt financing term sheet executed

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.

Danakali has also 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 (**MLAs**). The execution of the mandate is a critical project financing and execution milestone.

On 5 August 2019, Danakali announced that the MLAs obtained formal credit approval to provide the CMSC with the US$200M in senior debt finance (the Facility). The facility was underwritten by Afreximbank and AFC with export credit support from Export Credit Insurance Corporation of South Africa SOC Limited (ECIC). Approval marked the conclusion of an extensive due diligence process by the Mandated Lead Arrangers and ECIC.

MINERAL RESOURCE ESTIMATES *(DNK announcement 19 February 2018)*

SOP Mineral Resource

From 2010 to 2012, Danakali carried out a drilling program at Colluli, encompassing 103 diamond drillholes (including failed holes and duplicates). Of the 103 holes collared, 83 were assayed and used in the resource estimate. The remaining 20 holes were either failed holes, had no potash present, were drilled for geo-mechanical test work or, in the case of four holes, were considered close enough to other drilling that they would not need to be assayed for resource purposes.

An original resource estimate was completed by Ercosplan, a German engineering firm specialised in industrial potash and salt extraction, in April 2012, using a commonly accepted modelling method in the potash industry commonly termed the "Region of Influence" type model. This type of model is not a block based model but uses a series of virtual intersecting columns around each drillhole. The model was reported by Danakali as compliant with Canadian National Instrument 43-101 and the JORC Code 2004.

AMC used additional drilling by Danakali in 2014 to update the model, including a re-interpretation of the geology and the use of a block model method for estimation, and has reported an updated Mineral Resource in accordance with the JORC Code 2012. The updated Mineral Resource was prepared by AMC in February 2015 and is the Mineral Resource upon which the DFS and FEED is based. The Mineral Resource estimate is represented below.

The JORC-2012 compliant Mineral Resource for Colluli is estimated at 1.289Bt at 11 per cent. potassium oxide for 260Mt of contained SOP equivalent. The JORC-2012 compliant Ore Reserve estimate for Colluli is 1,100Mt at 10.5 per cent. potassium oxide for 203Mt of contained SOP equivalent. The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves. No cut-off grade has been used to report the Colluli SOP Mineral Resource. Consideration of mining, metallurgical and pricing assumptions suggest that all of the currently reported SOP Mineral Resource has a reasonable prospect for eventual economic extraction.

Area	Rock Unit	Measured		Indicated		Inferred		Total	
		Mt	K_2O Equiv %	Mt	K_2O Equiv %	Mt	K_2O Equiv %	Mt	K_2O Equiv %
Area A	Sylvinite	66	12	38	11	10	8	115	11
	Carnallitite	55	7	190	9	6	16	251	9
	Kainitite	86	12	199	11	1	10	285	11
Area B	Sylvinite	24	15	122	13	5	12	150	13
	Carnallitite	25	6	114	7	8	7	147	7
	Kainitite	48	13	289	13	4	13	341	13
Total	**Sylvinite**	**90**	**13**	**160**	**13**	**15**	**9**	**265**	**12**
	Carnallitite	**80**	**7**	**303**	**8**	**15**	**11**	**398**	**8**
	Kainitite	**133**	**12**	**488**	**12**	**5**	**12**	**626**	**12**
Overall Total		**303**	**11**	**951**	**11**	**35**	**10**	**1,289**	**11**

The SOP Mineral Resource of 1,289 Mt contains 87 Mt (7%) of Kieserite (*DNK announcement 15 August 2016*) in an announcement to the ASX. Kieserite is a multinutrient fertilizer comprising sulphur and magnesium. No cut-off grade has been used to report the Kieserite within the SOP Mineral Resource.

SOP Ore Reserve[1] *(DNK announcement 19 February 2018)*

The first Ore Reserve estimate for the Project was reported on 19 May 2015, the second Ore Reserve estimate was reported on 30 November 2015, and the third in line with FEED on 19 February 2018. All Ore Reserve estimates were prepared by AMC in accordance with the 2012 JORC Code. The 29 January 2018 Ore Reserve estimate is set out below.

Occurrence	Proved		Probable		Total			
	Mt	K_2O equiv.	Mt	K_2O equiv.	Mt	K_2O equiv.	K_2SO_4 equiv. Mt[2]	K_2SO_4 equiv. Mt[2]
Sylvinite ($KCl.NaCl$)	77	15.0%	173	12.1%	250	13.0%		
Carnallitite ($KCl.MgCl_2.H_2O$)	77	6.9%	279	7.8%	356	7.6%		
Kainitite ($KCl.MgSO_4.H_2O$)	131	11.8%	363	11.2%	494	11.4%		
Total	**285**	**11.3%**	**815**	**10.3%**	**1,100**	**10.5%**		**203**

1 The SOP Ore Reserve includes dilutant material; only Sylvite, Carnallite and Kainite mineral species from Sylvinite, Carnallitite and Kainitite rock types contribute to recovered product

2 Equivalent K_2SO_4 (SOP) sourced from Sylvite, Carnallite and Kainite mineral species only, shown prior to the application of processing losses

Rock Salt Mineral Resource ***(DNK announcement 23 September 2015)***

The estimated combined measured, indicated and inferred Rock Salt Mineral Resource as at 23 September 2015 totals 347 Mt with average grades of 96.9 per cent. NaCl and 2.1 per cent. CaSO4, as shown in the table below. The Rock Salt Mineral Resource is reported above an NaCl Cu-off grade of 95.0 per cent. and below a CaSO4 grade cut-off of 2.5 per cent. There has been no change, material or otherwise, to the rock salt Mineral Resource since it was first estimated on 23 September 2015.

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

The rock salt Mineral Resource estimate is classified and reported according to the JORC and relates only to Area A. A rock salt Mineral Resource has not been estimated for Area B. Further, the rock salt Mineral Resource has not been converted to an Ore Reserve and so is not included in the economic evaluation of the Colluli Potash Project.

PROJECT UPDATE

It is Danakali and CMSC's aim to commence project execution in 2019. In preparation, Danakali and CMSC are currently focused on:

- Operational contracts
  - Finalisation of EPCM contract pending funding
  - Tenders for suppliers and sub-contractors
- Operations readiness
  - Ensuring Danakali and CMSC are set up to accept funding and efficiently move into project execution
- Corporate social responsibility initiatives and ongoing risk assessment
- Securing the Owner's Team to support project execution activities
- Safety and medical set-up and processes
- Logistics and other technical and product optimisation collaboration aspects with offtake partner EuroChem

Operational contracts

Specific conditions of final contracts agreed at CMSC level for EPCM, mining services and power. Major contracts have been reviewed by the legal counsel appointed by the Mandated Lead Arrangers. Feedback has been received with respect to senior debt compatibility and no material gaps exist.

Execution preparedness continued, including ongoing collaboration with DRA Global. Several sub-contractor visits to Asmara, the Port of Massawa and Colluli were held during the first half of 2019. Potential mechanical services and camp provider sub-contractors were among those that carried out preliminary due diligence ahead of CMSC issuing tender packages.

Clear ongoing benefits resulting from the Eritrea-Ethiopia rapprochement have been identified through CMSC's ongoing tendering for contractors and suppliers. Potential Ethiopian contractors and suppliers have been identified including cement suppliers, and earthworks, civil and mechanical contractors. The ability to seek Ethiopian suppliers and contractors is providing for increased competition in tender processes and more efficient and economic project execution outcomes than would otherwise have been available prior to the rapprochement. CMSC continues to prioritise the assessment of local capacity.

The Eritrea-Ethiopia rapprochement is also encouraging other countries and companies to enter Eritrea. The CMSC office was recently separately visited by 2 leading European automobile companies developing business cases to set up truck supplies and support in Eritrea. Both are looking into providing trucks for Colluli. In-country options on this front have previously been limited so this could represent a positive development from a competition and quality perspective.

Currently fuel service contracts are being discussed with the 2 major petroleum service companies in Eritrea.

Project financing

On 5 August 2019, Danakali announced that Africa Finance Corporation (**AFC**) and African Export Import Bank (**Afreximbank**, together the Mandated Lead Arrangers), obtained formal credit approval to provide CMSC with US$200M in senior debt finance (the **Facility**). The facility was underwritten by Afreximbank and AFC with export credit support from Export Credit Insurance Corporation of South Africa SOC Limited (**ECIC**). Approval marked the conclusion of an extensive due diligence process by the Mandated Lead Arrangers and ECIC, the majority of which was undertaken during the six months to 30 June 2019.

The Company continues to complement the Project's senior debt funding progress with:

- extensive awareness exercises carried out to further raise the profile of Danakali and Colluli;
- ongoing discussions with strategic, institutional and private client investors and brokers globally; and
- moving towards financial close for Colluli Module I in parallel with the CMSC senior debt process.

The Company is carefully working towards achieving the further funding requirements at the optimal time and on the optimal terms.

CORPORATE

Management changes

New CEO appointed

Following a thorough global search for potential CEO candidates, Mr. Niels Wage was appointed as CEO due to his extensive and relevant industry experience, clear leadership capabilities, and passion for the Colluli Potash Project and Eritrea.

Mr. Wage brings significant potash, trading and logistics experience to the team. Prior to joining Danakali he held a number of senior management roles at BHP, including Vice President Potash, Vice President Freight and Vice President Diamonds. At BHP he was also responsible for marketing, sales and supply chain for the Jansen Potash Project. Mr. Wage previously worked in trading and logistics for Cargill and Vopak. He has also held a series of directorships including joint ventures between Japanese firms K-line, Daiichi and JFE Steel and BHP, the International Plant Nutrition Institute and RightShip. He holds a Master's Degree in Business Economics from the University of Amsterdam and has completed the International Directors Programme at global business school INSEAD.

Mr. Wage joined Danakali in June 2018 as Chief Commercial Officer (**CCO**). As CCO, Mr. Wage assisted the Company with building and maintaining industry relationships including interacting with CMSC's offtake partner, EuroChem. He has also been involved in investigating the multicommodity and logistics optimisation potential of the Project, further developing CMSC's product sales strategy, advancing Danakali and CMSC's social and environmental agenda, and supporting funding, project execution and operations readiness processes.

New Project Director appointed

Mr. Tony Harrington was recently promoted to the role of Project Director (from Project Manager). He brings a depth of experience to his role as well as Eritrean and wider developing nation insight. Mr. Harrington has over 35 years' experience managing the delivery of projects across a diverse range of commodities, mineral processing units and jurisdictions including East Africa, West Africa, Southern Africa, China, Europe, UK and Australia

Annual General Meeting

The Company's annual general meeting was held on 27 May 2019 (**AGM**). Strong support from shareholders in the latest round of resolutions at the Company's Annual General Meeting, including:

- Re-election of John Fitzgerald as a Non-Executive Director;
- Re-election of Robert Connochie as a Non-Executive Director; and
- Replacement of the Company's Constitution

Shares

There were no new fully paid ordinary shares issued during the period.

At 30 June 2019, there were a total of 264,422,398 fully paid ordinary shares on issue.

Options

The following unlisted options were issued during the period:

- 500,000 unlisted options at an exercise price of $0.912 each expiring 11 May 2020
- 2,025,055 unlisted options at an exercise price of $1.031 each expiring 24 January 2022
- 583,000 unlisted options at an exercise price of $1.108 each expiring 13 March 2022
- 561,800 unlisted options at an exercise price of $1.119 each expiring 28 March 2022
- 1,450,000 unlisted options at an exercise price of $1.114 each expiring 30 May 2022

There were no unlisted options exercised during the period.

The following unlisted options lapsed during the period:

- 455,800 unlisted options exercisable at $1.031 with an expiry of 24 January 2022 lapsed on 7 June 2019
- 400,000 unlisted options exercisable at $0.96 expired on 20 June 2019

At 30 June 2019, there were a total of 7,254,055 unlisted options on issue at various exercise prices and expiry dates.

Performance Rights

The following performance rights were issued during the period:

- 1,000,000 Class 9 performance rights

The following performance rights were cancelled during the period:

- 15,000 Class 7 performance rights

The were no performance rights vested and converted into shares during the period.

At 30 June 2019, there were a total of 2,300,000 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
- 15,000 Class 7 performance rights
- 65,000 Class 8 performance rights
- 1,000,000 Class 9 performance rights

INTERESTS IN MINING TENEMENTS

The exploration license for the Colluli Potash Project covers approximately 30.4km^2 and the seven mining licenses awarded to CMCS span over 63km^2 of the 99km^2 Agreement area. Further details are provided below. There was no change in tenement holding during the period.

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

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.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing Danakali are unchanged from those set out in Danakali's 2018 Annual Report and Accounts and Danakali's Corporate Governance Statement, copies of which are available on the Danakali website at https://www.danakali.com.au/, and will remain unchanged in the opinion of the directors for the remaining six months of the year.

EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 5 August 2019 Danakali announced that Africa Finance Corporation (**AFC**) and African Export Import Bank (**Afreximbank**, together the **Mandated Lead Arrangers**), obtained formal credit approval to provide the CMSC with US$200M in senior debt finance (the **Facility**). The facility was underwritten by Afreximbank and AFC with export credit support from Export Credit Insurance Corporation of South Africa SOC Limited (**ECIC**). Approval marked the conclusion of an extensive due diligence process by the Mandated Lead Arrangers and ECIC.

On 8 August 2019 Danakali announced Afreximbank had granted credit approval to provide preferred power contractor, Inglett & Stubbs International (**ISI**) with a US$42M guarantee which will facilitate senior debt funding for the Colluli power plant (the **Guarantee**). The Guarantee allows ISI's project financing to advance towards completion.

On 9 August 2019 Danakali issued 900,000 ordinary shares upon the exercise of unlisted options, raising $502,200.

There are no other events subsequent to 30 June 2019 and up to the date of this report that would materially affect the operations of the Group or its state of affairs which have not otherwise been disclosed in this financial report.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out separately in this report.

Directors' Report

RESPONSIBILITY STATEMENT

The Directors (as listed under Corporate Information) confirm to the best of their knowledge:

- the Directors' Report, the financial statements and notes, includes a fair review of the information required by:

  a) DTR4.2.7 of the Disclosure and Transparency Rules in the United Kingdom, being an indication of important events during the first six months of the current financial year and their impact on the half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and

  b) DRT4.2.8 of the Disclosure and Transparency Rules in the United Kingdom, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period, and any changes in the related party transactions described in the last annual report that could have such a material effect.

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

Seamus Cornelius
CHAIRMAN

Perth, 13 September 2019

COMPETENT PERSONS AND RESPONSIBILITY STATEMENT

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_20 Equiv. and 7% Kieserite. The Mineral Resource contains 303Mt @ 11% K_20 Equiv. and 6% Kieserite of Measured Resource, 951Mt @ 11% K_20 Equiv. and 7% Kieserite of Indicated Resource and 35Mt @ 10% K_20 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. 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_2O Equiv. The Ore Reserve is classified as 285Mt @ 11.3% K_2O Equiv. Proved and 815Mt @ 10.3% K_2O 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. 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. 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 (KUTEC) has extensive experience in analysis of salt rock and brine samples and is certified according by 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^+, Na^+, Mg^{2+}, Ca^{2+}, Cl^-, SO_4^{2-}, H_2O) 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 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.

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Auditor's independence declaration to the directors of Danakali Limited

As lead auditor for the review of the half-year financial report of Danakali Limited for the half-year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
13 September 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE HALF YEAR ENDED 30 JUNE 2019

	Notes	Half Year Ended 30 June 2019 $	30 June 2018 $
REVENUE			
Interest revenue calculated using the effective interest rate method		53,675	90,863
Net profit on financial assets at fair value through profit or loss	5	521,661	1,198,376
Foreign exchange gain		63,117	263,384
Sundry		1,897	1,438
EXPENSES			
Depreciation expense		(3,290)	(3,979)
Loss on disposal of assets		(3,074)	-
Administration expenses	4	(1,268,649)	(929,668)
Share based payment (expense)/ reversal		(197,473)	226,946
Share of net loss of joint venture	6	(707,947)	(1,955,768)
LOSS BEFORE INCOME TAX		**(1,540,083)**	**(1,108,408)**
Income tax expense		-	-
NET LOSS FOR THE PERIOD		**(1,540,083)**	**(1,108,408)**
OTHER COMPREHENSIVE (LOSS) / INCOME			
Items that may be reclassified to profit and loss			
Share of foreign currency translation reserve relating to equity accounted investment		(7,061)	464,969
TOTAL OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD		**(7,061)**	**464,969**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(1,547,144)**	**(643,439)**
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic loss per share (cents per share)		(0.58)	(0.44)
Diluted loss per share (cents per share)		(0.58)	(0.44)

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

Consolidated Statement of Financial Position

AS AT 30 JUNE 2019

	Notes	30 June 2019 $	31 December 2018 $
CURRENT ASSETS			
Cash and cash equivalents		6,279,862	9,550,585
Receivables	5	108,367	108,477
Prepayments		101,165	17,474
TOTAL CURRENT ASSETS		**6,489,394**	**9,676,536**
NON-CURRENT ASSETS			
Receivables	5	10,099,101	9,283,670
Investment in joint venture	6	20,948,038	19,829,489
Plant and equipment		16,588	22,952
TOTAL NON-CURRENT ASSETS		**31,063,727**	**29,136,111**
TOTAL ASSETS		**37,553,121**	**38,812,647**
CURRENT LIABILITIES			
Trade and other payables	7	331,840	223,854
Provisions		60,691	86,180
TOTAL CURRENT LIABILITIES		**392,531**	**310,034**
NON-CURRENT LIABILITIES			
Provisions		66,551	58,903
TOTAL NON-CURRENT LIABILITIES		**66,551**	**58,903**
TOTAL LIABILITIES		**459,082**	**368,937**
NET ASSETS		**37,094,039**	**38,443,710**
EQUITY			
Issued capital	8	79,576,117	79,576,117
Reserves	9	13,401,765	13,211,353
Accumulated losses	10	(55,883,843)	(54,343,760)
TOTAL EQUITY		**37,094,039**	**38,443,710**

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

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 30 JUNE 2019

	Notes	Issued Capital $	Reserves: Share Based Payments $	Reserves: Foreign Currency Translation $	Accumulated Losses $	Total Equity $
BALANCE AT 1 JANUARY 2019		**79,576,117**	**11,231,923**	**1,979,430**	**(54,343,760)**	**38,443,710**
Loss for the period		-	-	-	(1,540,083)	(1,540,083)
Other comprehensive income		-	-	(7,061)	-	(7,061)
Total comprehensive income/(loss) for the period		**-**	**-**	**(7,061)**	**(1,540,083)**	**(1,547,144)**
Transactions with owners in their capacity as owners:						
Share based payments expense		-	197,473	-	-	197,473
BALANCE AT 30 JUNE 2019		**79,576,117**	**11,429,396**	**1,972,369**	**(55,883,843)**	**37,094,039**
BALANCE AT 1 JANUARY 2018		**75,415,034**	**11,416,109**	**1,105,490**	**(47,399,347)**	**40,537,286**
Loss for the period		-	-	-	(1,108,408)	(1,108,408)
Other comprehensive income		-	-	464,969	-	464,969
Total comprehensive income/(loss) for the period		**-**	**-**	**464,969**	**(1,108,408)**	**(643,439)**
Transactions with owners in their capacity as owners:						
Shares issued during the period	8	3,885,640	-	-	-	3,885,640
Costs of capital raised	8	-	-	-	-	-
Share based payments reversal		-	(226,946)	-	-	(226,946)
BALANCE AT 30 JUNE 2018		**79,300,674**	**11,189,163**	**1,570,459**	**(48,507,755)**	**43,552,541**

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

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 30 JUNE 2019

	Notes	Half Year Ended 30 June 2019 $	30 June 2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		53,020	89,875
Payments to suppliers and employees		(1,324,295)	(1,613,080)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(1,271,275)	(1,523,205)
CASH FLOWS FROM INVESTING ACTIVITIES			
Funding of joint venture		(1,996,645)	(3,499,160)
Payments for plant and equipment		-	(9,412)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1,996,645)	(3,508,572)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares	8	-	3,885,640
Costs of capital raised	8	-	-
NET CASH INFLOW FROM FINANCING ACTIVITIES		-	3,885,640
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3,267,920)	(1,146,137)
Cash and cash equivalents at the beginning of the financial period		9,550,585	15,559,980
Realised foreign exchange (loss)/gain on cash		(2,803)	41,866
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**6,279,862**	**14,455,709**

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

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

Danakali Limited (**Danakali** or the **Company**) is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange (**ASX**) and the London Stock Exchange (**LSE**). The consolidated half year financial report of the consolidated group as at, and for the six months ended 30 June 2019 comprises the Company and its subsidiaries (together referred to as the **Group**).

The financial report of Danakali for the half year ended 30 June 2019 was authorised for issue by the Directors on 13 September 2019.

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

2. BASIS OF PREPARATION

(a) Basis of preparation

This condensed general purpose financial report for the half year ended 30 June 2019 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. It is recommended that the half year financial report be read in conjunction with the annual financial report for the financial year ended 31 December 2018 and considered together with any public announcements made by the Company during the half year ended 30 June 2019 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

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

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new standards and interpretations effective as of 1 January 2019. Adoption of these standards and interpretations did not have any effect on the statements of financial position or performance of the Group. The Group has not elected to early adopt any new standards or amendments.

The following standards and interpretations apply for the first time for entities with year ending 31 December 2019:

Reference	Title	Summary
AASB 16	Leases	The key features of AASB 16 are as follows: Lessee accounting • 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. • 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. • AASB 16 contains disclosure requirements for lessees. Lessor accounting • 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. • 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. AASB 16 supersedes: a) AASB 117 Leases b) Interpretation 4 Determining whether an Arrangement contains a Lease c) SIC-15 Operating Leases—Incentives d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease The Group has adopted AASB 16 with the initial date of initial application being 1 January 2019. At 1 January 2019 it was determined that the

Reference	Title	Summary
		adoption of AASB 16 had no impact on the Group as the Groups lease is treated as a short-term lease under practical expedient AASB 16.C10.
AASB Interpretation 23, and relevant amending standards	Uncertainty over Income Tax Treatments	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: • Whether an entity considers uncertain tax treatments separately • The assumptions an entity makes about the examination of tax treatments by taxation authorities • How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates How an entity considers changes in facts and circumstances. The Group has adopted AASB Interpretation 23 and relevant amending standards at 1 January 2019. The new standard does not have a material impact on the financial statements.
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. The Group has adopted AASB 2017-7 at 1 January 2019. The new standard does not have a material impact on the financial statements.
AASB 2018-1	Australian Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle	The amendments clarify certain requirements in: • AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation • AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation. The Group has adopted AASB 2018-1 at 1 January 2019. The new standard does not have a material impact on the financial statements.

(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 $6,279,862 (31 December 2018: $9,550,585) and a net working capital surplus of $6,096,863 (31 December 2018: $9,366,502). The Group's cashflow forecasts through to 30 September 2020 reflect that the Group will need to raise additional working capital during this period. 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. On 5 August 2019, the the Company announced that African Finance Corporation (**AFC**) and African Export Import Bank (**Afreximbank**, together the **Mandated Lead Arrangers**), obtained formal credit approval to provide CMSC with US$200m in senior debt finance (the **Facility**). The Facility, funded equally by the Mandated Lead Arrangers, remains subject to completion of final documentation and will be subject to conditions precedent to drawdown. If it appeared that the Facility is likely to be delayed, the directors are confident that the Group will be able to obtain the additional funding requirements via an equity raise otherwise it 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.

3. SEGMENT INFORMATION

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

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

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

4. EXPENSES

	30 June 2019 $	30 June 2018 $
Employee benefits (net of recharges)	194,842	114,591
Director fees	271,015	185,929
Compliance and regulatory expenses (a)	527,510	399,992
Lease payments relating to operating leases	71,081	56,771
Other administration expenses	204,201	172,385
	1,268,649	929,668

(a) Expenditure in the areas of legal, consultants and other compliance and regulatory expenses (including ASX and LSE listing fees, audit expenses and share registry fees).

5. TRADE AND OTHER RECEIVABLES

	30 June 2019 $	31 December 2018 $
Current		
Net GST receivable	31,703	31,863
Accrued interest	1,124	469
Other receivables	1,290	1,895
Security bonds	74,250	74,250
	108,367	108,477
Non-Current		
Loan to Colluli Mining Share Company - at fair value	10,099,101	9,283,670

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% (31 December 2018: effective interest rate of 25%).

The loan is categorised as Level 3 in the fair value hierarchy as the estimated market interest rate is an unobserved input in the valuation.

During the period ended 30 June 2019 and 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. The resulted in a loss on financial assets at fair value through profit or loss of $574,965 (31 December 2018: $4,862,775) (see note 6).

The undiscounted underlying loan balance at 30 June 2019 is $34,790,081 (USD 24,406,216) (31 December 2018: $33,571,559 (USD 23,676,610)).

	Half Year to 30 June 2019 $	Financial Year to 31 December 2018 $
Reconciliation of movement in loan to Colluli Mining Share Company:		
Carrying amount at the beginning of the period	9,283,670	12,216,952
Additional loans during the period	227,854	987,356
Foreign exchange gain	65,916	942,137
Net gain/(loss) on financial assets at fair value through profit or loss	521,661	(4,862,775)
Carrying amount at the end of the period	10,099,101	9,283,670

6. INVESTMENT IN JOINT VENTURE

The Group has an interest in the following joint arrangement:

		Equity Interest		Carrying Value	
Project	Activities	30 June 2019 %	31 December 2018 %	30 June 2019 $	31 December 2018 $
Colluli Potash	Mineral Exploration	50	50	20,948,038	19,829,489

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

Pursuant to the terms of the Shareholders Agreement, at the date of incorporation of CMSC, consideration for the acquisition of shares in CMSC equates to half of the allowable historical exploration costs transferred to CMSC by STB Eritrea Pty Ltd, a wholly owned subsidiary of Danakali. The balance of the allowable historic exploration costs transferred to CMSC are recoverable via a shareholder loan account (see note 5).

The Group's 50% interest in CMSC is accounted for as a joint venture using the equity method. The following tables summarise the financial information of the Group's investment in CMSC at 30 June 2019.

	Half Year to 30 June 2019 $	Financial Year to 31 December 2018 $
Reconciliation of movement in investments accounted for using the equity method:		
Carrying amount at the beginning of the period	19,829,489	13,811,946
Additional investment during the period	1,833,557	5,532,842
Share of net losses for the period	(707,947)	(389,239)
Other comprehensive (loss)/income for the period	(7,061)	873,940
Carrying amount at the end of the period	20,948,038	19,829,489

Summarised financial information of joint venture:

	30 June 2019 $	31 December 2018 $
Financial position (Aligned to Danakali accounting policies)		
Current assets:		
Cash and cash equivalents	54,595	110,666
Other current assets	142,591	104,928
	197,186	215,594
Non-current assets:		
Fixed assets	137,346	135,013
Mineral property	31,291,380	31,125,894
	31,428,726	31,260,907
Current liabilities:		
Trade & other payables and accruals	(122,891)	(311,850)
	(122,891)	(311,850)
Non-current liabilities:		
Loan from Danakali Limited	(10,099,101)	(9,283,670)
	(10,099,101)	(9,283,670)
NET ASSETS	21,403,920	21,880,981
Group's share of net assets	10,701,960	10,940,491
Reconciliation of Equity Investment:		
Group's share of net assets	10,701,960	10,940,491
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	14,551,185	13,194,105
Carrying amount at the end of the period	20,948,038	19,829,489

	Half Year to 30 June 2019 $	Half Year to 30 June 2018 $
Financial performance		
Interest expense relating to the unwinding of discount on joint venture loan	(1,096,626)	(1,198,376)
Gain on re-measurement of loan to joint venture carried at amortised cost	574,965	-
Exploration and evaluation expenditure	(894,233)	(2,713,160)
LOSS FOR THE PERIOD	(1,415,894)	(3,911,536)
Group's share of total loss for the period	(707,947)	(1,955,768)

During the period ended 30 June 2019 no dividends were paid or declared (31 December 2018: Nil).

Colluli Mining Share Company has the following commitments or contingencies at 30 June 2019:

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.

7. TRADE AND OTHER PAYABLES

	30 June 2019 $	31 December 2018 $
Trade payables	161,741	122,362
Accrued expenses	120,163	65,868
Other payables	49,936	35,624
	331,840	223,854

8. ISSUED CAPITAL

	Half Year to 30 June 2019		Financial Year to 31 December 2018	
	Number of shares	$	Number of shares	$
(a) Share capital				
Ordinary shares fully paid	264,422,398	79,576,117	264,422,398	79,576,117
(b) Movements in ordinary share capital				
Beginning of the period	264,422,398	79,576,117	251,697,687	75,415,034
Issued during the period*:*				
– Issued at $0.350 per share on option exercise	-	-	10,381,821	3,633,640
– Issued at $0.405 per share on option exercise	-	-	400,000	162,000
– 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	-
– Issued at $0.755 per share in lieu of advisor fees	-	-	356,049	268,817
– Issued at $0.773 per share in lieu of advisor fees	-	-	8,571	6,626
End of the period	264,422,398	79,576,117	264,422,398	79,576,117

9. RESERVES

	Half Year to 30 June 2019 $	Financial Year to 31 December 2018 $
(a) Reserves		
Share-based payments reserve		
Balance at beginning of the period	11,231,923	11,416,109
Employee and contractor share options & performance rights	197,473	(184,186)
Balance at end of the period	11,429,396	11,231,923
Foreign currency translation reserve		
Balance at beginning of the period	1,979,430	1,105,490
Currency translation differences arising during the period	(7,061)	873,940
Balance at end of the period	1,972,369	1,979,430
Total reserves	**13,401,765**	**13,211,353**

(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.

10. ACCUMULATED LOSSES

	Half Year to 30 June 2019 $	Financial Year to 31 December 2018 $
Balance at beginning of the period	(54,343,760)	(47,399,347)
Loss for the period	(1,540,083)	(6,944,413)
Balance at end of the period	(55,883,843)	(54,343,760)

11. SHARE BASED PAYMENTS

(a) Expenses arising from share-based payment transactions

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

	Half Year to 30 June 2019 $	Half Year to 30 June 2018 $
Options issued to directors and employees	173,584	11,104
Performance rights issued to directors, employees and consultants	23,889	(238,050)
Expense / (reversal)	197,473	(226,946)

(b) Option movement summary

Movements in the number of unlisted options (being those the subject of share based payments) on issue during the period is as follows:

Unlisted Option	Opening balance	Issued	Exercised	Lapsed / Expired	Closing balance
Exercise price $0.558 expiry date 08/08/2019	900,000	-	-	-	900,000 [a]
Exercise price $0.543 expiry date 07/10/2019	250,000	-	-	-	250,000 [a]
Exercise price $0.940 expiry date 19/05/2020	1,440,000	-	-	-	1,440,000 [a]
Exercise price $0.960 expiry date 20/06/2019	400,000	-	-	(400,000)	-
Exercise price $0.912 expiry date 11/05/2020	-	500,000 [c]	-	-	500,000 [a]
Exercise price $1.031 expiry date 24/01/2022	-	2,025,055	-	(455,800)	1,569,255 [b]
Exercise price $1.108 expiry date 13/03/2022	-	583,000	-	-	583,000 [b]
Exercise price $1.119 expiry date 28/03/2022	-	561,800	-	-	561,800 [b]
Exercise price $1.114 expiry date 30/05/2022	-	1,450,000	-	-	1,450,000 [b]
	2,990,000	5,119,855	-	(855,800)	7,254,055

[a] Vested options.

[b] Unvested options.

[c] Refers to options granted to a director in the year ended 31 December 2018 which were subject to shareholder approval. The options were issued in the current period following receipt of shareholder approval at the 27 May 2019 Annual General Meeting.

(c) Options issued during the period

A summary of options granted to directors and employees during the period is included in the following table. 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	Exercise Price	Expiry Date	Grant Date	Share Price at Grant Date	Risk Free Interest Rate	Volatility	Fair Value per Option
500,000	$0.912	11-May-2020	27-May-2019	$0.730	1.23%	42.71%	$0.066
1,724,015	$1.031	24-Jan-2022	24-Jan-2019	$0.735	1.78%	44.49%	$0.152
301,040	$1.031	24-Jan-2022	27-May-2019	$0.730	1.21%	42.71%	$0.124
583,000	$1.108	13-Mar-2022	13-Mar-2019	$0.795	1.53%	43.92%	$0.161
561,800	$1.119	28-Mar-2022	28-Mar-2019	$0.780	1.53%	43.94%	$0.152
1,450,000	$1.114	30-May-2022	30-May-2019	$0.750	1.21%	42.76%	$0.130

(d) Performance Rights

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

Performance Rights - Class	Opening balance	Granted	Vested	Cancelled	Closing balance
Class 1 [a]	280,000	-	-	-	280,000
Class 4 [a]	800,000	-	-	-	800,000
Class 5 [a]	100,000	-	-	-	100,000
Class 6 [a]	40,000	-	-	-	40,000
Class 7 [a]	30,000	-	-	(15,000)	15,000
Class 8 [a]	65,000	-	-	-	65,000
Class 9	-	1,000,000	-	-	1,000,000
	1,315,000	1,000,000	-	(15,000)	2,300,000

[a] Issued under the Performance Rights Plan which was re-approved at the annual general meeting of the Company held 17 November 2014.

The 2,300,000 Performance Rights on issue at 30 June 2019 are subject to the following performance conditions:

Class 1:
- 280,000 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).

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%.

Class 8:
- 5,000 on completion of an approval and issued CSR report befitting an ASX200 company;
- 50,000 on securing a strategic equity partner; and
- 10,000 on finalising broker mandates which support the equity capital market strategy.

Class 9:
- 100,000 when CMSC commences early works at Colluli provided this occurs in 2019;
- 300,000 when construction at Colluli is considered to be 50% complete provided construction is materially on time and on budget and Danakali are meeting safety standards;
- 500,000 when CMSC commences commercial production at Colluli provided this is materially on time and on

budget, meeting safety and product quality standards; and

- 100,000 when CMSC have shipped and been paid for 100,000t of SOP provided this occurs materially on time, meeting safety and product quality standards.

12. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 30 June 2019:

	At amortised cost $	Fair value through profit and loss $	Fair value through other comprehensive income $
Financial Assets:			
Trade and other receivables	108,367	-	-
Total current	108,367	-	-
Receivable	-	10,099,101	-
Total non-current	-	10,099,101	-
Total Assets	108,367	10,099,101	-
Financial liabilities:			
Trade and other payables	331,840	-	-
Total current	331,840	-	-
Total Liabilities	331,840	-	-

Fair values:

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 30 June 2019:

	Carrying amount $	Fair value $
Financial Assets:		
Trade and other receivables	108,367	108,367
Total current	108,367	108,367
Receivable	10,099,101	10,099,101
Total non-current	10,099,101	10,099,101
Total Assets	10,207,468	10,207,468
Financial liabilities:		
Trade and other payables	331,840	331,840
Total current	331,840	331,840
Total Liabilities	331,840	331,840

13. 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 30 June 2019 %	Equity Holding 31 December 2018 %
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.

14. RELATED PARTY INFORMATION

Key Management Personnel (KMP)

The Company has entered into revised arrangements with the following key management personnel (**KMP**) during the half-year ended 30 June 2019:

Mr Seamus Cornelius, Non-Executive Chairman (Transitioned from Executive Chairman to Non-Executive Chairman 25 June 2019):

- Under an executive services agreement for the provision of executive duties, Mr Cornelius received:
  - For the period 1 January 2019 to 24 June 2019: $69,028
- In addition, Mr Cornelius received the following director fees:
  - For the period 1 January 2019 to 26 May 2019: $32,917
  - For the period 27 May 2019 to 30 June 2019: $9,581 (reflecting an increase of $20,000 per annum, in line with the Revised Director Fees as referred below)

Mr Niels Wage, Chief Executive Officer:
Effective from 25 March 2019:

- Engaged as a permanent full time employee
- Remuneration of €250,000 per annum plus superannuation at the Australian statutory rate and health insurance for Mr Wage and his dependents
- Notice period of 6 months, required to be given by either party for termination
- Mr Wage is eligible to participate in the Company's incentive plans, the terms and operations of which are at the discretion of the Board. During the period, 1,000,000 performance rights (Class 9) were issued to Chief Executive Officer, Niels Wage, as part of his remuneration package.

Mr Paul Donaldson, Mr John Fitzgerald, Mr Robert Connochie, Ms Zhang Jing, Mr Andre Liebenberg:
At the 27 May 2019 annual general meeting, shareholder approval was received to increase the aggregate non-executive directors' fee pool limit from $400,000 to $500,000 per annum. Effective from 27 May 2019, the base fee paid to each Non-Executive Director was increased from $40,000 to $60,000 per annum (**Revised Director Fees**).

Transactions with directors, director related entities and other related parties

During the half year to 30 June 2019 the following transactions with related parties took place:

Options:

- 500,000 unlisted options with an exercise price of $0.912 each expiring 11 May 2020 were issued to the nominee of Director, Andre Liebenberg;
- 301,040 unlisted options with an exercise price of $1.031 each expiring 24 January 2022 (subject to vesting conditions) were issued to the nominee of Chairman, Seamus Cornelius;
- 583,000 unlisted options with an exercise price of $1.108 each expiring 13 March 2022 (subject to vesting conditions) were issued to the nominee of Chief Financial Officer, Stuart Tarrant; and
- 1,450,000 unlisted options with an exercise price of $1.114 each expiring 30 May 2022 (subject to vesting conditions) were issued to Chief Executive Officer, Niels Wage.

15. CONTINGENCIES

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

16. COMMITMENTS

	Half Year to 30 June 2019 $	Financial Year to 31 December 2018 $
Lease commitments (Group as lessee):		
Operating leases (non-cancellable)		
Minimum lease payments		
- Within one year	54,560	11,667
- Later than one year but not later than five years	-	-
	54,560	11,667

17. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 5 August 2019 Danakali announced that Africa Finance Corporation (**AFC**) and African Export Import Bank (**Afreximbank**, together the **Mandated Lead Arrangers**), obtained formal credit approval to provide the CMSC with US$200M in senior debt finance (the **Facility**). The facility was underwritten by Afreximbank and AFC with export credit support from Export Credit Insurance Corporation of South Africa SOC Limited (**ECIC**). Approval marked the conclusion of an extensive due diligence process by the Mandated Lead Arrangers and ECIC.

On 8 August 2019 Danakali announced Afreximbank had granted credit approval to provide preferred power contractor, Inglett & Stubbs International (**ISI**) with a US$42M guarantee which will facilitate senior debt funding for the Colluli power plant (the **Guarantee**). The Guarantee allows ISI's project financing to advance towards completion.

On 9 August 2019 Danakali issued 900,000 ordinary shares upon the exercise of unlisted options, raising $502,200.

There are no other events subsequent to 30 June 2019 and up to the date of this report that would materially affect the operations of the Group or its state of affairs which have not otherwise been disclosed in this financial report.

Directors' Declaration

In the directors' opinion:

1. the financial statements and notes of Danakali Limited for the half-year ended 30 June 2019 are in accordance with the *Corporations Act 2001*, including:

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

   b) giving a true and fair view of the entity's financial position as at 30 June 2019 and of its performance for the half year ended on that date; and

2. there are reasonable grounds to believe that Danakali Limited will be able to pay its debts as and when they become due and payable subject to achieving the matters set out in note 2(c).

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

Seamus Ian Cornelius

CHAIRMAN

Perth, 13 September 2019

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

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Danakali Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the half-year ended on that date; and

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

Emphasis of matter – material uncertainty related to going concern

Without qualifying our conclusion, we draw attention to Note 2(c) in the financial report. The matters as set forth in Note 2(c) indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
13 September 2019