
ASX Release

19 April 2016

Colluli Potash Project – Progress Update

Highlights

- **8 Sulphate of potash (SOP) offtake Memorandums of Understanding (MOUs) signed with multinational parties**
- **Combined MOU volumes exceed 800ktpa (twice the volume of module I)**
- **Strong interest in the ultra-high quality Colluli SOP**
- **Offtake discussions progressing towards binding agreements**

Danakali Limited (ASX:DNK) (“**Danakali**” or the “**Company**”) provides the following update with respect to its 50% owned Colluli Potash Project (“**Colluli**”) in Eritrea, East Africa. The project is 100% owned by the Colluli Mining Share Company (“**CMSC**”).

Memorandums of understanding

Danakali has signed non-binding memorandums of understanding (“**MOUs**”) with 8 multinational parties throughout Northern Africa, Europe, Middle East and North America for the offtake of sulphate of potash (“**SOP**”) from Colluli. High quality representative samples produced from the Colluli resource were provided for quality control assessment by prospective customers.

The combined offtake volumes in the MOUs exceed 800ktpa in both standard and granular form, which compares to Colluli’s design production capacity of 425ktpa (Module I only). Engagement with potential Asian customers has yet to commence, and represents strong potential for additional product volume interest.

Approvals Process

The Colluli DFS has been submitted to the Eritrean Ministry of Energy and Mines. DFS due diligence will be conducted as a pre-requisite to the award of a mining license. Social and environmental impact assessments and associated management plans have been completed to the Equator Principles (a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects). Danakali and CMSC have completed post DFS stakeholder engagements.

Colluli DFS

Over the past twelve months Danakali and CMSC have made significant progress at Colluli. The project team released a highly favourable definitive feasibility study (“**DFS**”) on 30 November 2015, which was completed by high quality, industry recognised mining, engineering, civil and environmental consultants. The DFS highlights that Colluli is the premier premium potash and multi-agri commodity investment opportunity globally.

The favourable suite of potassium bearing salts, shallow mineralisation, proximity to coast and simple, proven processing technology combine to give Colluli an industry leading capital intensity, bottom quartile operating costs, low incremental growth capital and unrivalled product diversification potential. These outcomes are underpinned by a massive 1.1 bt ore reserve which delivers an estimated mine life of over 200 years at the DFS production volumes.

Location

The Danakil basin potentially contains the largest unexploited potash geological setting in the world. The positively unique attributes of the Colluli resource however, give it a distinct advantage over other developments. Eritrea is at the epicentre of booming population growth and ideally located to supply the key fertiliser markets of the future.

Capital Raising

Danakali successfully completed a raising of approximately A\$5.5m in March 2016 to commence front end engineering design work, initiate the mine contract tendering process, complete the mining approvals process, secure offtake arrangements, progress strategic relationships, and secure project funding and working capital.

Danakali Managing Director, Paul Donaldson, commented:

“We are happy with the progress that has been made to date on the Colluli project. The outcomes of the DFS demonstrate that Colluli is positively unique. No other potash project in the world has the growth, product diversification and upside potential of Colluli. The signed MoUs and negotiations underway with potential offtakers highlight that SOP is, and will continue to be, a product in high global demand.”

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About Danakali Limited

Danakali is an ASX listed company and 50% owner of the Colluli Potash Project in Eritrea, East Africa. The company is currently developing the Colluli Project in partnership with ENAMCO. Colluli is 100% owned by CMSC, which is a 50:50 joint venture between Danakali and ENAMCO.

The project is located in the Danakil Depression region of Eritrea, and is c. 75km from the Red Sea coast, making it one of the most accessible potash deposits globally. Mineralisation within the Colluli resource commences at just 16m, making it the world's shallowest potash deposit. The resource is amenable to open pit mining, which allows higher overall resource recovery to be achieved, is generally safer than underground mining and is highly advantageous for modular growth.

In November 2015, Danakali released a positive DFS for Colluli which demonstrates industry leading capital intensity and the lowest development costs relative to all SOP projects at DFS level in the world. Bottom quartile operating costs are predicted and mine life is estimated at over 200 years at the DFS production rate, providing the project with substantial growth potential.

SOP is a chloride free, specialty fertiliser which carries a substantial price premium relative to the more common potash type; potassium chloride. Economic resources for production of SOP are geologically scarce. The unique composition of the Colluli resource favours low energy input, high potassium yield conversion to SOP using commercially proven technology. One of the key advantages of the resource is that the salts are present in solid form (in contrast with production of SOP from brines) which reduces infrastructure costs and substantially reduces the time required to achieve full production capacity.

The potassium bearing resource of the Danakil Depression has the unique capability to produce three of the four potash types in the global potash market which comprises potassium chloride (muriate of potash or MOP), potassium sulphate (sulphate of potash or SOP), potassium magnesium sulphate (sulphate of potash magnesia or SOP-M) and potassium nitrate (nitrate of potash or NOP). While CMSC is concentrating on achieving SOP production in the near-term, the focus is on developing a multi agri-commodity and salt business in the medium term.

The resource is favourably positioned to supply the world's fastest growing markets.

Our vision is to bring the Colluli project into production using the principles of risk management, resource utilisation and modularity, using the starting module as a growth platform to develop the resource to its full potential.

Mineral Resource Statements

The 2015 Colluli Potash Mineral Resource is reported according to the JORC Code and estimated at 1,289Mt @11% K₂O Equiv. The Mineral Resource is classed as 303Mt @ 11% K₂O Equiv Measured, 951Mt @ 11% K₂O Equiv Indicated and 35Mt @ 10% K₂O Equiv Inferred. The Competent Person for this estimate is Mr. Stephen Halabura, M. Sc., P. Geo., Fellow of Engineers Canada (Hon), Fellow of Geoscientists Canada, and a geologist with over 25 years' experience in the potash mining industry. Mr. Halabura is a member of the Association of Professional Engineers and Geoscientists of Saskatchewan, a Recognised Professional Organisation (RPO) under the JORC Code and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code.

The 2015 Colluli Rock Salt Mineral Resource is reported according to the JORC Code and estimated at 347Mt @96.9% NaCl. The Mineral Resource is classed as 28Mt @ 97.2% NaCl Measured, 180Mt @ 96.6% NaCl Indicated and 139Mt @ 97.2% NaCl Inferred. The Competent Person for this estimate is Mr. John Tyrrell, a geologist with more than 25 years' experience in the field of Mineral Resource estimation. Mr Tyrrell is a member of the AusIMM, is a full time employee of AMC Consultants Pty Ltd and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code.

Mr. Tyrrell & Mr. Halabura consent to the inclusion of information relating to the Mineral Resource Statements in the form and context in which they appear.

Ore Reserve Statement

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

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