

ASX Release

28 July 2016

## JUNE 2016 QUARTERLY REPORT

Danakali Ltd (ASX: DNK) (“**Danakali**” or “the **Company**”) is pleased to provide this quarterly update on its Colluli Potash Project (“**Colluli**” or “the **Project**”), located in Eritrea, East Africa.

### HIGHLIGHTS

#### CONTINUED SUCCESSFUL ADVANCEMENT OF THE WORLD CLASS COLLULI POTASH PROJECT

- **Danakali team continues its solid track record of delivery and results**
- **Colluli is one of the most advanced stage greenfield sulphate of potash developments in the world**
- **Submitted Mining license application** to the Eritrean Ministry of Energy and Mines
- **Submitted Social and Environmental Impact Assessments (SEIA) and Management Plans (SEMP)**
- **Completed Public review period of SEIA documents**
- **Conducted Mining Analyst site visit to Colluli**
- **Initiated tendering process** for Colluli power supply
- **Provided Sulphate of potash magnesia (SOPM) samples** to potential off takers

#### PLANNED FOR SEPTEMBER QUARTER

- **Completion of second round** of post DFS stakeholder engagements
- **Continuation of off-take and financing discussions**
- **Identification of potential off-takers and volumes for Sulphate of potash magnesia (SOPM)**
- **Completion of financial assessment** of production of (SOPM)
- **Complete adjudication of power supply tenders**
- **Complete detailed specification and analysis of soluble products from the resource**
- **Finalise kieserite (magnesium sulphate) volume** within the Colluli resource
- **Assess grade of gypsum and exploration volume potential** within the tenements

#### CORPORATE

- **Strong cash position of A\$5.2m** at quarter end
- **Completion of second tranche of share placement**
- **Progressed off-take and project funding discussions**
- **Implementation of Sustainability Development Framework**
- **Appointment of Non-Executive Director**

## COLLULI POTASH PROJECT – ONE OF THE MOST ADVANCED SULPHATE OF POTASH (SOP) PROJECTS IN THE WORLD

### PROJECT OVERVIEW

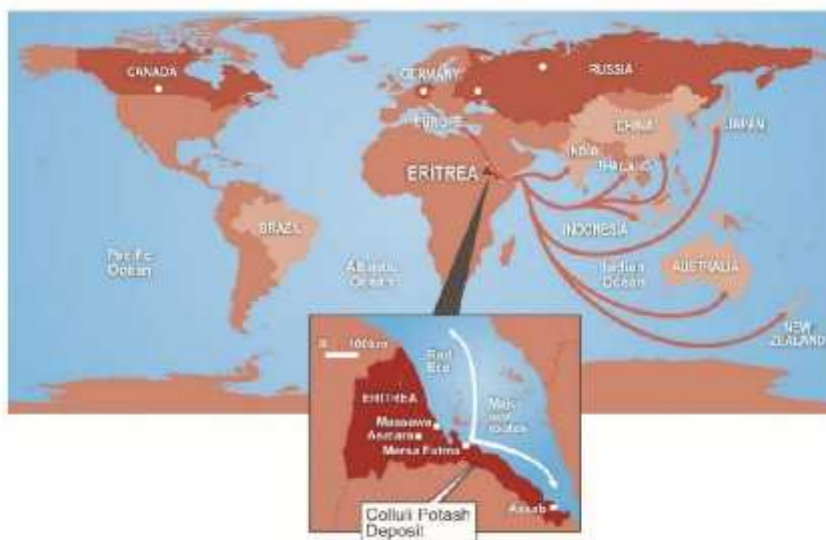
Colluli is 100% owned by the Colluli Mining Share Company (“CMSC”), a 50:50 joint venture between Danakali and the Eritrean National Mining Corporation (“ENAMCO”), and is one of the most advanced greenfield potash developments in the world. The current concession covers over 200km<sup>2</sup>. A positive definitive feasibility study for the project has been completed. The project is now progressing through approvals and funding.

*The Colluli definitive feasibility study demonstrates a large, long life, world class potash project with significant upside potential*

### A POSITIVELY UNIQUE RESOURCE

#### The youngest and largest unexploited potash basin in the world

The Colluli resource is located in the Danakil region of Eritrea, and is part of the youngest and largest unexploited potash basin in the world. To date over 10 billion tonnes of potassium bearing salts have been identified in the Danakil basin which extends over 350km from Eritrea to Ethiopia<sup>1</sup>. The composition, depth and proximity to coast are all fundamentally different to other potash deposits throughout the world, giving the project many strategic advantages. The geographic location is highly favourable relative to the key growth markets of the future including India, South East Asia, the Middle East and Africa itself.



*Colluli is geographically favourably positioned to supply key markets*

1. Combined resource volumes for Danakali, Allana and CIRCUM (Danakali and Circum websites, Allana potash N43-101 report)

## **World class resource with favourable suite of potassium salts and shallow mineralisation**

Geologically unique, the Colluli resource comprises over 1.2 billion tonnes<sup>A</sup> of potassium-bearing salts suitable for the production of potash fertilisers. The local geology is dominated by an extensive evaporite sequence, formed when the Red Sea was connected by a seaway to the Danakil Depression. When the entrance to the basin was uplifted, thus cutting off the ingress of seawater, the cycle of evaporation and deposition of salts and minor clastics formed the evaporitic basin. In addition to the salts from seawater, additional salts may have been added by runoff from surrounding highlands and hot springs.

Mineralisation commences at just 16m making Colluli the shallowest known evaporite deposit in the world. The evaporite sequence is capped by an upper rock salt layer, and interbedded sequence of halite, gypsum and anhydrite and clay. Underlying this rock salt is the main mineralised formation containing four potassium salts; sylvinite, carnallite, polyhalite and kainitite. Mineralisation generally dips less than 0.5° to the south-west. Results from over 100 diamond drill holes have been used, in conjunction with geophysical logging to evaluate the resource and its geo-mechanical properties.

The topography at Colluli is extremely flat. There is minimal vegetation within the tenements and no communities living within the tenement boundaries.



**Photo: Overlooking the Colluli resource from the nominated processing plant site**



**Photo: The Colluli project team drive over the clastics to evaluate the pit location and nominated mining infrastructure**

Open cut mining is to be executed with the use of surface miners which are commonly used in salt mining operations throughout the world. Surface miners are highly suitable for the shallow resource decline and selective mining of the different potassium bearing salt types.



Photo: Example of a surface miner extracting salt



Photo: Surface miner loading haul truck

The suite of chloridic (sylvinite and carnallite) and sulphatic (kainite) potassium salts within the resource provide the most favourable combination of potassium salts for high yield, ambient temperature conversion to sulphate of potash (SOP) using a commercially proven process. Major brine producers in the United States and China, produce sulphate of potash by combining the same salt types. The key difference between brine resources and the Colluli resource, is that at Colluli, nature has taken care of the evaporation process which allows processing to commence with salts in solid form.

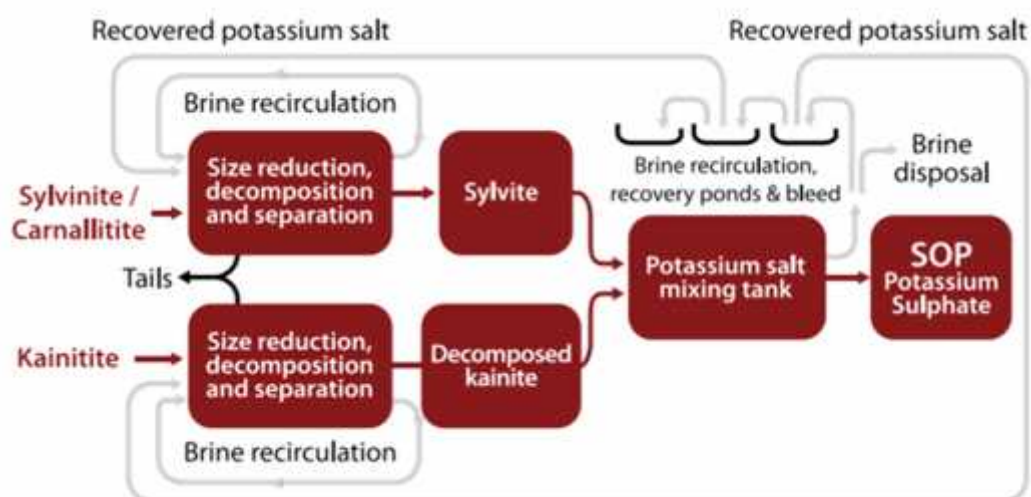
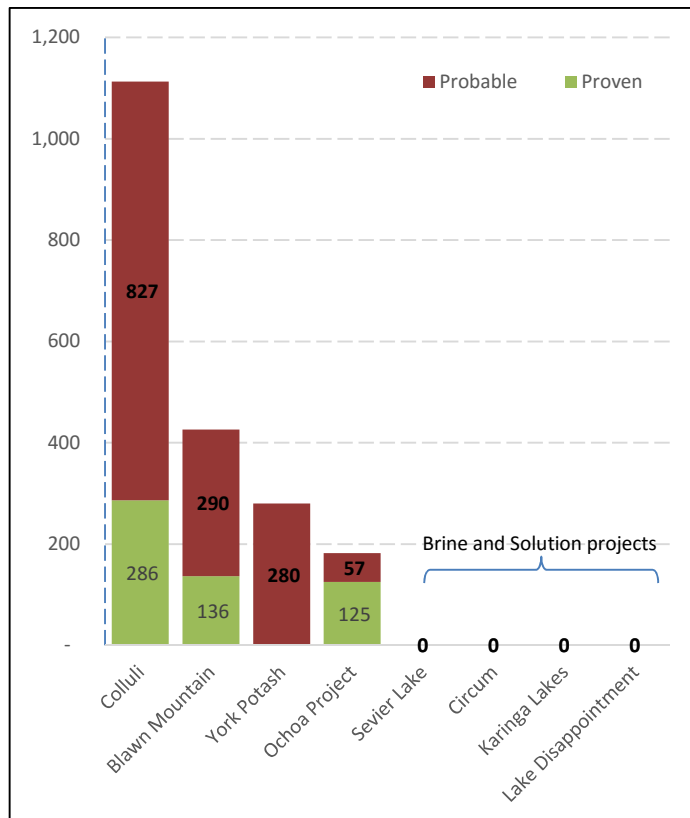


Illustration: Colluli process design. Simple, commercially proven technology will be used to produce sulphate of potash

Open cut mining results in high resource utilisation relative to underground and solution mining alternatives, resulting in a massive conversion of resource to reserve. The JORC 2012 compliant resource contains 1.289bt of potassium bearing salts with 97% in the measured and indicated categories. The resource comprises an estimated 1.1bt (@10% K<sub>2</sub>O) ore reserve which was estimated as part of the definitive feasibility study<sup>A</sup>. The ore reserve contains an estimated proved reserve of 286 million tonnes and a probable reserve of 827 million tonnes. At 260 million tonnes, the in-situ potassium sulphate reserve is one of the largest in the world<sup>A</sup>.

Relative to other greenfield multi-nutrient potassium projects, Colluli has an unrivalled ore reserve which has the capability to underpin decades of growth.

### Ore Reserves (mt)



Source: Company websites, Company reports

***Relative to other greenfield potash developments, Colluli has an unrivalled ore reserve as a consequence of both the resource size and mining method***

***The massive Colluli ore reserve has the capability to underpin decades of growth***



## PROJECT UPDATE - CONTINUED SUCCESSFUL ADVANCEMENT OF COLLULI POTASH PROJECT

During the quarter, Danakali Limited (“Danakali” or “the Company”) maintained its operational focus on its world class Colluli Potash Project (“Colluli”), located in the Danakil basin in Eritrea, East Africa.

Following the submission of the completed definitive feasibility study<sup>A</sup> to the Eritrean Ministry of Energy and Mines (MoEM) in February, significant work has been completed that builds on a well-established track record of success for Danakali.

Key activities completed for the quarter include:

- **Pre-requisites for Mining License Application Complete** - Submission of Environmental Impact Assessments (SEIA) and Management Plans (SEMP)
- **Completion of stakeholder engagements** to over 500 people following submission of definitive feasibility study
- **Submission of the Colluli Mining license application** to the Eritrean Ministry of Energy and Mines
- **Site visit completed** by nominated Ministry Representatives evaluating SEIA and SEMP
- **Completion of public review period** of SEIA documents and compilation of feedback
- **Conducted Mining Analyst site visit** to Colluli
- **Initiated** tendering process for Colluli power supply
- Completed first detailed product brochure, initiated product solubility testing and completed new project video
- **Provided Sulphate of potash magnesia (SOPM) samples** to potential off takers
- **Continued to progress project funding activities**
- **Finalised tendering document** for engineering and front end engineering design



Photo: Colluli exploration camp



Photo: Colluli site lookout and layout schematic



Photo: Colluli potassium salt cores

## PROJECT UPDATE

### Pre-requisites for Mining License Application Complete - Submission of the Colluli Social and Environmental Impact Assessment (SEIA)

Following the submission of three tranches of social and environmental baseline assessments, and the successful completion of an adequacy assessment review, the SEIA was formally submitted to the Ministry of Energy and Mines on the 27<sup>th</sup> April 2016. The adequacy review assessment included a comprehensive review of the SEIA against the terms of reference. The results of the assessment were positive.

The adequacy assessment and the submission of the SEIA were significant milestones which, in addition to the submission of the definitive feasibility study (DFS) finalised the pre-requisites for the Colluli Mining License application. Included within the SEIA submission were the social and environmental managements plans (**SEMP**).



Photo: Hydrological baseline studies in the local area



Photo: Detailed mapping of local flora near the nominated transport corridor

Key inputs to the SEIA and SEMP documents include early stakeholder engagements and detailed social and environmental baseline studies which have been submitted in tranches as the project has continued to advance. The baseline assessments represent the conclusion of over four years of data collection, surveying and community consultations. The SEMP includes details of the commitments and monitoring methods for avoiding or reducing unwanted social and environmental impacts as well as plans for enhancing the benefits of the project for the regional population and environment.

## Stakeholder engagements show overwhelming support for the Colluli Potash Project Development

Stakeholder engagements have been held throughout the study phases of the Colluli Potash Project and again immediately following the completion of the DFS. The key objectives of the engagements were to socialise the details of the project to the local and regional population through a series of town hall meetings and focus group discussions, and outline the development approach, project logistics, employment opportunities, and skills development. An overview of the expected local and regional impacts was also given, as well as an overview of the mitigation strategies identified to control traffic and noise, air quality, caring for the environment and water management. Presentations were given to representatives from the communities of Sahil, Gororoha, Daraitu, Fredelu, Tio, Adeito, Gelalo, Abdur, Bordeli, Akelo and Marsa Futma.

In total over 500 people were engaged. The engagements were well represented by both male and female community members and confirmed the overwhelmingly positive support for the project.



Photo: CMSC General Manager, Zeray Leake talks with regional residents



Photo: Community members were invited to ask questions on the project during the engagements

The SEIA documents have been prepared by International and Eritrean specialist social and environmental consultants and are consistent with the Equator Principles. The Equator Principles are a risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in projects.



Photo: CMSC General Manager, Zeray Leake engages local residents





Photo: Regional residents gathered at the local town halls to listen to presentations on the Colluli Potash Project



Photo: Local women following a project presentation session



Photo: Regional residents are given an overview of the approvals process



Photo: CMSC and Danakali employees with residents of Tio following project presentations

## **Mining Licence application submitted - approval process underway**

Following the completion and submission of the definitive feasibility study (DFS), the completion of the social and environmental impact assessment (SEIA) and the completion of local and regional stakeholder engagements, an application for the project Mining License was submitted to the Ministry of Energy and Mines. This significant step represents the completion of the engineering, marketing, financial, social and environmental studies. The DFS was completed and compiled by industry recognised engineering, mining and environmental service providers (*See ASX release dated 30 November 2015*)<sup>1</sup>.

An evaluation of the feasibility study and associated impacts assessments and management plans is underway and will support the process of granting the Mining License for the project.



Photo: DFS submission to the Eritrean Ministry of Energy and Mines (MoEM)

**L to R:** CMSC General Manager, Zeray Leake; Colluli Study Manager, James Durrant; Danakali Managing Director, Paul Donaldson; Director General MoEM, Alem Kibreab; Director Mineral Resources Management MoEM, Mebrahtu Ekubazghi

## **Completion of social and environmental impact assessment and management plan public review**



Following the completion and submission of the SEIA documents and associated management plans, and in line with the Equator Principles, access to the documents was made available to stake holders at all levels for a 60-day period to provide feedback. Documents were made available on the Danakali website for international stake holder review. The review period closed on the 1<sup>st</sup> July, and received positive feedback on the work completed to dates, demonstrating the thoroughness and quality of the

social and environmental studies conducted by both International and Eritrean specialist consultants.



## **Mining License Approval Positively Progressing – Ministry representatives visit Colluli site.**

On the 24<sup>th</sup> of June a team of representatives appointed by the Ministry of Land, Water and Environment conducted a site visit to Colluli and the nominated water intake infrastructure location at Anfile Bay. The purpose of the visit was to evaluate the social and environmental impact assessment and associated management plans for Colluli. The evaluation process represents a key step to support the Mining License application.

The delegation included representatives from the Ministry of Public Works, Ministry of Labour and Human Welfare, Ministry of Agriculture, and the Ministry of Land, Water and Environment. The delegation will provide recommendations and feedback to the Ministry of Energy and Mines in order to advance the Mining License process.



Photo: Review committee members evaluate proposed site layout



Photo: Review committee members inspect proposed infrastructure locations



Photo: Review committee members inspect a water monitoring well

## Analyst Site Visit

In June 2016 research analyst Mr Warren Edney from Baillieu Holst completed a site visit following an initial research report on the Colluli project.

Mr Edney is the second analyst to have visited the project site after Mr Duncan Hughes, director and analyst, from Somers and Partners (formerly GMP Securities), travelled to site and initiated coverage on the 25<sup>th</sup> May 2016.

Key areas covered on the visit included:

- Tour of Asmara
- Overview of the Colluli site and planned infrastructure layout and locations
- Examination of the product logistics route
- Overview of the Port of Massawa

The country and site visit enabled independent analysts to ascertain the misalignment between the perception and the reality of the jurisdiction. This misalignment is reflected in the post visit research publications by Baillieu Holst and Somers and Partners.

Eritrea is a developing economy with a growing pipeline of mining projects.

A further site visit is planned for October.



Photo: Colluli turn off near Marsa Futuma

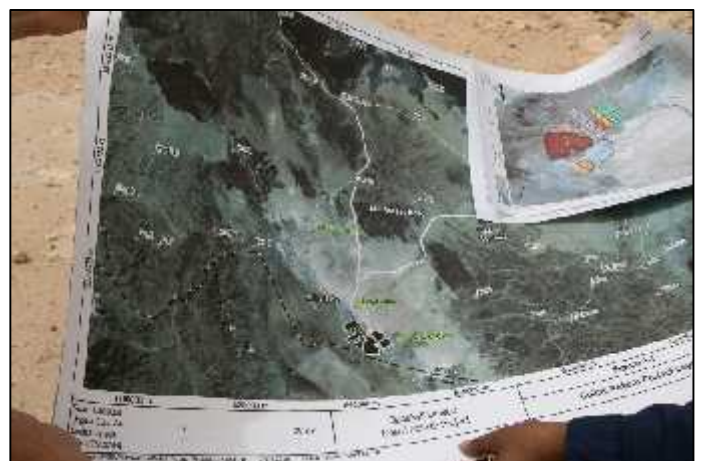


Photo: Map of local area highlighting the Colluli infrastructure



Photo: Port of Massawa



### Initiated tendering process for power supply

In June 2016 Danakil initiated expressions of interest for a binding power purchase agreement to tie in with the construction and operation of the Colluli project. The tendering process is now underway following a positive response from all power station operators engaged.

### Product Brochure and solubility tests

The development of individual product brochures has commenced. The Colluli Rock Salt brochure was completed during the quarter to support marketing activities, and describes the Rock Salt resource, the rate of extraction based on the DFS mining schedule and the product specifications at a range of cut-off grades. Rock Salt is currently assumed to be a waste overburden material in the Colluli DFS.



The brochure is expected to be released in the upcoming quarter, and will be followed by product brochures for the other minerals and chemicals that have commercialisation potential from the Colluli resource.

Additional tests have been initiated to further support the SOP and SOPM products. These tests specifically evaluate the solubility characteristics of the products for comparison with commercialised products. The work complements the high level of interest in soluble products from Colluli.

### **Released of Updated Project Video**

During the quarter Danakali released an updated video describing the Colluli project. The video utilises engineering drawings developed for the definitive feasibility study to create an accurate rendering of the project site infrastructure and layout, and demonstrates the significant progress that has been accomplished to date. The video may be viewed at



**<https://www.youtube.com/channel/UChGKN4-M4lOvPKxs9b-IJvw>**

## OTHER PROJECT AND JURISDICTIONAL RELATED ACTIVITIES

### Colluli Site Communications Tower Nears Completion

The construction and commissioning of the Colluli communications tower is nearing completion. The tower is currently being constructed as part of a government funded project specifically for the Colluli project, and is located in close proximity to the existing exploration camp.

Final components include solar cells and battery bank which will be installed over the upcoming months.



Photo: Communications tower at the Colluli site

### Eritrea Silver Jubilee - Independence Day

Independence Day is the most important national holiday in Eritrea and is celebrated annually on the 24<sup>th</sup> of May.

This year marked a significant milestone on the Eritrean timeline with the achievement and celebration of 25 years of independence. Festivities were held across Eritrea to honour the country's silver jubilee independence celebration. Celebrations were held by Eritrean's living throughout the world, with many people returning home for this special event. The Colluli Mining Share Company board members participated in the celebrations.

Congratulations Eritrea on this significant milestone!



Photos: Eritrea Independence Day celebrations

## RESERVE AND RESOURCE OVERVIEW

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

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

Occurrence	Proved		Probable		Total			
	Mt	K <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>2</sup>
Sylvinite (KCl.NaCl)	78	15	174	12	253	13		
Carnallite (KCl.MgCl <sub>2</sub> .H <sub>2</sub> O)	79	7	284	8	363	8		
Kainite (KCl.MgSO <sub>4</sub> .H <sub>2</sub> O)	130	12	368	11	497	11		
<b>Total</b>	<b>287</b>	<b>11</b>	<b>827</b>	<b>10</b>	<b>1,113</b>	<b>10</b>	<b>18.5</b>	<b>205</b>

<sup>2</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 the potassium sulphate resource, substantial quantities of rock salt exist that will be mined at a rate of approximately 2 million tonnes per year. This presents the opportunity for commercialisation to offset a proportion of the mining costs as well as other potential benefits. A JORC-2012 compliant Rock Salt Mineral Resource Estimate of over 300 million tonnes has been completed for the area considered for mining in the DFS (Table2). There have been no changes to the Mineral Resource estimate since 23 September 2015.

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

Classification	Tonnes (Mt)	NaCl	K	Mg	CaSO <sub>4</sub>	Insolubles
<b>Measured</b>	28	97.2	0.05	0.05	2.2	0.23
<b>Indicated</b>	180	96.6	0.07	0.06	2.3	0.24
<b>Inferred</b>	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>



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## CORPORATE

### CASH

Consolidated cash on hand as at 30 June 2016 was A\$5.2m.

### CORPORATE APPOINTMENT

Ms Zhang Jing was appointed as a non-executive director to the board of Danakali Ltd on 17 June 2016. Ms Zhang has held investment and project managerial roles in public listed companies in China, and holds a Master's degree in International Consultancy and Accounting from the University of Reading in the UK.

Relevant experience includes international trading and business development.

Her international experiences and relationships in Hong Kong and China will be of great benefit to Danakali as it progresses to secure funding and off-take agreements for the Colluli project.



### FUNDRAISING ACTIVITY.

Danakali issued the second tranche of the share placement announced on 31 March 2016, to Directors, consisting of 1,600,000 Placement Shares and 800,000 Options at \$0.35 per option pursuant to shareholder approval obtained at the Company's AGM held on 13 May 2016.

Funds raised from the Placement will be used for the completion of mining approvals process, securing off-take agreements, to further strategic relationships, securing project funding (debt/equity), transaction costs and working capital.

### EQUITY

#### Share Capital

1,600,000 ordinary fully paid shares were issued during the quarter pursuant to the share placement announced on 31 March 2016. A further 50,000 fully paid shares were issued on conversion of unlisted options of \$0.35 with expiry date of 30 March 2018.

Total issued capital at the end of the quarter was 200,692,631 ordinary fully paid shares.

## Options

800,000 unlisted options were issued during the quarter for nil consideration as part of the share placement and 2,700,000 unlisted remuneration options were issued to the board and management in recognition for their contributions to the company, as approved at the annual general meeting held on 13 May 2016.

200,000 unlisted options were issued to a service provider as compensation for work done.

During the quarter 50,000 unlisted options were converted to fully paid ordinary shares and 200,000 options vested due the achievement of vesting conditions. No options expired in this quarter.

The balance of unlisted options as at 30 June 2016 was as follows:

Option Expiry Date	Number of Options	Exercise Price
29 November 2016	6,000,000	\$0.340
17 November 2017	5,000,000	\$0.278
30 March 2018	11,585,232	\$0.35
13 May 2018	800,000	\$0.35
13 May 2018	2,700,000	\$0.405
29 May 2018	750,000	\$0.527
31 May 2018	600,000	\$0.550
23 June 2018	200,000	\$0.45
04 November 2018	1,000,000	\$0.408

## Performance Rights

There was no change to performance rights during the quarter.

The balance of performance rights as at 30 June 2016 was as follows:

Class	Number of Performance Rights
1	308,000
2	150,000
4	1,500,000

Performance rights on issue at 30 June 2016 are subject to the following vesting conditions:

Class 1:

- 308,000 upon completion of securing finance for the development of Colluli.

Class 2:

- 75,000 upon granting of a Mining License for Colluli; and
- 75,000 upon completion of securing finance for the development of Colluli.

Class 4:

- 700,000 upon awarding of the Colluli mining licence; and
- 800,000 upon commencement of construction of the production facility for Colluli.

## **PROJECT FINANCE UPDATE**

### **Off-take**

During the quarter Danakali actively pursued the multi-national parties who signed non-binding off-take MoU's for SOP in April 2016. Parties include traders, end-users and producers<sup>B</sup>. The next round of discussions is underway with the aim of converting the MoU's into Off-take agreements.

The combined off-take volumes in the MOUs exceed 800ktpa in both standard and granular form, which compares to Colluli's design production capacity of 425ktpa<sup>A</sup> (Module I only).

Engagement with potential Asian customers has yet to commence, and represents strong potential for additional product volume interest.

### **Funding**

Danakali and CMSC are working with Endeavour Financial on the funding solution for the project development. Detailed discussions are expected to commence during the third quarter with institutions who have expressed interest in participating in the funding solution.

The company also progressed its mining, engineering and procurement strategies to support the formulation of the funding solution.

## **SUSTAINABLE DEVELOPMENT FRAMEWORK**

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

Therefor the company 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 will directly support the management plans associated with the SEIA and SEMP for the project.

The following policies were approved during the quarter:

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

This framework and policies were endorsed by joint venture partner, CMSC.

## **INTERESTS IN MINING TENEMENTS**

The exploration license for the Colluli Potash Project covers over 200km<sup>2</sup> and further details are provided below. There was no change in tenement holding during the quarter.

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



## FURTHER INFORMATION WITH REGARD TO COLLULI

### **A resource highly suited to the production of premium, chloride free, multi-nutrient fertilisers**

The combination of potassium salts within the resource provides the project with the resource the capability of generating two premium, multi-nutrient potash types; sulphate of potash (SOP) and sulphate of potash magnesia (SOPM). In addition, the resource can produce the more common potash type, potassium chloride or muriate of potash (MOP). Both SOP and SOPM carry a price premium over MOP, and have limited primary production centres globally.

#### *Sulphate of potash (SOP)*

Sulphate of potash (potassium sulphate) does not contain chlorine which can be harmful to some plants and has a significantly lower salinity index than the more common potassium chloride. SOP is favoured for high value crops such as fruits, nuts and vegetables, and is preferred in arid operating environments due to the low chlorine levels.

Economically exploitable resources are geologically scarce, and over 50% of the world's production is supplied by high cost secondary production where potassium chloride is combined with sulphuric acid in a high temperature thermal conversion process. Acid management and disposal, and logistics costs are some of the key long term issues associated with secondary production of potassium sulphate.

SOP samples have been generated from the Colluli salts and used for marketing purposes. The combination of the process plant design and the liberation characteristics of the salts within the Colluli resource demonstrate product quality at the high end of the product quality spectrum.



#### *Sulphate of potash magnesia (SOPM)*

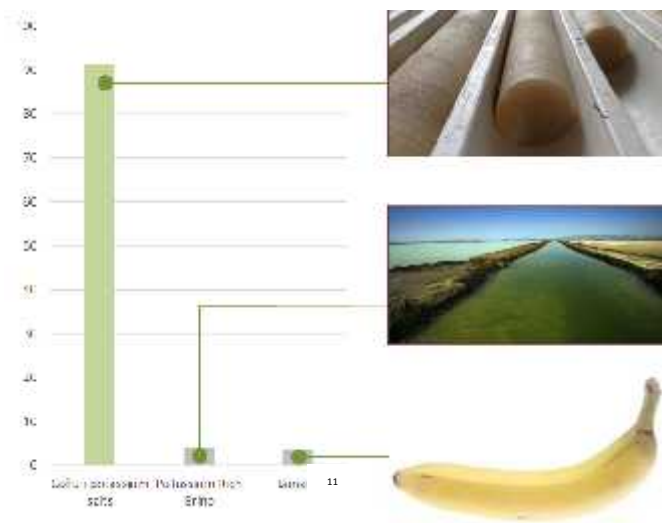
Sulphate of potash magnesia is chlorine free and contains potassium, sulphur and magnesium. The SOPM generated from the Colluli resource is highly soluble. Samples have been generated in standard, granular and soluble form and used for marketing purposes to determine overall demand for the product which has limited production centres globally. SOPM is ideal for magnesium deficient soils which are common throughout South America, India and South East Asia.



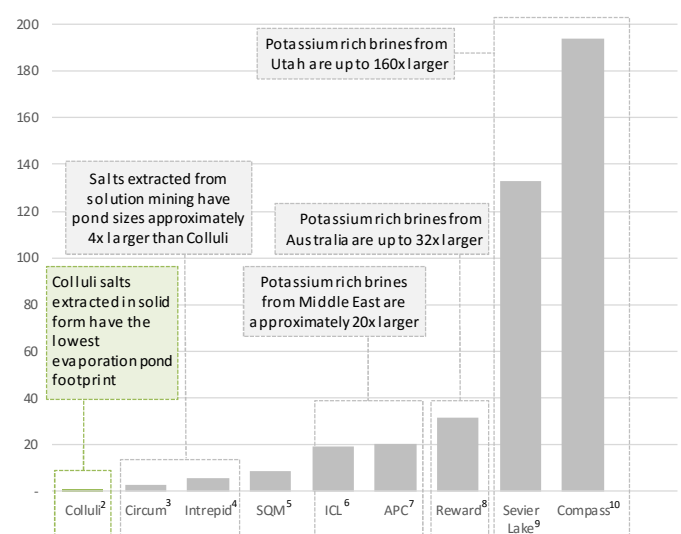
## Potassium bearing salts in solid form a distinct advantage over potassium brines

Colluli is one of the rare potassium bearing resources in the world that contains substantial volumes of kainite (the key potassium salt for SOP production) and allows it to be extracted in solid form. Extracting feed salts for the production of sulphate of potash (SOP) in solid form for immediate and direct processing provides a material advantage over potassium rich brines which are the most common feed for primary production. The feed material for SOP production from the Colluli resource is approximately 25 times higher than potassium rich brines, which typically have the same potassium concentration on an equivalent weight basis as bananas. To generate feed salts for processing, brines require significant evaporation which requires time, favourable weather conditions and capital.

Kilograms of potassium per tonne of ore feed



km<sup>2</sup> of pond area required by operation for 425 ktpa equivalent<sup>1</sup>



The superior feed grade of Colluli negates the need for large, capital intensive evaporation ponds. Based on published information, the advantage in the size of associated evaporation pond sizes are for Colluli are estimated to be:

- **160 times smaller** than solar ponds constructed in central US
- **32 times smaller** than ponds constructed in Australia
- **20 times smaller** than ponds constructed in the Middle East
- **4 times smaller** than ponds constructed for solution mines

### Notes:

- 1 Calculated by dividing published evaporation pond areas by annual production rate and multiplying by 425kt to achieve equivalent area
- 2 Sourced from Colluli DFS
- 3 Sourced from Bloomberg
- 4 Sourced from Sunrise engineering website
- 5 Sourced from handbook of lithium and natural calcium chloride
- 6 Sourced from Financial Times
- 7 Sourced from Arab Potash website
- 8 Sourced from Reward investor presentation 2012
- 9 Sourced from EPM Mining prefeasibility study
- 10 Sourced from Great Salt Lake Minerals website
- 11 United States Department of Agriculture

### Colluli has the most favourable proximity to coast and access to export infrastructure

Located only 230km by road from the Port of Massawa and 75km from the Red Sea Coast, Colluli is the closest SOP resource to a coastline and established export infrastructure anywhere in the world. Eritrea offers the most favourable access to global markets from the Danakil Depression. The start-up phases will focus on the use of established infrastructure with further studies intended to evaluate export facilities proximate to the project over time.



Illustration: Map of Eritrea and Ethiopia highlighting Danakil basin



Photo: Port of Massawa, Eritrea

### Colluli has significant upside potential

In addition to the resource capability of producing sulphate of potash (SOP), and sulphate of potash magnesia (**SOPM**), the resource also has the capability to produce potassium chloride (**MOP**), Magnesium Chloride, Magnesium Sulphate, Gypsum (Calcium Sulphate) and Rock Salt. This unrivalled diversification potential, allows Colluli to produce three of the four key potash types traded within the global market and a range of other agricultural and commercial commodities.

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**For more information, please contact:**

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**For Media and Broker Enquiries:**

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-ENDS-

**Notes**

- A: For more information on the Definitive Feasibility Study, refer ASX Announcement dated 30 November 2015. Danakali is not aware of any new information or data that materially affects the information in the announcement and confirms that the material assumptions used in the DFS continue to apply and have not materially changed.
- B: For more information on the parties who signed the non-binding MoU's refer the ASX Announcement dated 25 July 2016.

**About Danakali Limited**

Danakali is an ASX listed company and 50% owner of the Colluli Potash Project (Colluli) in Eritrea, East Africa. The company is currently developing Colluli in partnership with the Eritrean National Mining Corporation (ENAMCO).

The project is located in the Danakil Depression region of Eritrea, and is ~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.

The company has completed a Definitive Feasibility Study (DFS) for the production of potassium sulphate, otherwise known as SOP. 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) with which reduces infrastructure costs and substantially reduces the time required to achieve full production capacity.

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

Our vision is to bring Colluli 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% K<sub>2</sub>O Equiv. The Mineral Resource is classed as 303Mt @ 11% K<sub>2</sub>O Equiv Measured, 951Mt @ 11% K<sub>2</sub>O Equiv Indicated and 35Mt @ 10% K<sub>2</sub>O 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.



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## **Ore Reserve Statement**

The November 2015 Colluli Ore Reserve is reported according to the JORC Code and estimated at 1,113Mt @10% K<sub>2</sub>O Equiv. The Ore Reserve is classed as 286Mt @ 11% K<sub>2</sub>O Equiv Proved and 827Mt @ 10% K<sub>2</sub>O 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.

## **Forward Looking Statements and Disclaimer**

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

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

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

Mineral Resource, Ore Reserve and financial assumptions made in this document are consistent with assumptions detailed in the Company's ASX announcements dated 25 February 2015, 4 March 2015, 23 September 2015 and 30 November 2015 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.

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

**Danakali Limited**

ABN

57 097 904 302

Quarter ended ("current quarter")

30 June 2016

### Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (6 months) \$A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	-	-
	(b) development	-	-
	(c) production	-	-
	(d) administration	(708)	(1,339)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	25	38
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other - research and development grant	-	-
	- sundry income	-	-
<b>Net Operating Cash Flows</b>		<b>(683)</b>	<b>(1,301)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other – Funding of Joint Venture	(465)	(1,537)
<b>Net investing cash flows</b>		<b>(465)</b>	<b>(1,537)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(1,148)</b>	<b>(2,838)</b>

## Appendix 5B

### Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,148)	(2,838)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	437	5,489
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – Equity raising costs paid	(232)	(232)
	<b>Net financing cash flows</b>	205	5,257
	<b>Net increase (decrease) in cash held</b>	(943)	2,419
1.20	Cash at beginning of quarter/year to date	6,118	2,756
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	5,175	5,175

### Payments to directors of the entity and associates of the directors

### Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	118
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions Item 1.2 includes aggregate amounts paid to directors including salary, directors' fees, and superannuation.	

### Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	Nil
3.2	Credit standby arrangements	Nil

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	414
4.2 Development	-
4.3 Production	-
4.4 Administration	717
<b>Total</b>	<b>1,131</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	5,175	6,118
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>5,175</b>	<b>6,118</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				
6.2 Interests in mining tenements acquired or increased				

## Appendix 5B

### Mining exploration entity quarterly report

#### Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference + securities</b> (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	<b>+Ordinary securities</b>	200,692,631	200,692,631		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	1,600,000 50,000	1,600,000 50,000	\$0.22 \$0.35	\$352,000 \$17,500
7.5	<b>+Convertible debt securities</b> (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> (description and conversion factor)	6,000,000 5,000,000 11,585,232 800,000 2,700,000 750,000 600,000 200,000 1,000,000  308,000 150,000 1,500,000		Exercise price \$0.34 \$0.278 \$0.35 \$0.35 \$0.405 \$0.527 \$0.55 \$0.45 \$0.408  Performance Rights – Class 1 Performance Rights – Class 2 Performance Rights – Class 4	Expiry date 29/11/2016 17/11/2017 30/03/2018 13/05/2018 13/05/2018 29/05/2018 31/05/2018 23/06/2018 04/11/2018
7.8	Issued during quarter	800,000 2,700,000 200,000		\$0.35 \$0.405 \$0.45	13/05/2018 13/05/2018 23/06/2018
7.9	Exercised/vested during quarter	50,000 200,000 vested (included in section 7.7)		\$0.35 \$0.408	30/03/2018 04/11/2018
7.10	Expired/ Cancelled during quarter				
7.11	<b>Debentures</b> (totals only)				
7.12	<b>Unsecured notes</b> (totals only)				

+ See chapter 19 for defined terms.



## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does ~~/does not~~\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

(Company Secretary)

Date: 28 July 2016

Print name:

**Chris Els**

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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