



QUARTERLY REPORT

For the period ending 31 December 2017

Danakali Limited (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. The Project is 100% owned by the Colluli Mining Share Company (**CMSC**), a 50:50 joint venture between Danakali and the Eritrean National Mining Corporation (**ENAMCO**).

Highlights

- **Final FEED results released¹, confirming Colluli as the most advanced and economically attractive SOP greenfield development project**
 - **Enhanced project economics with considerably higher level of accuracy** than in the DFS²
 - **Industry leading capital intensity** and **first quartile operating costs**
 - **Project level NPV of US\$902M with IRR of 29.9%** for Modules I and II
 - Completion of FEED is a **critical milestone for offtake and debt processes**
 - **The diversification and multi-commodity potential of Colluli provides major additional upside**
- **Mining contract technical and commercial evaluation complete**
 - Mining contract bids **integrated into FEED results**
- **Offtake negotiations progressing as expected to final bankable agreements**
- **Commencement of LSE dual listing process**
 - Key feature of Danakali's equity strategy
- **Leadership transition complete**
 - **Mr. Danny Goeman appointed CEO** of Danakali
 - **Mr. Paul Donaldson³ has transitioned to Non-Executive Director** and will be Chairman of a newly established Technical and Risk Committee

Key activities planned for the March 2018 Quarter

- **Progress mining, power, and EPCM contracts**
 - Finalise negotiations with shortlisted mining contractors
 - Finalisation of contract for preferred power provider Inglett & Stubbs International
 - EPCM bid evaluation, contract approval(s), and preliminary negotiations
- **Progress bankable offtake agreements**

¹ ASX announcement, FEED completion confirms Colluli as the most advanced and economically attractive SOP greenfield development project, 29 January 2018

² ASX announcement, Colluli Definitive Feasibility Study results, 30 November 2015

³ Previously Danakali CEO and Managing Director

- Support **debt provider due diligence process**
- Progress **London Stock Exchange dual listing process**

Corporate

- **Healthy cash position of A\$15.5m** as at 31 December 2017
- **A\$1.0M raised** through exercise of **3.4M options**
- **9.7M in-the-money options** expiring 30 March 2018 with **potential to raise a further A\$3.4M**
- Commencement of **Andre Liebenberg as Non-Executive Director** and **William Sandover as Head of Corporate Development & External Affairs**
- Resignation of **Mr. Liam Cornelius as Non-Executive Director**

Figure 1: Turn off from the coastal road to Colluli



Figure 2: Sunrise at Colluli



Project

Colluli is fully permitted following (i) the signing of the Mining Agreement between CMSC and the Eritrean Ministry of Energy and Mines in 2017⁴, and (ii) the subsequent awarding of the requisite Mining Licenses⁵. The Social and Environmental Impact Assessment (**SEIA**) has also been approved⁶. **With FEED complete, the Company is focused on offtake, funding, and Project execution.**

⁴ ASX announcement, CMSC enters into Mining Agreement for world class Colluli Potash Project, 1 February 2017

⁵ ASX announcement, Award of Mining Licenses for world class Colluli Potash Project, 1 February 2017

⁶ ASX announcement, Ministry approves Social and Environmental Impact Assessment, 6 December 2016

FEED – Final FEED results released

FEED was finalised during the December Quarter 2017 with results being released on 29 January 2018⁷. FEED builds upon the disciplined study execution and project de-risking approach adopted by Danakali and its joint venture partner, ENAMCO.

FEED has established Colluli as the most progressed SOP greenfield development project globally. There is no other known SOP greenfield development project that has completed FEED.

FEED provides offtakers and funders with a high level of study detail and accuracy. FEED results underpin the Financial Model prepared for the debt providers and provides offtakers with additional confidence on project economics and fundability, which will support finalisation of bankable offtake agreements.

Industry leading capital intensity and first quartile operating costs support outstanding valuation outcomes:

- **Project level Net Present Value (NPV) of US\$902M with Internal Rate of Return (IRR) of 29.9%** for Modules I and II⁸
- **Danakali share of NPV of US\$439M with IRR of 31.3%**⁹

FEED is the final study stage before execution of the Project. FEED was undertaken by highly qualified, industry recognised consultants, many of whom have intimate knowledge of the Project obtained in previous study phases.

The diversification and multi-commodity potential of Colluli provides major additional upside.

Operational contracts – Key contracts entering final negotiation phase

Operating cost estimates for FEED were supported by competitive bids in the key operating contract areas of mining and power generation. The operational contracts help to firm the Project economics as Colluli advances towards construction, and act as key inputs to support the ongoing funding discussions.

Mining – Mining contract technical and commercial evaluation complete

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

Conforming bids have been evaluated and incorporated into the FEED results. The technical and commercial compliance was evaluated and confirmed by AMC Consultants and the FEED mining costs were in line with DFS estimates¹⁰.

The mining bids have been shortlisted to 2 competitive bids from highly qualified bidders. Commercial negotiations are expected to commence in the March 2018 Quarter.

⁷ ASX announcement, FEED completion confirms Colluli as the most advanced and economically attractive SOP greenfield development project, 29 January 2018

⁸ ASX announcement, FEED completion confirms Colluli as the most advanced and economically attractive SOP greenfield development project, 29 January 2018

⁹ ASX announcement, FEED completion confirms Colluli as the most advanced and economically attractive SOP greenfield development project, 29 January 2018

¹⁰ ASX announcement, Colluli Definitive Feasibility Study results, 30 November 2015



Power – Finalising negotiations with preferred power provider

Inglett and Stubbs International (ISI) has been appointed as the preferred power provider¹¹. Costs from the ISI bid submission were in line with DFS estimates¹² and have been integrated with the FEED results¹³.

EPCM – evaluations underway, preliminary negotiations expected in March 2018 Quarter

During the December 2018 Quarter Danakali developed an Engineering Procurement Construction & Management (EPCM) enquiry document in consultation with project management consultants Turner & Townsend. The EPCM enquiry document was issued to targeted industry participants seeking competitive bids. The EPCM enquiry period has now closed, and submissions are under evaluation.

Danakali is seeking to commence negotiations with the preferred EPCM consultants by March 2018, with the aim of confirming appointments within the June 2018 Quarter.

Offtake – Several parties close to final bankable agreements

The Company's offtake strategy for Module I of the Project is to maximise the value of the CMSC product portfolio by engaging experienced SOP distributors and traders tasked with achieving the highest possible netback price for each tonne of SOP sold.

The Company continues to progress its offtake strategy on behalf of CMSC and is working with several offtakers who continue to express a strong interest in securing a future supply of granular and standard SOP product. Negotiations in the December 2017 Quarter were focused primarily on finalising remaining commercial terms contained in the bankable offtake agreements. Norton Rose Fulbright, who has significant experience in developing potash offtake agreements, continue to support negotiations and associated legal drafting.

Project financing – FEED facilitates further progression of funding discussions

The Project is fully permitted¹⁴ and ready to advance into engineering and construction upon securing funding. A Social and Environmental Impact Assessment (SEIA) and associated Social and Environmental Management Plans have been completed to ensure consistency with the Equator Principles¹⁵. Stakeholder engagements have been completed throughout the study phases, and the Project has strong support from local communities.

Debt – Independent experts visited Colluli on behalf of potential debt providers

The completion of FEED is a key milestone in advancing the debt funding discussions, it provides potential debt providers with:

- a high level of study detail and accuracy;
- updated financials; and
- completion of equipment and supplier lists

¹¹ ASX announcement, Preferred power provider appointed, 31 May 2017

¹² ASX announcement, Colluli Definitive Feasibility Study results, 30 November 2015

¹³ ASX announcement, FEED completion confirms Colluli as the most advanced and economically attractive SOP greenfield development project, 29 January 2018

¹⁴ ASX announcements, CMSC enters into Mining Agreement for world class Colluli Potash Project, 1 February 2017, and Award of Mining Licenses for world class Colluli Potash Project, 1 February 2017

¹⁵ Danakali website, <http://www.danakali.com.au/the-colluli-project/seia-public-disclosure>



Other key debt funding milestones include the finalisation of key operational contracts and the bankable offtake agreements.

A site visit was conducted by independent experts on behalf of potential debt providers during the December 2017 Quarter. Meetings were held with the Ministry of Energy and Mines, the Ministry of Land, Water and Environment, and elders and administrators of communities close to Colluli. Visits were made to the key project locations including Colluli, Massawa Port, and Anfile Bay.

Figure 3: Meeting the elders and administrators of Adaito



Figure 4: Massawa port



A Colluli Financial Model has been prepared for potential debt providers which incorporates the FEED results.

Equity – Commencement of London Stock Exchange dual listing process

The Company has confirmed it will list on the London Stock Exchange (LSE) post Danakali Board approval¹⁶.

- The LSE opens the Company to a wider and deeper range of institutional investors
- The LSE is known as a strong supporter of companies with African mining assets
- There are currently limited opportunities for exposure to mining companies of Danakali's size with assets of Colluli's standard and scale on the LSE
- The Company is already well supported by various UK brokers

Dual listing on the LSE is a key enabler of Danakali's equity strategy, which includes:

- mobilising institutional interest in the UK, Europe, Middle East and other parts of the world;
- increasing equity valuation and share trading liquidity;
- further raising the profile of Colluli; and
- moving towards financial close for Colluli Module I.

The Company's shares will continue to be listed and trade on the Australian Stock Exchange (ASX). The ASX remains an important listing jurisdiction for Danakali as it progresses. Danakali has strong broker support, and a significant retail and high net worth following in Australia.

¹⁶ ASX announcements, Danakali to seek a dual listing on the London Stock Exchange, 21 November 2017

Corporate

Board and Management – Mr. Danny Goeman appointed as CEO

With the Project's study phase progressing to full completion, the Company is focusing on:

- securing bankable offtake agreements;
- advancing debt funding;
- executing the equity strategy; and
- executing the Project.

Changes in the Board and management team over the past 12 months have been firmly aligned with these objectives, culminating in the recent CEO transition.

Mr. Danny Goeman, a highly experienced mining industry professional, has assumed the role of CEO (effective 21 December 2017)¹⁷. Mr. Goeman joined Danakali in 2016 and has since developed the offtake strategy and offtake contract frameworks, and led the offtake negotiations on behalf of CMSC. Mr. Goeman has more than 25 years of experience in sales and marketing, strategy development, and high level commercial negotiations, including more than 20 years with the Rio Tinto group of companies. He has experience across multiple commodities in multiple jurisdictions, and has significant customer engagement and international experience. He holds a Master's Degree in Business Administration. Mr. Goeman will continue to focus on completion of the bankable offtake agreements as well as overseeing the debt and equity processes.

Figure 6: Danakali CEO, Danny Goeman



Mr. Paul Donaldson has transitioned from the role of Chief Executive Officer (CEO) and Managing Director to the role of Non-Executive Director on the Danakali Board (effective 21 December 2017)¹⁸. Mr. Donaldson, an experienced mining industry professional, redefined the product and development path and process for the Project, overseeing the scoping, pre-feasibility, definitive feasibility and FEED study phases. Mr. Donaldson has also assumed Chairmanship of the newly established Technical and Risk Committee, and joined the Nomination and Remuneration Committee¹⁹. The industry and project knowledge, skills and relationships developed by Mr. Donaldson will be retained as the Project progresses.

¹⁷ ASX announcements, Danakali completes leadership transition, 21 December 2017

¹⁸ ASX announcements, Danakali completes leadership transition, 21 December 2017

¹⁹ ASX announcements, Danakali completes leadership transition, 21 December 2017



The Board committees have been restructured to support the transition of the Company to Project execution²⁰.

- Nomination and Remuneration committee
 - Chairman: Mr. Andre Liebenberg
 - Committee members: Mr. John Fitzgerald and Mr. Donaldson
- The Audit and Risk Committee has been consolidated to become the Audit Committee
 - Chairman: Mr. Fitzgerald
 - Committee members: Mr. Liebenberg and Mr. Seamus Cornelius
- Newly established Technical and Risk Committee
 - Chairman: Mr. Donaldson
 - Committee members: Mr. Cornelius and Mr. Bob Connochie

Further Board and senior management personnel changes during the December 2017 Quarter:

- Mr Liam Cornelius resigned as Non-Executive Director, effective 17 November 2017
- Mr. Andre Liebenberg was appointed as Non-Executive Director, effective 2 October 2017
- Mr. William Sandover was appointed as Head of Corporate Development & External Affairs, effective 30 October 2017

Capital – cash position remains healthy

- **Consolidated cash on hand was A\$15.5M** as at 31 December 2017
- **A\$1.0M raised through the issue of 3,406,819 fully paid ordinary shares** on the conversion of unlisted options with various exercise prices and expiry dates
 - 106,819 unlisted options with exercise price of A\$0.35, expiring 30 March 2018, and 3,300,000 unlisted options with exercise price of A\$0.278, expiring 17 November 2017
 - Total issued capital at the end of the December 2017 Quarter was 251,697,687 fully paid ordinary shares
- Other movements in **unlisted options** during the December 2017 Quarter included the following:
 - No new unlisted options were issued
 - 550,000 unlisted options with an exercise price of A\$0.543, expiring 7 October 2017 lapsed; and
 - 500,000 unlisted options with an exercise price of A\$0.558, expiring 8 August 2019 vested on 31 December 2017
 - The balance of unlisted options as at 31 December 2017 was 19,195,821 (various option prices and expiry dates)
- 150,000 **Performance Rights** were issued during the December 2017 Quarter
 - No Performance Rights vested during the December 2017 Quarter
 - The number of outstanding performance rights as at 31 December 2017 was 1,408,000

²⁰ ASX announcements, Danakali completes leadership transition, 21 December 2017

Interests in mining tenements

The exploration license for Colluli covers over 200km² and the 7 mining licenses awarded to CMSC span over 60km² of the 100km² Agreement area²¹. Further details are provided below.

Table 1: Tenement holdings

Tenement:	Colluli, Eritrea
Nature of interest	Owned
License type	Mining Licences
Current equity	50%

There was no change in tenement holding during the December 2017 Quarter.

For more information, please contact:

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²¹ ASX announcements, CMSC enters into Mining Agreement for world class Colluli Potash Project, 1 February 2017, and Award of Mining Licences for world class Colluli Potash Project, 1 February 2017



About Danakali Limited

Danakali Limited (ASX: DNK) (**Danakali**, or the **Company**) is an ASX-listed company and 50% owner of the Colluli Potash Project (**Colluli** or the **Project**) 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 Front End Engineering Design (**FEED**) 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 (or **MOP**). 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 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 (**Module I**) as a growth platform to develop the resource to its full potential.

Competent Persons Statement (Sulphate of Potash Mineral Resource)

Colluli has a JORC-2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 1,289Mt @11% K₂O. The resource contains 303Mt @ 11% K₂O of Measured Resources, 951Mt @ 11% K₂O of Indicated Resources and 35Mt @ 10% K₂O of Inferred Resources.

The information relating to the 2015 Colluli Mineral Resource estimate was compiled by Mr. John Tyrrell, under the supervision of Mr. Stephen Halabura M. Sc. P. Geo. Fellow of Engineers Canada (Hon), Fellow of Geoscientists Canada, and a geologist with over 25 years' experience in the potash mining industry.

Mr. Tyrrell is a member of the Australian Institute of Mining and Metallurgy and a full-time employee of AMC. Mr. Tyrrell has more than 25 years' experience in the field of Mineral Resource estimation.

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

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

Competent Persons Statement (Sulphate of Potash Ore Reserve)

The January 2018 Colluli Ore Reserve is reported according to the JORC Code and estimated at 1,100Mt @ 10.5% K₂O Equiv. The Ore Reserve is classed as 285Mt @ 11.3% K₂O Equiv. Proved and 815Mt @ 10.3% 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 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 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.

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 Resources, 180Mt @ 96.6% NaCl of Indicated Resources and 139Mt @ 97.2% NaCl of Inferred Resources.

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

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

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 to DIN EN ISO/IEC 17025 by the Deutsche Akkreditierungsstelle GmbH (DAR). The laboratory follows standard procedures for the analysis of potash salt rocks chemical analysis (K^+ , 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, and financial assumptions made in this presentation are consistent with assumptions detailed in the Company's ASX announcements dated 25 February 2015, 23 September 2015, 15 August 2016, 1 February 2017 and 29 January 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.