DANAKALI

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Colluli Potash Project DFS Update

HIGHLIGHTS

- **Pilot tests successfully completed, generating 300kg of high purity SOP sample for distribution to potential future customers and project equipment suppliers**
- **Process flow diagrams and equipment lists completed**
- **Metallurgical optimisation testwork has significantly reduced processing plant water consumption requirements by 60%**
- **Groundwater testing at site has identified potassium bearing brines, suitable as supplementary process plant water**
- **Groundwater testing at site has also indicated the presence of large subsurface aquifer - which has the potential to completely eliminate the requirement of the 75km seawater delivery pipeline from Anfile Bay**
- **Detailed mine scheduling well advanced**
- **Rock salt resource definition approaching completion**
- **DFS to be completed and announced in Q4 2015**

Danakali Limited (ASX:DNK) ("Danakali" or "the Company") is pleased to provide an update on the definitive feasibility study (DFS) being completed on its Colluli Potash Project. The Colluli Potash Project is 100% owned by the Colluli Mining Share Company (CMSC), which is a 50:50 Joint Venture between Danakali and the Eritrean National Mining Company (ENAMCO). The study is focussing on the production of Sulphate of Potash (SOP), a high quality, chloride free potash type for which there is a current scarcity of economically exploitable resources globally.

A modular approach to the development has been adopted to balance fundability, risk mitigation, market penetration and economic return. A module size of 425kt per annum was selected from the prefeasibility study.

Despite depressed commodity markets generally, SOP has continued to demonstrate sustained price performance at a substantial premium to the more common potash type, potassium chloride (also known as Muriate of Potash or MOP).

Following the completion of an economically favourable prefeasibility study for the production of SOP from the Colluli resource (ASX announcement 4th March, 2015), a substantial amount of work has successfully progressed to support a robust definitive feasibility study.

Pilot Tests

Pilot tests completed at the Saskatchewan Research Council (SRC) have conclusively demonstrated that the Colluli process design is robust, and consistently generates high purity SOP over a range of temperatures and feed grades. The pilot testing program has allowed refinement of the input parameters for the final equipment sizing, plant process flow diagrams and plant configuration.

The pilot tests have also generated over 300kg of high purity SOP in standard, granular and soluble form for distribution to potential offtake partners. Samples have also been forwarded to equipment suppliers for accurate sizing and operating cost estimations for the DFS.

Optimisation Testwork

Optimisation testwork for the processing plant has yielded positive results, relative to the prefeasibility study design. The most significant improvement is a 60% reduction in processing plant water requirements, which has favourably impacted the water delivery infrastructure requirements and the surface area of the process recovery evaporation ponds. The recovery evaporation pond sizes have been finalised, with an overall surface area requirement of approximately 300 acres (or 0.0007 acres per tonne of product). The solar pond footprint is substantially smaller than typical SOP brine producers, which require solar pond footprint areas of up to 0.1 acres of ponds per tonne of product.[1] Feeding the processing plant with salts in solid form, which results in a high feed concentration of potassium, in combination with the highly favourable ambient conditions of the Danakil basin, allows an evaporation footprint over 100 times smaller than operations producing SOP from brines, which typically contain potassium concentrations of approximately 5kg per tonne of water. Evaporation trials at the Colluli site have been underway since January 2015, and the results have been used to validate the evaporation pond configuration and refine the evaporation pond dimensions.

Groundwater Testing

Groundwater testing at site has identified potassium bearing brines, suitable as supplementary process plant water in the upper clastic materials. This represents a process benefit by introducing additional potassium with the potassium salt feed to the process plant and potentially improving its overall yield. Pump tests completed on site to support the groundwater modelling, have confirmed with a high level of confidence, that sufficient water is available from pit dewatering activities to supply the processing plant for the first five years.

Groundwater testing has also indicated the presence of a large sub-surface aquifer within the Colluli tenements, which has the potential to completely eliminate the requirement of the 75km seawater delivery pipeline from Anfile Bay, and hence could result in a reduction in capital costs. Further

hydrogeological work is required to confirm the overall volume and quality of the water within the aquifer. The DFS will be completed on the basis of deferring the pipeline until the fifth year of production. Further groundwater testwork is planned following the completion of the DFS to verify the business case to eliminate the requirement for the seawater pipeline.

Mine Scheduling

With the completion of all site related geotechnical work, detailed mine scheduling is well advanced. The project commissioning production profile has been developed and is under refinement.

Equipment Procurement

Following the completion of equipment lists, detailed discussions with equipment suppliers have identified a number of alternate equipment options that have the potential to favourably impact both capital and operating costs of the project. A number of economic trade-off studies have been prioritised to ensure the most suitable and cost effective equipment configurations are selected. To ensure sufficient time is allocated to complete these evaluations, the finalisation of the DFS is expected to be in Q4 2015.

Rock Salt Resource

Work on a JORC-2012 compliant rock salt resource is well advanced and nearing completion. A considerable volume of rock salt sits above the potash resource and it is currently treated as waste material in the mine plan. Deployment of the rock salt to the market has the potential to substantially reduce the cost of waste stripping of the potassium bearing salts and increase the revenue generating capacity of the project.

Sulphate of Potash (SOP) Market

Despite the ongoing volatility in the commodity markets, SOP prices have remained strong. Suitable resources for the primary production of SOP are geologically scarce, and there are limited advanced greenfield developments. Colluli is one of only three greenfield projects globally with a completed prefeasibility study (PFS) and one of only two projects in the world with start-up capital less than US$450m.

SOP is a high quality, chloride free form of potash which is primarily used for high value crops such as fruits, nuts and vegetables, which have a low tolerance for chlorine. In addition to potassium, SOP contains sulphur, which is well recognised as an important secondary nutrient for agricultural crops. SOP has limited production centres globally, and carries a substantial price premium over the more common potassium chloride, which is also known as Muriate of Potash or MOP.

Timetable

As noted above, there have been a number of project enhancements identified during the DFS that have the potential to add significant value to the project. Whilst the majority of these enhancements are expected to be fully explored in Q3, discussions with equipment suppliers have indicated that firm costings will not be available until Q4. As such, the Company now expects the DFS to be completed and announced in Q4 2015.

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[1] **Compass Minerals**

About Danakali Ltd

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 the Eritrean National Mining Company (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 amendable 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 prefeasibility study 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 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.