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DANAKALI LTD

ABN 56 097 904 302

FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2016

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2015 and any public announcements made by Danakali Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Corporate Information

Directors

Seamus Ian Cornelius	(Non-Executive Chairman)
Paul Michael Donaldson	(Managing Director)
Anthony William Kiernan	(Non-Executive Director)
Liam Raymond Cornelius	(Non-Executive Director)
John Daniel Fitzgerald	(Non-Executive Director)
Zhang Jing	(Non-Executive Director)

Executive Management

Paul Michael Donaldson	(Managing Director & Chief Executive Officer)
Christiaan Philippus Els	(Chief Financial Officer)

Company Secretary

Christiaan Philippus Els

Registered Office & Principal Place of Business

Ground Floor, 31 Ventnor Avenue
WEST PERTH WA 6005

Telephone: +61 (0)8 6315 1444
Facsimile: +61 (0)8 9486 7093

Bank

ANZ
1275 Hay Street
WEST PERTH WA 6005

Share Register

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
PERTH WA 6000

Telephone: 1300 850 505 (Inside Australia)
Telephone: +61 (0)3 9415 4000 (Outside Australia)
Facsimile: +61 (0)3 9473 2500
www.computershare.com

Auditors

Ernst & Young
11 Mounts Bay Road
PERTH WA 6000

Website

www.danakali.com

Stock Exchange Listing

Danakali Ltd Shares (Code: DNK) are listed on the Australian Stock Exchange.

American Depository Receipts

The Bank of New York Mellon sponsors DNK's Level 1 American Depository Receipts Program (ADR) in the United States of America. DNK's ADRs are traded on the over-the-counter (OTC) securities market in the US under the symbol DNKLY and CUSIP: 836709105. One ADR represents one ordinary share in DNK.

US OTC Market information is available here: <http://www.otcm Markets.com/stock/DNKLY/quote>

DNK's ADR information can also be viewed here: http://www.adrbnymellon.com/dr_profile.jsp?cusip=836709105

ADR Holders seeking information on their shareholding should contact:

LONDON	NEW YORK	HONG KONG
Mark Lewis	Kristen Resch	Herston Powers
mark.lewis@bnymellon.com	kristen.resch@bnymellon.com	herston.powers@bnymellon.com
Telephone +44 207 163 7407	Telephone +1 212 815 2213	Telephone +852 2840 9868

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Directors' Report

Your directors submit their report together with the condensed financial statements of the consolidated entity, being Danakali Limited ("**Danakali**" or the "**Company**") and its controlled entities ("**the Group**") for the half year ended 30 June 2016.

DIRECTORS

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

- Seamus Ian Cornelius (Non-Executive Chairman)
- Paul Michael Donaldson (Managing Director)
- Anthony William Kiernan (Non-Executive Director)
- Liam Raymond Cornelius (Non-Executive Director)
- John Daniel Fitzgerald (Non-Executive Director)
- Zhang Jing (Non-Executive Director) – Appointed 17 June 2016

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

PRINCIPAL ACTIVITIES

The principal activity of the Group during the period was the continued evaluation of mineral resources and advancement of development of the Colluli Potash Project in Eritrea, East Africa. There was no significant change in the nature of the Group's activities during the six months to 30 June 2016.

PROJECT OVERVIEW

The Colluli Potash Project (**Colluli** or **the Project**), is located in the Danakil region of Eritrea, East Africa. By road it is approximately 350km south-east of the capital, Asmara and 230km by road from the port of Massawa, which is Eritrea's key import / export facility.

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 200km². A positive definitive feasibility study for the project was completed in November 2015 (See *ASX release dated 30 November 2015*)^A.

Demand for potash is expected to increase substantially over the coming decades, with United Nations estimates of annual global population growth of approximately 80 million people. Eritrea is geographically favourable relative to the key markets of the future, and is a stable jurisdiction with a maturing mining industry.

The proven large resource, with low development capital intensity, project scalability, estimated bottom quartile operating costs, product diversification potential and ease of access to global markets, supports a Tier 1 asset definition for Colluli. An estimated mine life of over 200 years^A, at a production rate increasing to 850ktpa^A demonstrates project growth potential over decades.

A two phase modular development approach, over an economic modelling period of 60 years, underpins a highly favourable Definitive Feasibility Study (**DFS**) for the production of potassium sulphate (**SOP**) fertiliser. DFS project economics of the two phase development resulted in a highly attractive estimated internal rate of return (IRR) of 29%^A. The first phase of the development requires initial development capital of US\$298m and as a standalone project has an IRR of over 25%^A.

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.

REVIEW AND RESULTS OF OPERATIONS

The Group recorded a net loss after tax of \$3,066,451 for the six months to 30 June 2016 compared to a net loss of \$4,120,908 in the six months to 30 June 2015.

Total consolidated cash on hand at the end of the period was \$5,175,197 (31 December 2015: \$2,756,341).

During the half year, Danakali maintained its operational focus on its Colluli Potash Project. Following the completion and submission of the 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.

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

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

Directors' Report (Cont'd)

Project Finance Update

Off-take

During the first half of 2016 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^B. Discussions are continuing with an objective of securing binding off-take agreements.

Funding

Danakali and CMSC are working with Endeavour Financial on the funding solution for the project development. Discussions will 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.

CORPORATE

Corporate Appointment

Ms Zhang Jing was appointed as a non-executive director to the board of Danakali Ltd on 17th 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

On 21 March 2016 Danakali announced a placement of up to approximately 25 million shares (**Placement Shares**), with one free attaching unlisted option (**Option**) to subscribe for one fully paid ordinary share for every two Placement Shares issued to sophisticated and professional investors to raise approximately AU\$5.5million at \$0.22 per share (**Placement**).

Danakali issued the first tranche of the Placement, consisting of 23,270,464 Placement Shares and 11,635,232 Options at \$0.35 per option on 31 March 2016 and issued the second tranche of the share placement 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.

On 12 August 2016, the Company announced that it had received commitments from a UK based institutional investor to raise gross proceeds of A\$6.7 million through the issue of 20.2 million shares at A\$0.33 per share. For more detail refer the note on events occurring after the statement of financial position date on page 5.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no other significant changes in the Company's state of affairs other than that referred to in the financial statements or notes thereto.

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 ₂ O Equiv %	Mt	K ₂ O Equiv %	Mt	K ₂ O Equiv %	K ₂ SO ₄ Equiv %	K ₂ SO ₄ Equiv Mt ²
Sylvinite (KCl.NaCl)	78	15	174	12	253	13		
Carnallite (KCl.MgCl ₂ .H ₂ O)	79	7	284	8	363	8		
Kainitite (KCl.MgSO ₄ .H ₂ O)	130	12	368	11	497	11		
Total	287	11	827	10	1,113	10	18.5	205

² Equivalent K₂SO₄ (SOP) calculated by multiplying %K₂O by 1.85.

Directors' Report (Cont'd)

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 ₄	Insolubles
Measured	28	97.2	0.05	0.05	2.2	0.23
Indicated	180	96.6	0.07	0.06	2.3	0.24
Inferred	139	97.2	0.05	0.05	1.8	0.25
Total	347	96.9	0.06	0.05	2.1	0.24

INTERESTS IN MINING TENEMENTS

The exploration license for the Colluli Potash Project covers over 200km² 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%

EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 12 August 2016, Danakali announced that it had received commitments from a UK based institutional investor to raise gross proceeds of A\$6.7 million through the issue of 20.2 million shares (**Placement Shares**) at A\$0.33 per share (**Placement**). The Placement Shares were issued at a 17.1% discount to the 15-day volume weighted average price of the Company's shares traded on the ASX up to 11 August 2016.

Funds raised from the Placement will be used to advance the development of the Colluli Potash Project, working capital and corporate purposes.

The Placement Shares were issued under a single tranche under the Company's 15% placement capacity pursuant to ASX Listing Rule 7.1 and settled on Wednesday, 17 August 2016.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

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



Seamus Ian Cornelius
CHAIRMAN

Perth, 31 August 2016

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.

Directors' Report *(Cont'd)*

Competent Persons and Responsibility Statement

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.

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-UmwelttechnikGmbH Sondershausen, Germany utilising flame emission spectrometry, atomic absorption spectroscopy and ionchromatography. Kali- Umwelttechnik (KUTEC) Sondershausen1 have extensive experience in analysis of salt rock and brine samples and is certified according by DIN EN ISO/IEC 17025 by the Deutsche AkkreditierungssystemPrüfwesen GmbH (DAR). The laboratory follows standard procedures for the analysis of potash salt rocks chemical analysis (K+, Na+, Mg2+, Ca2+, Cl-, SO42-, H2O) 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 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

Directors' Report *(Cont'd)*

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.

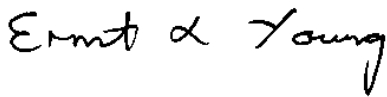
Mineral Resource, Ore Reserve and financial assumptions made in this document are consistent with assumptions detailed in the Company's ASX announcements dated 25 February 2015, 4 March 2015, 23 September 2015 and 30 November 2015 which continue to apply and have not materially changed. The Company is not aware of any new information or data that materially affects assumptions made.

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Auditor's Independence Declaration to the directors of Danakali Limited

As lead auditor for the review of Danakali Limited for the half year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.



Ernst & Young



Gavin Buckingham
Partner
31 August 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE HALF YEAR ENDED 30 JUNE 2016

	Notes	Half Year Ended	
		30 June 2016	30 June 2015
		\$	\$
REVENUE			
Interest income		40,259	88,558
Accretion relating to the unwinding of discount	5	905,588	707,549
OTHER INCOME			
Research and Development tax rebate		-	177,441
Foreign exchange gain		-	368,191
Sundry		-	933
EXPENSES			
Depreciation expense		(2,746)	(6,912)
Administration expenses		(1,388,819)	(1,158,488)
Share based payment expense		(484,856)	(373,135)
Loss on re-measurement of loan to joint venture carried at amortised cost	5	(1,838,616)	-
Share of net loss of joint venture	5	(104,548)	(3,925,045)
Foreign exchange loss		(192,713)	-
(LOSS)/PROFIT BEFORE INCOME TAX		(3,066,451)	(4,120,908)
Income tax expenses		-	-
NET (LOSS)/PROFIT FOR THE PERIOD		(3,066,451)	(4,120,908)
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Items that may be reclassified to profit and loss</i>			
Share of foreign currency translation reserve relating to joint venture		(225,595)	724,217
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		(225,595)	724,217
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(3,292,046)	(3,396,691)

Earnings per share for loss attributable to the ordinary equity holders of the Company:

Basic loss per share (cents per share)	(1.66)	(2.82)
Diluted loss per share (cents per share)	(1.66)	(2.82)

(i) The Placement Shares issued on 31 March 2016 were issued at a discount to the then market price. Accordingly, the earnings per share for all periods up to the date on which the shares were issued have been adjusted for the bonus element of the share issue. The bonus factor applied was 1.0367. Comparative earnings per share has been adjusted accordingly.

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

Consolidated Statement of Financial Position

AS AT 30 JUNE 2016

		30 June 2016	31 December 2015
	Notes	\$	\$
CURRENT ASSETS			
Cash and cash equivalents		5,175,197	2,756,341
Trade and other receivables	4	123,756	180,582
Prepayments		13,517	27,034
TOTAL CURRENT ASSETS		5,312,470	2,963,957
NON-CURRENT ASSETS			
Receivables	4	8,979,942	9,878,007
Investment in joint venture	5	12,767,859	12,064,742
Plant and equipment		14,421	16,412
TOTAL NON-CURRENT ASSETS		21,762,222	21,959,161
TOTAL ASSETS		27,074,692	24,923,118
CURRENT LIABILITIES			
Trade and other payables	6	216,947	552,085
Provisions		151,495	114,466
TOTAL CURRENT LIABILITIES		368,442	666,551
TOTAL LIABILITIES		368,442	666,551
NET ASSETS		26,706,250	24,256,567
EQUITY			
Issued capital	7	54,240,786	48,983,913
Reserves	8	11,165,768	10,906,507
Accumulated losses	9	(38,700,304)	(35,633,853)
TOTAL EQUITY		26,706,250	24,256,567

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

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 30 JUNE 2016

	Notes	Issued Capital \$	Reserves		Accumulated Losses \$	Total Equity \$
			Share Based Payments \$	Foreign Currency Translation \$		
BALANCE AT 1 JANUARY 2016		48,983,913	9,137,189	1,769,318	(35,633,853)	24,256,567
Loss for the period		-	-	-	(3,066,451)	(3,066,451)
Other comprehensive loss		-	-	(225,595)	-	(225,595)
Total comprehensive income for the period		-	-	(225,595)	(3,066,451)	(3,292,046)
Transactions with owners in their capacity as owners:						
Shares issued during the period	7	5,489,048	-	-	-	5,489,048
Costs of capital raised	7	(232,175)	-	-	-	(232,175)
Share based payments		-	484,856	-	-	484,856
BALANCE AT 30 JUNE 2016		54,240,786	9,622,045	1,543,723	(38,700,304)	26,706,250
BALANCE AT 1 JANUARY 2015		41,026,165	8,438,722	456,618	(28,841,168)	21,080,337
Loss for the period		-	-	-	(4,120,908)	(4,120,908)
Other comprehensive income		-	-	724,217	-	724,217
Total comprehensive income/(loss) for the period		-	-	724,217	(4,120,908)	(3,396,691)
Transactions with owners in their capacity as owners:						
Shares issued during the period	7	8,143,591	-	-	-	8,143,591
Costs of capital raised	7	(232,313)	-	-	-	(232,313)
Share based payments		-	373,135	-	-	373,135
Transfer on vesting of performance rights		102,080	(102,080)	-	-	-
BALANCE AT 30 JUNE 2015		49,039,523	8,709,777	1,180,835	(32,962,076)	25,968,059

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

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 30 JUNE 2016

	Notes	Half Year Ended	
		30 June 2016	30 June 2015
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		37,071	99,532
Payments to suppliers and employees		(1,338,206)	(1,337,981)
Sundry income		-	933
Research & Development tax rebate		-	177,441
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(1,301,135)	(1,060,075)
CASH FLOWS FROM INVESTING ACTIVITIES			
Funding of joint venture		(1,536,127)	(5,320,994)
Payments for plant and equipment		(755)	-
NET CASH OUTFLOW/ INFLOW FROM INVESTING ACTIVITIES		(1,536,882)	(5,320,994)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares	7	5,489,048	8,143,591
Costs of capital raised	7	(232,175)	(232,313)
NET CASH INFLOW FROM FINANCING ACTIVITIES		5,256,873	7,911,278
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,418,856	1,530,209
Cash and cash equivalents at the beginning of the financial period		2,756,341	7,113,394
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		5,175,197	8,643,603

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

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

Danakali Ltd ('Danakali' or the 'Company') is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange (ASX). The consolidated half year financial report of the Group as at, and for the six months ended 30 June 2016 comprises the Company and its subsidiaries (together referred to as the 'Group').

The financial report of Danakali for the half year ended 30 June 2016 was authorised for issue by the Directors on 31 August 2016.

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

2. BASIS OF PREPARATION

(a) Basis of preparation

This condensed general purpose financial report for the half year ended 30 June 2016 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. It is recommended that the half year financial report be read in conjunction with the annual financial report for the financial year ended 31 December 2015 and considered together with any public announcements made by the Company during the half year ended 30 June 2016 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

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

(b) Accounting policies

The Group has reviewed and adopted all new and revised Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective from 1 January 2016. As a result of this review the directors have determined that no change to the Group's accounting policies is necessary.

3. SEGMENT INFORMATION

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

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

The Group's non-current assets are geographically located in Eritrea.

4. TRADE AND OTHER RECEIVABLES

	30 June 2016	31 December 2015
	\$	\$
Current		
Net GST receivable	61,818	119,694
Accrued interest	9,119	5,931
Trade debtors	663	1,375
Other receivables	155	440
Security bonds	52,000	53,142
	123,756	180,582
Non-Current		
Loan to Colluli Mining Share Company	8,979,942	9,878,007
	8,979,942	9,878,007

Danakali's wholly owned subsidiary, STB Eritrea Pty Ltd, is presently funding the Colluli Mining Share Company ('CMSC') for the development of the Colluli Potash Project and 50% of the funding is represented in the form of a shareholder loan.

Repayment of this loan, as defined in the CMSC Shareholders Agreement, will be made preferentially from future operating cash flows. The shareholder loan is denominated in USD, non-interest bearing, unsecured and subordinate to any loans from third party secured lenders, under which CMSC may enter into in order to fund the Project Development Capital. For accounting purposes, the value of the loan has been discounted by applying an effective interest rate of 25% over an estimated repayment period of approximately 5 years.

The undiscounted underlying loan balance at 30 June 2016 is \$23,439,561 (31 December 2015: \$23,266,475).

Notes to the Consolidated Financial Statements (Cont'd)

5. INVESTMENT IN JOINT VENTURE

The Group has an interest in the following joint arrangement:

Project	Activities	Equity Interest		Carrying Value	
		30 June 2016 %	31 December 2015 %	30 June 2016 \$	31 December 2015 \$
Colluli Potash	Mineral Exploration	50	50	12,767,859	12,064,742

The group acquired an interest in Colluli Mining Share Company at the date of its incorporation on 5 March 2014. This acquisition was in accordance with the Shareholders Agreement entered into with the Eritrean National Mining Corporation ('ENAMCO') and executed in November 2013. CMSC was incorporated in Eritrea, in accordance with the Shareholders Agreement, to hold the Colluli project with Danakali and ENAMCO holding 50% of the equity each.

Under the terms of the Shareholders Agreement, at the date of incorporation of CMSC, consideration for the acquisition of shares in CMSC equates to half of the allowable historical exploration costs transferred to CMSC by STB Eritrea Pty Ltd, a wholly owned subsidiary of Danakali Limited. The balance of the allowable historic exploration costs transferred to CMSC are recoverable via a shareholder loan account (see note 4).

The Group's 50% interest in CMSC is accounted for as a joint venture using the equity method. The following tables summarise the financial information of the Group's investment in CMSC at 30 June 2016.

	30 June 2016 \$	31 December 2015 \$
Investment in joint venture – Colluli Mining Share Company	12,767,859	12,064,742

	Half Year to 30 June 2016 \$	Financial Year to 31 December 2015 \$
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Reconciliation of movement in investments accounted for using the equity method:

Carrying amount at the beginning of the period	12,064,742	8,674,357
Additional investment during the period	1,033,260	8,150,783
Share of net losses for the period	(104,548)	(6,073,098)
Other comprehensive income for the period	(225,595)	1,312,700
Carrying amount at the end of the period	12,767,859	12,064,742

Summarised financial information of joint venture:

	30 June 2016 \$	31 December 2015 \$
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Financial position (Aligned to Danakali accounting policies)

Cash and cash equivalents	40,892	52,641
Other current assets	96,688	110,552
Current assets	137,580	163,193
Non-current assets	29,644,364	30,268,672
Current liabilities	(132,821)	(288,408)
Non-current liabilities	(8,979,942)	(9,878,007)
NET ASSETS	20,669,181	20,265,450
Group's share of net assets	10,334,591	10,132,725

Reconciliation of Equity Investment:

Group's share of net assets	10,334,591	10,132,725
Share of initial contribution on establishment of the Joint Venture not recognised by DNK	(4,305,107)	(4,305,107)
Outside shareholder interest in equity contributions by Danakali	6,738,375	6,237,124
Carrying amount at the end of the period	12,767,859	12,064,742

Notes to the Consolidated Financial Statements (Cont'd)

5. INVESTMENT IN JOINT VENTURE (Cont'd)

	Half Year to 30 June 2016	Half Year to 30 June 2015
	\$	\$
Financial performance		
Interest expense relating to the unwinding of discount	(905,588)	(707,549)
Gain on re-measurement of loan	1,838,616	-
Exploration and evaluation expenditure	(1,142,124)	(7,142,541)
LOSS FOR THE PERIOD	(209,096)	(7,850,090)
Group's share of total loss for the period	(104,548)	(3,925,045)

There were no material commitments or contingencies within Colluli Mining Share Company for the financial periods above.

6. TRADE AND OTHER PAYABLES

	30 June 2016	31 December 2015
	\$	\$
Trade payables	123,419	169,423
Accrued expenses	37,438	343,447
Other payables	56,090	39,215
	216,947	552,085

7. ISSUED CAPITAL

	Half Year to 30 June 2016		Financial Year to 31 December 2015	
	Number of shares	\$	Number of shares	\$
(a) Share capital				
Ordinary shares fully paid	200,692,631	52,240,786	175,772,167	48,983,913
Total issued capital	200,693,631	52,240,786	175,772,167	48,983,913
(b) Movements in ordinary share capital				
Beginning of the period/ year	175,772,167	48,983,913	139,427,826	41,026,165
<i>Issued during the period/ year:</i>				
- Issued at \$0.205 per share	-	-	10,000,000	2,050,000
- Issued at \$0.250 per share	-	-	24,374,341	6,093,591
- Issued at \$0.295 per share	-	-	50,000	14,750
- Issued at \$0.310 per share	-	-	12,000	3,720
- Issued at \$0.280 per share as performance shares	-	-	100,000	28,000
- Issued on vesting of performance rights	-	-	1,808,000	-
- Issued at \$0.220 per share	24,870,464	5,471,548	-	-
- Issued at \$0.350 per share on exercise of options	50,000	17,500	-	-
- Costs of capital raised	-	(232,175)	-	(232,313)
End of the period/ year	200,692,631	54,240,786	175,772,167	48,983,913

Notes to the Consolidated Financial Statements (Cont'd)

8. RESERVES

	Half Year to 30 June 2016	Financial Year to 31 December 2015
	\$	\$
(a) Reserves		
Share-based payments reserve		
Balance at beginning of the period/ year	9,137,189	8,438,722
Employee and contractor share options & performance rights	484,856	698,467
Balance at end of the period/ year	9,622,045	9,137,189
Foreign currency translation reserve		
Balance at beginning of the period/ year	1,769,318	456,618
Currency translation differences arising during the period/ year	(225,595)	1,312,700
Balance at end of the period/ year	1,543,723	1,769,318
Total reserves	11,165,768	10,906,507

(b) Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of share options and performance rights issued.

Foreign currency translation reserve

The foreign currency translation reserve records the exchange differences arising on translation of a foreign joint arrangement.

9. ACCUMULATED LOSSES

	Half Year to 30 June 2016	Financial Year to 31 December 2015
	\$	\$
Balance at beginning of the period/ year	(35,633,853)	(28,841,168)
(Loss) for the period/ year	(3,066,451)	(6,792,685)
Balance at end of the period/ year	(38,700,304)	(35,633,853)

10. SHARE BASED PAYMENTS

(a) Options

On 31 January 2016, 700,000 unlisted options exercisable at \$0.599, 1,000,000 unlisted options exercisable at \$0.649 and 1,300,000 unlisted options exercisable at \$0.949 all expired unexercised.

On 30 March 2016, 11,635,232 unlisted options exercisable at \$0.35 per share on or before 31 March 2018 were issued to unrelated participants in a placement. Subsequent to shareholder approval on 13 May 2016, a further 800,000 unlisted options on the same terms were issued to related parties whom participated in the placement.

On 13 May 2016 2,700,000 unlisted options exercisable at \$0.405 per share were issued to directors and management.

On 23 June 2016, 50,000 unlisted options were exercised by a retail shareholder at \$0.35 per share.

On 23 June 2016, 200,000 unlisted options, exercisable at \$0.45 per share on or before 23 June 2018 were granted to a service provider for work done.

A total of 28,635,232 options were outstanding at the end of the half year.

(b) Performance Rights

The Company has a Performance Rights Plan which was re-approved at the annual general meeting of the Company held 17 November 2014. The purpose of the Plan is to provide recognition to employees and advisors of the Company and its subsidiaries for their continued and ongoing support of the Company.

At 30 June 2016 a total of 1,958,000 Performance Rights were on issue as follows:

Notes to the Consolidated Financial Statements (Cont'd)

10. SHARE BASED PAYMENTS (Cont'd)

Class 1:

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

Class 2:

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

Class 4:

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

There were no performance rights issued during the half year. No performance rights vested during the half year.

11. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 30 June 2016:

	Loans and receivables \$	Fair value	
		through profit and loss \$	through other comprehensive income \$
Financial Assets:			
Trade and other receivables	123,756	-	-
Total current	123,756	-	-
Other receivable	8,979,942	-	-
Total non-current	8,979,942	-	-
Total Assets	9,103,698	-	-
Financial liabilities:			
Trade and other payables	216,947	-	-
Total current	216,947	-	-
Other payables	-	-	-
Total non-current	-	-	-
Total Liabilities	216,947	-	-

Fair values:

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 30 June 2016:

	Carrying amount \$	Fair value \$
Financial Assets:		
Trade and other receivables	123,756	123,756
Total current	123,756	123,756
Other assets	8,979,942	8,979,942
Total non-current	8,979,942	8,979,942
Total Assets	9,103,698	9,103,698
Financial liabilities:		
Trade and other payables	216,947	216,947
Total current	216,947	216,947
Other payables	-	-
Total non-current	-	-
Total Liabilities	216,947	216,947

Notes to the Consolidated Financial Statements (Cont'd)

12. CONTINGENCIES

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

13. COMMITMENTS

	30 June 2016	31 December 2015
	\$	\$
Lease commitments: Group as lessee		
<i>Operating leases (non-cancellable):</i>		
Minimum lease payments		
- within one year	103,347	114,924
- later than one year but not later than five years	-	50,120
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	103,347	165,044

The minimum future payments above relate to non-cancellable operating leases for offices.

14. SUBSIDIARY

Interest in subsidiary

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy:

Name	Principal Activities	Country of Incorporation	Class of Shares	Equity Holding	
				30 June 2016	31 December 2015
				%	%
STB Eritrea Pty Ltd	Investment in Potash Exploration	Australia	Ordinary	100	100

The proportion of ownership interest is equal to the proportion of voting power held.

15. RELATED PARTY TRANSACTIONS

During the half year to 30 June 2016 the following transactions with related parties took place:

On 13 May 2016, 2,500,000 unlisted options were issued to related parties, subsequent to approval by shareholders at the annual general meeting held on that same date. The options are exercisable at \$0.405 each on or before 13 May 2018.

On 13 May 2016, subsequent to shareholder approval, related parties participated in a placement of ordinary shares at an issue price of \$0.22 per share to raise \$352,000. In addition, one free attaching unlisted option was issued for every two shares purchased under the placement. The unlisted options are exercisable at \$0.35 on or before 13 May 2018.

Participation by related parties in the transactions detailed above, is set out in the following table.

Related Party	Position	Placement Shares	Free Attaching Unlisted Options	Unlisted Remuneration Options
Seamus Ian Cornelius	Non-Executive Chairman	250,000	125,000	500,000
Paul Michael Donaldson	Managing Director	100,000	50,000	500,000
Anthony William Kiernan	Non-Executive Director	100,000	50,000	400,000
Liam Raymond Cornelius	Non-Executive Director	1,000,000	500,000	400,000
John Daniel Fitzgerald	Non-Executive Director	150,000	75,000	400,000
Christiaan Philipus Els	Chief Financial Officer	-	-	300,000
		1,600,000	800,000	2,500,000

16. DIVIDENDS

No dividends were paid during the financial period. No recommendation for payment of dividends has been made.

Notes to the Consolidated Financial Statements *(Cont'd)*

17. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 12 August 2016, Danakali announced that it had received commitments from a UK based institutional investor to raise gross proceeds of A\$6.7 million through the issue of 20.2 million shares (**Placement Shares**) at A\$0.33 per share (**Placement**). The Placement Shares were issued at a 17.1% discount to the 15-day volume weighted average price of the Company's shares traded on the ASX up to 11 August 2016.

Funds raised from the Placement will be used to advance the development of the Colluli Potash Project, working capital and corporate purposes.

The Placement Shares were issued under a single tranche under the Company's 15% placement capacity pursuant to ASX Listing Rule 7.1 and settled on Wednesday, 17 August 2016.

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Directors' Declaration

In the directors' opinion:

1. the financial statements and notes set out on pages 9 to 19 are in accordance with the *Corporations Act 2001*, including:
 - a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - b) giving a true and fair view of the entity's financial position as at 30 June 2016 and of its performance for the half year ended on that date; and
2. there are reasonable grounds to believe that Danakali Ltd will be able to pay its debts as and when they become due and payable.

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



Seamus Ian Cornelius

CHAIRMAN

Perth, 31 August 2016

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To the members of Danakali Limited

Report on the 30 June 2016 half-year financial report

We have reviewed the accompanying half-year financial report of Danakali Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of Danakali Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

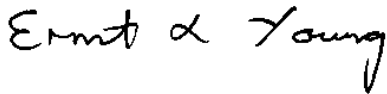
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Danakali Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.



Ernst & Young



Gavin Buckingham
Partner
Perth
31 August 2016