



ASX Release

30<sup>th</sup> January 2017

## DECEMBER 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

- Approval of Social and Environmental Impact Assessment (SEIA) by the Eritrean Ministry of Land, Water and Environment
- Appointment of Fluor to lead Front End Engineering Design (FEED) and optimisation process
- Appointment of Global Potash Solutions, Knight Piésold and Elemental Engineering to FEED team
- Commencement of optimisation phase of FEED
- Mining agreement and license approvals positively progressing towards completion
- Advanced marketing MOUs to Drafted Heads of Agreements with high level commercial terms for Off-take Agreements
- Successful Colluli site visit for Mining Analysts and Mining Media completed

#### PLANNED FOR MARCH QUARTER

- Continued engagement with relevant ministries on the advancement and award of the mining agreement and mining licenses
- Commencement of value engineering and optimisation as part of FEED process
- Commencement of bidding processes for power generation for the Colluli project
- Appointment of mining consultant to develop detailed mining schedules
- Commencement of bidding process for mining contract
- Continuation of off-take discussions to move to non-binding Heads of Agreement
- Continuation of financing discussions
- Commencement of pre-construction geotechnical investigations for pond and plant foundation design

#### CORPORATE

- Strong cash position of A\$10.9m at quarter end
- 2,959,546 options exercised



## PROJECT UPDATE – MAINTAINING A SUCCESSFUL TRACK RECORD OF PROJECT ADVANCEMENT

During the quarter Danakali Limited (“Danakali” or “the Company”), and its joint venture partner, the Eritrean National Mining Corporation (ENAMCO), has continued its focus on developing the World Class Colluli Potash Project (“Colluli”), located in the Danakil basin in Eritrea, East Africa.

Significant work has positively progressed in all aspects of the project.

Key activities completed for the quarter include:

- **Approval of the Social and Environmental Impact Assessment (SEIA) by the Ministry of Land, Water and Environment** paving the way for the mining approvals.
- **Fluor selected** to lead the front end engineering design (FEED) and optimisation process, following a competitive bidding process, bringing a highly reputable, internationally recognised engineering and construction company with an outstanding project delivery track record in the minerals industry to the Project.
- **Global Potash Solutions (GPS), Knight Piésold and Elemental Engineering** appointed to the FEED team, to work with Fluor on process optimisation, equipment selection and commissioning procedures.
- **Completed Expressions of Interest (Eoi) process** for power generation at Colluli.
- **Site visit completed by analysts and mining media.**

### Social and Environmental Impact Assessment approved by the Ministry of Land Water and Environment

The Eritrea Ministry of Land, Water and Environment formally approved the Social and Environmental Impact Assessment (SEIA) for the Colluli Potash Project in December 2016. The approval is a critical pre-requisite for completion of the mining agreement and mining license application and validates the quality of the data collection, baseline condition analysis, associated risk assessments and overall thoroughness of the assessment. The approval follows a comprehensive review by an **Impact Review Committee** nominated and assembled by the Ministry of Land, Water and Environment, and a mining approvals team nominated and assembled by the Ministry of Energy and Mines. As part of the approvals process, representatives of the ministries visited the Colluli project site and local and regional communities. A series of workshop



Photo: Hydrological baseline studies in the local area



engagements between ministry representatives, review team members, Danakali representatives and CMSC representatives were held in Asmara to ensure an effective review process with alignment of all parties to the successful outcome.

The SEIA process was led by **MBS Environmental** (MBS) consultants. MBS has a specialist team of environmental scientists, geochemists, engineers and geologists, with expertise in African mining projects throughout the entire project lifecycle. Specific community, social and occupational health and safety components of the SEIA were executed by **Sustainability** who have global experience in development projects in the resources sector, with specific specialities in Africa.

The SEIA was developed consistent with the criteria specified in the Terms of Reference agreed between CMSC and the Ministry of Land, Water and Environment, as well as **IFC Performance Standards** and the **Equator Principles**. It follows extensive data gathering programmes from the Colluli site and the wider region. Stakeholder engagements including focus group discussions and town hall meetings were conducted throughout the project study phases, and the final SEIA report document has been made available to local community groups. The project development has strong support from local communities, and the feedback from stakeholders has been exceptionally positive, with clear recognition of the benefits to the region. Stakeholder consultations are continuing as the project progresses.



Photo: Detailed mapping of local flora



Photo: CMSC and Danakali employees with local residents



## Highly regarded engineering firm Fluor selected for FEED following EPC engineers tendering

Three internationally renowned engineering firms were shortlisted for tendering for the front-end engineering design (**FEED**) and optimisation phase of the Colluli Project, following a comprehensive expression of interest process. The shortlisted group was selected based on African and Eritrean experience, and potash credentials.

A site visit was held with the shortlisted engineering firms in October 2016. Representatives of the firms visited the future Colluli mine site, inspected the nominated processing plant location, traversed the water pipeline and transport corridors, and inspected the Port facility at Massawa from where the product will be exported. The representatives also toured the country capital, Asmara, and met with the heads of the key construction, earthworks and logistics companies in Eritrea.

Internationally recognised, highly reputable construction and engineering company Fluor, was awarded the contract to conduct the FEED and optimisation work for the project. Fluor has exceptional credentials in African projects, has potash experience, and demonstrates proven EPC success across multiple projects. Through their strong relationships with export credit agencies, Fluor provides project financing support to clients. Fluor has a globally distributed footprint and is a leader in the mining industry for developing projects based on a fixed-price EPC contracting strategy. The company strives to deliver quality, fit-for-purpose, solutions at unmatched value and is a recognised leader in optimising projects to reduce capital costs for mining clients.



Photos: Representatives of the shortlisted EPC engineering teams and power station providers visit the mine site.



The initial phase of the FEED process will focus on refining the Colluli definitive feasibility study to increase project definition, optimise the process and throughput, and reduce development capital. The process will be led from Perth to ensure close alignment with the Danakali project team.

#### **FEED team supported by industry recognised mining consultants**

Global Potash Solutions (“GPS”) has been appointed to join the FEED and optimisation team, to compliment the FLUOR process engineering team. GPS has extensive technical and operational experience in the global potash industry, supporting projects in the United States, Canada, South America, Middle East, North Africa and Australia. They have provided expertise and technical support to Arab Potash Corporation, Potash Corp., BHP Billiton, and Karnalyte Resources, as well as completing third party due diligence on potash projects for a number of engineering firms.

GPS oversaw the metallurgical test program, process flowsheet development and initial optimisation work for the Colluli potash project throughout the prefeasibility and definitive feasibility study phases of the project and will work closely with the Fluor process engineering team on process optimisation, equipment selection and commissioning procedures.

Knight Piésold (KP) and Elemental Engineering have also been appointed to the FEED team. KP provide services to the mining, power, water resources, infrastructure and oil and gas industries and specialise in creating tailored solutions at every stage of a project life cycle while delivering sustainable bottom-line results. They have led numerous award-winning projects to completion and have an intimate understanding of the Colluli project as a result of the significant contribution they made to both the prefeasibility and definitive feasibility studies in the areas of surface water modelling, hydrogeology, potassium recovery pond design and site geotechnical investigations. KP are highly familiar with Eritrea through their involvement in three of the four mining projects in country. KP representatives oversaw a portion of the fieldwork conducted at the future Colluli mine site throughout the study phases, completed work for the Zara gold mine which was commissioned in 2016 and provided assistance to Sunridge Gold’s Asmara Cu-Zn-Au Project.

EE provides world leading process simulation and process development services to the minerals processing industry and completed the mass balance modelling work for both the prefeasibility and definitive feasibility studies for Colluli.



### Completed Expressions of Interest (Eoi) process for power generation at Colluli

The bidding for the power station contract progressed through the expression of interest (EOI) phase with a shortlist of internationally recognised power providers beginning to compete in competitive tendering for the Colluli power contract. The power station for Colluli is planned to be structured as a build own operate transfer (BOOT) model.

### Site visit completed by Analysts

During October 2016 Mr. Ingo Hofmaier, partner at Hannam and Partners, Mr. Trent Barnett, Senior Analyst at Hartleys and Mr. Dominic Piper, editor of Paydirt Magazine visited Eritrea and the Colluli site. This was the third visit by analysts to Eritrea and Colluli during 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



Photo: Road from Massawa towards Colluli

The country and site visit enabled the participants to conduct their independent analysis of the project and jurisdiction. Subsequent research reports and media publications have been highly complementary of both the jurisdiction and the project – a common theme from all site visits to date.

A copy of the site visit report by Hartleys and the Paydirt media article may be found on the Danakali website.

Further site visits are planned for 2017.

### Reserve and resource

There have been no changes to the potassium bearing salt ore reserve since 30 November 2015 nor the rock salt mineral resource estimate since 23 September 2015. For more detail on Reserves and Resource refer later in this report.



## CORPORATE

### CASH

Consolidated cash on hand as at 31 December 2016 was A\$10.9m.

### EQUITY

#### Share Capital

A total of 2,959,546 fully paid shares were issued on conversion of unlisted options, with various option prices and expiry dates, during the quarter. Total issued capital at the end of the quarter was 224,494,677 fully paid ordinary shares.

#### Options

On 7 October 2016, the Company issued 800,000 unlisted options to the Colluli Project Manager. The unlisted options were issued with an exercise price of \$0.543 expiring 7 October 2019. The unlisted options will vest subject to satisfaction of vesting conditions.

On 4 November 2016, the shareholders at a General Meeting, approved the issue of 750,000 unlisted options to the Chairman with an exercise price of \$0.55 expiring on 4 November 2018.

A further 1,000,000 options at \$0.55 per option expiring 31 December 2018 were issued to advisors as consideration for services under agreement. No additional cash consideration is payable.

During the quarter 2,630,000 unlisted options with exercise price of \$0.34, expiring 29 November 2016 and 329,546 options with exercise price of \$0.35, expiring 30 March 2018 were converted to fully paid ordinary shares. 3,370,000 options expired in this quarter.

The balance of unlisted options as at 31 December 2016 was 25,213,186 (various options prices and expiry dates).

#### Performance Rights

There was no change to performance rights during the quarter. Outstanding performance rights as at 31 December was 1,958,000.



## PROJECT FINANCE UPDATE

### Off-take

Following the signing of several non-binding Memorandums of Understanding (**MOUs**) for 800k of sulphate of potash<sup>B</sup> and 200k of sulphate of potash magnesium (**SOPM**)<sup>C</sup>, Danakali has made further positive progress on (i) developing its marketing strategy and (ii) advancing its offtake discussions.

In the last few months, the Company has conducted additional SOP market research informing the development of a list of customer segmentation criteria and SOP pricing mechanisms. The outcome of this work informed the drafting of the key commercial terms contained in the non-binding Heads of Agreements (**HOAs**).

Danakali continues to hold discussions with a broad range of prospective offtake parties in Asia, Europe, and the Middle East including end-users, producers, and traders. Industry interest in securing Danakali SOP offtake remains high, and the Company has shortlisted several parties interested in progressing commercial discussions and advancing to non-binding HOAs. The Company intends to convert these non-binding HOAs into binding off-take agreements later in the year.

### Funding

In addition to its engineering capabilities, Fluor also has extensive capability and experience in assisting clients to arrange financing for their projects and maintains a specialised group of project finance professionals located in various locations throughout the world. This capability and experience is particularly strong in working with export credit agencies to arrange export credit loans and loan guarantees for major international projects that is closely aligned with the equipment procurement and sourcing strategies.

Danakali and CMSC is working closely with its debt advisor, Endeavour Financial and Fluor to optimise opportunities that will be presented through the equipment sourcing strategy as part of the overall funding solution.

## 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%



## COLLULI POTASH PROJECT – THE PREMIER POTASH AND MULTI AGRI-COMMODITY OPPORTUNITY

### 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 exploration concession covers over 200km<sup>2</sup>.

The completed definitive feasibility study (**DFS<sup>A</sup>**) demonstrates highly attractive economics, industry leading capital intensity, bottom quartile operating costs, exceptional mine life, and unrivalled product diversification potential.

Colluli hosts a world class ore reserve of over 1.1 billion tonnes of potassium bearing salts and 350 million tonnes of high quality rock salts which will underpin decades of growth. CMSC plans to develop this large, high grade resource to its full potential by initially focussing on the production of sulphate of potash (**SOP**). SOP is a premium, chloride free, multi-nutrient potash type with limited production centres globally and carries a substantial price premium over the more common potash type, potassium chloride (**MOP**).

The production process will utilise simple, commercially proven mineral processing technology, whilst the project development and growth strategy is built on the principles of modularity to mitigate commercial risk. As the project grows in scale, there is high potential for monetisation of calcium, sodium and magnesium salts that are also present in the resource.

Although there are no inhabitants within the Colluli tenements, the development has strong support from local and regional communities, with over three hundred jobs to be created for local people in the first phase of the development.

The project is now progressing through mining approvals and funding as it advances towards construction.

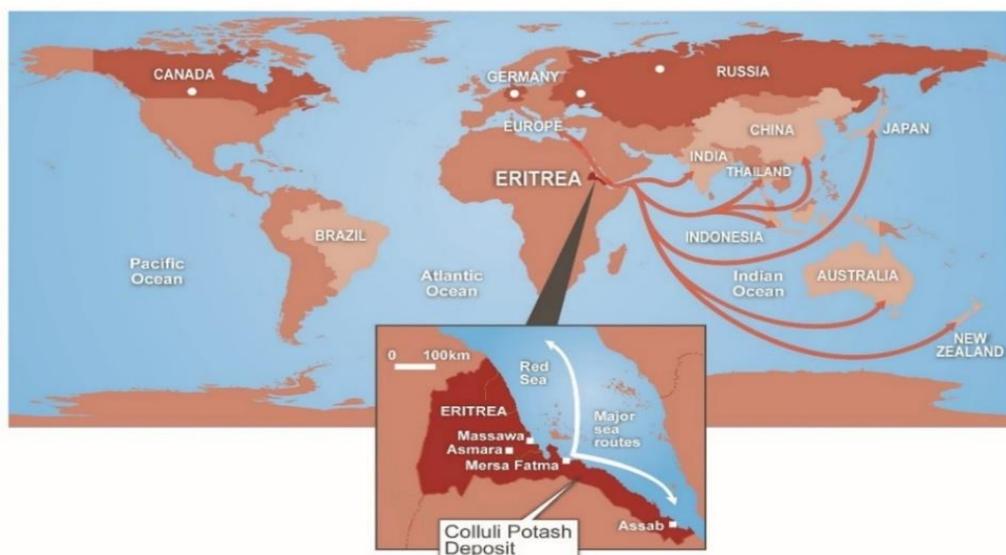


## A POSITIVELY UNIQUE RESOURCE

### 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. The evaporite sequence formed when the Red Sea was connected by a seaway to the Danakil Depression. 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*

### Colluli is a 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. 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.

<sup>1</sup> Combined resource volumes for Danakali, Allana and CIRCUM (Danakali and Circum websites, Allana potash N43-101 report)



## Shallow Mineralisation allows ease of recovery, selective mining, low capital intensity and reduced complexity

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: Colluli project team and visitors at nominated processing plant site

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.

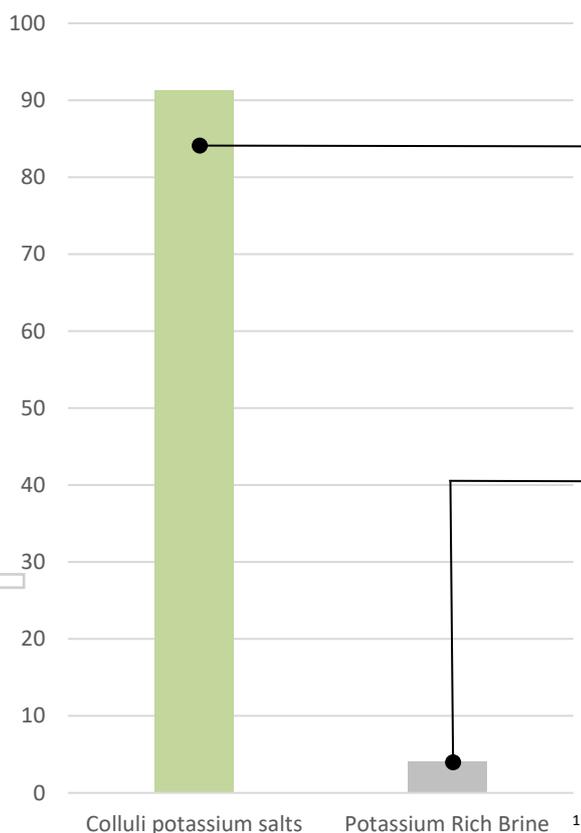


### Simple, commercially proven technology

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. **This is the most preferred and advantageous mix of salts for SOP production.** 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. This provides extremely high ore grade in contrast with potassium rich brines, and negates the need for large, capital intensive evaporation ponds.

Kg Potassium per tonne of feed material mined



***Salts in solid form from Colluli have potassium grade up to 25 times higher than brines***

<sup>1</sup> Salt Lake Potash Website, Reward Minerals Website



Illustration: Colluli process plant design incorporates simple, well understood mineral processing units

Open cut mining results in high resource utilisation relative to underground mining, solution mining and sub-surface brine extraction, 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.

**RESERVE AND RESOURCE OVERVIEW**

Colluli has a JORC-2012 compliant resource of 1.289 billion tonnes as shown in Table 1.<sup>1,2,4</sup>

Table 1: Colluli Mineral Resource Estimate, Feb 2015, with Kieserite added

Rock Unit	Tonnes (Mt)	Density (t/m <sup>3</sup> )	K <sub>2</sub> O Equiv. (%)	Kieserite (%)
Sylvinite	265	2.2	12	0.03
Upper Carnallite	51	2.1	12	3
Lower Carnallite	347	2.1	7	22
Kainite	626	2.1	12	1
<b>Total</b>	<b>1,289</b>	<b>2.1</b>	<b>11</b>	<b>7</b>

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 2<sup>2,3</sup>. There have been no changes to the Ore Reserve since 30 November 2015.

Table 2: JORC-2012 Colluli Potassium Sulphate Ore Reserve as at 30 November 2015<sup>2,3</sup>

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<sup>1</sup></b>	<b>205</b>

<sup>1</sup> Equivalent K<sub>2</sub>SO<sub>4</sub> (SOP) calculated by multiplying %K<sub>2</sub>O by 1.85

<sup>1</sup> ASX Announcement 25<sup>th</sup> Feb 2015

<sup>2</sup> ASX Announcement 19<sup>th</sup> May 2015

<sup>3</sup> ASX Announcement 30<sup>th</sup> Nov 2015

<sup>4</sup> ASX Announcement 15<sup>th</sup> Aug 2016



In addition to potassium sulphate, substantial quantities of rock salt exist. 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 (Table 3). There have been no changes to the Mineral Resource estimate since 23 September 2015<sup>1</sup>.

Table 3: JORC 2012 Colluli Rock Salt Mineral Resource as at 23 September 2015<sup>1</sup>

Classification	Tonnes (Mt)	NaCl	K	Mg	CaSO <sub>4</sub>	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
<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>

<sup>1</sup> ASX Announcement 23<sup>rd</sup> Sep 2015

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**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.
- C: For more information on the parties who signed the non-binding MoU's refer the ASX Announcement dated 21 July 2016.



### 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 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 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.

### Competent Persons Statement (Rock Salt Resource)

Colluli has a JORC 2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 347Mt @97% NaCl. The resource contains 28Mt @ 97% NaCl of Measured Resources, 180Mt @ 97% NaCl of Indicated Resources and 139Mt @ 97% NaCl of Inferred Resources.

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.

### Competent Persons Statement (Sulphate of Potash Resource)

Colluli has a JORC 2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 1,289Mt @11% K<sub>2</sub>O. The resource contains 303Mt @ 11% K<sub>2</sub>O of Measured Resources, 951Mt @ 11% K<sub>2</sub>O of Indicated Resources and 35Mt @ 10% K<sub>2</sub>O 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 as 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 & 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 Reserve)

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.

### 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 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, 19 May 2015, 23 September 2015, 30 November 2015 and 15 August 2016 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 and oil and gas 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, 01/05/13, 01/09/16

**Name of entity**

Danakali Limited

**ABN**

57 097 904 302

**Quarter ended ("current quarter")**

31 DECEMBER 2016

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	-	-
(b) development	-	-
(c) production	-	-
(d) staff costs	(140)	(587)
(e) administration and corporate costs	(144)	(1,351)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	39	107
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(245)</b>	<b>(1,831)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(3)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

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## Mining exploration entity and oil and gas exploration entity quarterly report

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other – Funding of Joint Venture	(623)	(2,952)
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(623)</b>	<b>(2,955)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	12,138
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	1,010	1,224
3.4	Transaction costs related to issues of shares, convertible notes or options	(11)	(597)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>999</b>	<b>12,765</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	10,604	2,756
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(245)	(1,831)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(623)	(2,955)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	999	12,765
4.5	Effect of movement in exchange rates on cash held	170	170
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>10,905</b>	<b>10,905</b>

5. <b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	10,905	6,610
5.2 Call deposits	-	3,994
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>10,905</b>	<b>10,604</b>

6. <b>Payments to directors of the entity and their associates</b>	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2 and 2.5	131
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Item 1.2 includes aggregate amounts paid to directors including salary, directors' fees, and superannuation, not allocated to the Joint Venture.

7. <b>Payments to related entities of the entity and their associates</b>	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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## Mining exploration entity and oil and gas exploration entity quarterly report

8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	Nil	Nil
8.2 Credit standby arrangements	Nil	Nil
8.3 Other (please specify)	Nil	Nil
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Exploration and evaluation	
9.2 Development	
9.3 Production	
9.4 Staff costs	131
9.5 Administration and corporate costs	456
9.6 Other (provide details if material)	1,034
<b>9.7 Total estimated cash outflows</b>	<b>1,621</b>

10. <b>Changes in tenements (items 2.1(b) and 2.2(b) above)</b>	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

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**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



30 January 2017

Sign here: .....

Date: .....

(Company secretary)

Chris Els

Print name: .....

**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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, 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. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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