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# **DANAKALI LTD**

ABN 56 097 904 302

## **AUDITED FINANCIAL REPORT**

FOR THE YEAR ENDED

31 DECEMBER 2016

# Corporate Information

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## Directors

Seamus Ian Cornelius	(Non-Executive Chairman)
Paul Michael Donaldson	(Managing Director)
Anthony William Kiernan	(Non-Executive Director) - Resigned 6 February 2017
Liam Raymond Cornelius	(Non-Executive Director)
John Daniel Fitzgerald	(Non-Executive Director)
Zhang Jing	(Non-Executive Director) - Appointed 17 June 2016
Robert Gordon Connochie	(Non-Executive Director) - Appointed 6 February 2017

## Executive Management

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

## Company Secretary

Christiaan Philippus Els                      Appointed 1 February 2016

## Registered Office and Principal Place of Business

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Churchill Court  
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Facsimile:        +61 (0)8 9467 9119

## 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  
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Facsimile:        +61 (0)3 9473 2500  
[www.computershare.com](http://www.computershare.com)

## Auditors

Ernst and Young  
11 Mounts Bay Road  
PERTH WA 6000

## Website

[www.danakali.com](http://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: 23585T101. 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: <https://www.adrbnymellon.com/?cusip=23585T101>

ADR Holders seeking information on their shareholding should contact: [shrelations@bnymellon.com](mailto:shrelations@bnymellon.com) OR

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# Contents

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	<b>Page</b>
Directors' Report	4
- <i>Review of Operations</i>	7
- <i>Audited Remuneration Report</i>	16
Audit Independence Letter	26
Consolidated Statement of Profit or Loss and Other Comprehensive Income	27
Consolidated Statement of Financial Position	28
Consolidated Statement of Changes in Equity	29
Consolidated Statement of Cash Flows	30
Notes to the Consolidated Financial Statements	31
Directors' Declaration	54
Independent Audit Report	55

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# Directors' Report

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The directors present their report together with the financial statements of the consolidated entity being, Danakali Ltd ("Danakali" or the "Company") and its controlled entities ("the Group") for the financial year ended 31 December 2016.

## DIRECTORS

The names and details of the Company's directors in office during the financial period and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

### Names, qualifications, experience and special responsibilities:

#### Seamus Ian Cornelius

*Non-Executive Chairman, LLB, LLM, appointed 15 July 2013*

Mr Cornelius is a corporate lawyer and former partner of one of Australia's leading international law firms. He has a high degree of expertise in cross-border transactions, particularly in the resources and finance sectors.

Mr Cornelius has been based in China since 1993, and has advised global companies, banks, major resource companies and Chinese State-owned entities on resource project investments both within China and abroad.

Mr Cornelius is currently the Non-Executive Chairman of Buxton Resources Ltd (appointed 29 November 2010), Montezuma Mining Company Ltd (appointed 30 June 2011), and Duketon Mining Ltd (appointed 8 February 2013).

#### *Special Responsibilities:*

Mr Cornelius is Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.

#### Paul Michael Donaldson

*Managing Director and Chief Executive Officer; Master's Degree - Mining Engineering, Master's Degree - Business and Technology, BEng Chemical (Honours, University Medal), Assoc Dip. Applied Science (Metallurgy), initially appointed Chief Operating Officer 29 November 2012, transitioned to Chief Executive Officer 1 February 2013 and additionally appointed Managing Director 29 April 2014.*

Mr Donaldson joined Danakali from a series of senior management roles spanning more than 25 years with BHP Billiton ("BHP"). At BHP Mr Donaldson managed large scale, open cut mining operations, significant growth and sustaining capital projects, and complex pyro metallurgical, beneficiation and manufacturing processes. Mr Donaldson headed the BHP Carbon Steel Materials Technical Marketing Team, managed the Port Hedland iron ore facility as well as occupying key roles in product and infrastructure planning across large scale supply chains.

Mr Donaldson also brings extensive experience in high-level business improvement and logistics from base metal operations and a high degree of integrated supply chain management, technical operational management and frontline leadership experience in the steel industry.

#### Anthony William Kiernan

*Independent Non-Executive Director, LLB, appointed 15 October 2012, resigned 6 February 2017*

Mr Kiernan has over 25 years of experience in the mining industry and was previously a commercial lawyer. He is currently a corporate advisor and has extensive experience in the administration and operation of public listed companies. He brings skills in the areas of Government relations, corporate strategy and corporate governance.

Mr Kiernan is currently the Non-Executive Chairman of Pilbara Minerals Ltd (appointed 1 July 2016), Venturex Resources Limited (appointed 14 July 2010) and Chalice Gold Mines Ltd (appointed 15 February 2007).

In addition, Mr Kiernan is Chairman of the Fiona Wood Foundation which focuses on research into burn injuries.

Previously Mr Kiernan was Non-Executive Chairman of BC Iron Ltd (11 October 2006 until 7 December 2016).

#### *Special Responsibilities:*

Mr Kiernan was Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.

## Directors' Report *(Cont'd)*

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### **Liam Raymond Cornelius**

*Non-Executive Director, BApp.Sc, appointed 21 August 2001*

Mr Cornelius graduated from Curtin University of Technology with a BApp.Sc in Geology, and has been involved in the exploration industry within Australia, Asia and Africa for over 20 years. Mr Cornelius has experience with a wide range of commodities including gold, nickel, copper, platinum, uranium and potash.

As a founding member of Danakali Ltd, Mr Cornelius has played a key role in outlining areas of interest for the Company.

*Special Responsibilities:*

Mr Cornelius is a member of the Remuneration and Nomination Committee.

### **John Daniel Fitzgerald**

*Independent Non-Executive Director, CA, appointed 19 February 2015*

Mr Fitzgerald has over 30 years of finance and corporate advisory experience in the resource sector.

Previously, he held senior positions at NM Rothschild and Sons, Investec Bank Australia, Commonwealth Bank, HSBC Precious Metals and Optimum Capital.

Mr Fitzgerald is Non-Executive Chairman of Carbine Resources Limited (appointed 13 April 2016) and Dakota Minerals Limited (appointed 23 December 2015) and a Non-Executive Director of Northern Star Resources Limited (appointed 30 November 2012),

Previously Mr Fitzgerald was Non-Executive Chairman of Atherton Resources Limited (14 December 2009 to 9 November 2015).

Mr Fitzgerald is a Chartered Accountant, a Fellow of the Financial Services Institute of Australasia (FINSIA) and a graduate member of the Australian Institute of Company Directors.

*Special Responsibilities:*

Mr Fitzgerald is Chairman of the Audit and Risk Committee and member of the Remuneration Committee.

### **Zhang Jing**

*Non-Executive Director, M. Sc, appointed 17 June 2016*

Ms Zhang has more than 15 years of international trading and business development experience in China and previously held investment and project managerial roles in public listed companies.

Ms Zhang holds a Master's degree in International Consultancy and Accounting from the university of Reading in the United Kingdom.

*Special Responsibilities:*

None

### **Robert Gordon Connochie**

*Independent Non-Executive Director, B.A. Sc, M.B.A., appointed 6 February 2017*

Mr Connochie is a highly-experienced potash and mining specialist with over 40 years of industry experience. He brings extensive senior line management experience from the potash industry, including marketing, corporate development, evaluations, financing and acquisitions.

Previously, Mr. Connochie held positions as Chairman of Canpotex (a world leading potash exporter for over 40 years) and Chairman of Behre Dolbear Capital, Inc.

Further, Mr Connochie was Chairman and CEO of Potash Company of America, CEO Asia Pacific Potash, Director of Athabasca Potash, Chairman of the Phosphate and Potash Institute, Director of the Fertiliser Institute, and Director of the Saskatchewan Potash Producers Association.

He is currently a Non-Executive Director of Behre Dolbear, Australia (appointed 14 July 2008) and Behre Dolbear, International (10 October 2010).

*Special Responsibilities:*

Mr Connochie is a member of the Audit and Risk Committee.

# Directors' Report *(Cont'd)*

## COMPANY SECRETARY

### Christiaan Philippus Els

*B.Com (Hons), CA, appointed 1 February 2016*

Mr Els is a finance executive with over 20 years' industry experience spanning mining, manufacturing, agribusiness, business services and fast moving consumer goods sectors in Australia, South Africa and Brazil. His area of expertise includes, amongst others equity, project and debt funding, M&A, business and financial strategy development, investor relations and corporate governance.

Prior to joining Danakali, Mr Els held Chief Financial Officer positions in both Mirabela Nickel Ltd and Norilsk Nickel (Australia). He also held the position of Company Secretary at Mirabela Nickel Ltd.

Mr Els is also an associate member of the Chartered Institute of Management Accountants, a member of the Certified Practising Accountants of Australia and the Chartered Global Management Accountants. Mr Els was appointed as Chief Financial Officer from 3 December 2015.

### Amy Dawn Just

*B.Bus, CA, AGIA, resigned 1 February 2016*

Ms Just is an employee of Grange Consulting Pty Ltd where she specialises in the provision of corporate advisory, company secretarial and financial management services. She has ten years of experience as a Chartered Accountant and is a member of the Governance Institute of Australia.

Ms Just has acted as Financial Controller and Company Secretary of numerous domestic and international oil and gas and mineral exploration companies, and has significant ASX compliance, statutory reporting, and corporate governance experience.

## INTERESTS IN SHARES, OPTIONS AND PERFORMANCE RIGHTS OF THE COMPANY

As at the date of this report, the interests of the directors in the shares, options and performance rights of Danakali Limited were:

Director	Ordinary Shares	Options over Ordinary Shares	Performance Rights
S I Cornelius	8,493,046	2,800,000	-
P M Donaldson	2,518,334	1,550,000	800,000
L R Cornelius	15,682,041	1,900,000	50,000
J D Fitzgerald	258,334	1,225,000	-
Z Jing	-	-	-
R G Connochie	-	-	-

## PRINCIPAL ACTIVITIES

The principal activity of the Group during the period was advancing the Colluli Potash Project in Eritrea, East Africa. There was no significant change in the nature of the Group's activities during the financial year ended 31 December 2016.

## CORPORATE STRUCTURE

Danakali Limited is a company limited by shares that is incorporated and domiciled in Australia.

# Directors' Report *(Cont'd)*

## REVIEW OF OPERATIONS

### Project overview

The Colluli Potash Project (**Colluli** or the **Project**), is located in the Danakil region of Eritrea, East Africa. Colluli is 100% owned by the Colluli Mining Share Company (**CMSC**) which is a 50:50 Joint Venture between Danakali Limited and the Eritrean National Mining Corporation (**ENAMCO**).

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. An estimated mine life of over 200 years, at a production rate increasing to 850ktpa demonstrates project growth potential over decades.

The Project's resource comprises almost 1.3 billion tonnes of potassium-bearing salts suitable for the production of potash fertilisers, approximately 350 million tonnes of high quality rock salt (sodium chloride), which overlays the potash mineralisation, and over 85 million tonnes of kieserite (magnesium sulphate) which is a suitable fertiliser for magnesium deficient soils. Over 1.1 billion tonnes of the potassium bearing salts is included in the Ore Reserve.

Mineralisation commences at a depth from surface of 16m, making Colluli the world's shallowest evaporite deposit. The resource is amenable to open pit mining, which provides a very high resource to reserve conversion, and is generally safer, cheaper and more efficient than underground mining. Open cut mining is highly advantageous for low cost modular growth.

Colluli is located in close proximity to both a deep-water port and established infrastructure and is favourably positioned to supply the world's fastest growing markets. The deposit is approximately 60km from the Red Sea coast, making it one of the most accessible potash deposits globally. By road it is approximately 350km south-east of the capital, Asmara and 230km by road from the established port of Massawa, a six-berth bulk and container loading facility, and which is Eritrea's key import / export operation.

Danakali has completed a two-phased definitive feasibility study (**DFS**) for the production of potassium sulphate (**Sulphate of Potash** or **SOP**). SOP is a chloride free, multi-nutrient, specialty fertiliser which carries a substantial price premium relative to the more common potash type; potassium chloride (**MOP**). Economic resources for primary production of SOP are geologically scarce and there are few current producers.

The unique composition of the Colluli resource favours low energy input, high potassium yield conversion to SOP using commercially proven technology. One of the key advantages of the resource is that the salts are present in solid form (in contrast with production of SOP from brines) which reduces infrastructure costs and substantially reduces the time required to achieve full production capacity.

The Definitive Feasibility Study (DFS) results are highly attractive with project economics over the two-phase development resulting in an estimated internal rate of return (IRR) of 29%. The first phase of the development requires an estimated initial development capital of US\$298m and as a standalone project has an IRR of over 25%.

In addition to the production of SOP, the Colluli resource has the capability of producing potassium magnesium sulphate (**SOPM**), potassium chloride (**MOP**), allowing production of three of the four key potash types traded globally. The multi-agri commodity potential is further supported by the ability to produce polyhalite and magnesium sulphate monohydrate (kieserite).

With the award of the Mining Licence and approval of the Mining Agreement in February 2017, the permitting process is now complete allowing the finalisation of marketing activities, design engineering and financing through to construction and operation.



Figure: Artists impression of Colluli processing plant



## Directors' Report (Cont'd)

### ACTIVITIES UNDERTAKEN DURING 2016

During the year, Danakali maintained its disciplined focus and execution of activities supporting the development of its world class Colluli Potash Project. Significant work completed in 2016 continues to build on a well-established track record of success for Danakali as the Project progresses towards construction and ultimately production.

#### Progression of Mining Approvals

The submission of the completed definitive feasibility study (DFS) to the Eritrean Ministry of Energy and Mines (MoEM) in February 2016 commenced the mining approvals process, followed by the submission of the Social and Environmental Impact Assessment (SEIA) and Social and Environmental Management Plans (SEMP) in April 2016 and the application for the project Mining License submitted to the Ministry of Energy and Mines on 2 May 2016. 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. Stakeholder consultations are continuing as the project progresses.

Key inputs to the SEIA and SEMP documents include stakeholder engagements (in total over 500 people were engaged, representing both male and female community members and confirmed the overwhelmingly positive support for the project) and detailed social and environmental baseline studies which have been submitted in tranches as the project has continued to advance. The baseline assessments represent the conclusion of over four years of data collection, surveying and community consultations. The SEMP includes details of the commitments and monitoring methods for avoiding or reducing unwanted social and environmental impacts as well as plans for enhancing the benefits of the project for the regional population and environment.

The Eritrean Ministry of Land, Water and Environment formally approved the Colluli SEIA in December 2016. The approval validated the quality of the data collection, baseline condition analysis, associated risk assessments and overall thoroughness of the assessment.

The approval followed a comprehensive review by an Impact Review Committee nominated and assembled by the Ministry and 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 engagements between ministry representatives, review team members, Danakali representatives and CMSC representatives were held in Asmara, the capital of Eritrea, to ensure an effective review process with alignment of all parties to the successful outcome.

The approval of the SEIA was the last formal step in the permitting process before award of the Mining Licences.

In February 2017, the Company announced that the Colluli Mining Share Company (CMSC) had entered into a Mining Agreement with the MoEM and had been awarded Mining Licences for the exploitation of mineral resources within the Colluli tenements.

The Mining Agreement provides exclusive access to CMSC over the 1.3 billion tonne Colluli JORC-2012 compliant potassium resource and associated minerals. CMSC applied for, and were awarded seven mining licenses which span over 60km<sup>2</sup> of the 100km<sup>2</sup> Agreement area, and represent over 60 years of the 200-year mine life determined in the DFS. Additional licenses can be applied for within the Agreement area as required to sustain and/or grow operations.

The licenses allow exploitation of potassium, calcium, sodium, and magnesium salts from the Colluli resource, as well as bromine. The focus of the highly favourable DFS is a two-stage modular development for the production of Sulphate of Potash (SOP) which is a high quality, chloride free multi-nutrient potash type with limited primary production centres globally. There is significant growth potential through the monetisation of other salts within the resource and diversification of potash product types.

These Mining approvals signal the end of the permitting process allowing the finalisation of marketing activities and financing through to construction and operation.



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



## Directors' Report (Cont'd)

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### Initiation of Front End Engineering Design works (FEED)

During the year, expressions of interest (EOI) were sought for the front-end engineering and design (FEED) and the engineering, procurement and construction (EPC) for the Colluli development. The EOI drew strong support from internationally renowned engineering companies from which a shortlist was derived based on Africa, Potash and Eritrean experience. A formal bidding process was then initiated.

In October 2016, representatives from the shortlisted engineering 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.

In January 2017, internationally recognised, highly reputable construction and engineering company **Fluor**, was awarded the contract to conduct the FEED and optimisation for the project. Fluor have exceptional credentials in African and potash experience, proven EPC success across multiple projects and through their strong relationships with export credit agencies, provide 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.

Fluor are supported by industry recognised mining consultants, Global Potash Solutions (**GPS**), Knight Piésold (**KP**) and Elemental Engineering (**Elemental**), all of which made significant contributions to both the prefeasibility and definitive feasibility studies.

GPS oversaw the metallurgical test program, process flowsheet development and initial optimisation work and will support process optimisation, equipment selection and commissioning procedures. KP will support in the areas of surface water modelling, hydrogeology, potassium recovery pond design and site geotechnical investigations. Elemental will provide process simulation and process development services to the team along with mass balance modelling work.

The initial phase of the FEED process will focus on refining the Colluli DFS to increase project definition, optimise the process and throughput, reduce development capital and develop a procurement strategy that will support the funding solution.

### Initiated tendering process for mining contractor

During the second half of 2016 a selection of mining contractors was engaged through a formal Expression of Interest (EOI) for the Colluli mining contract. The mining contractors were selected from Australia and Africa, based on African operational and surface mining experience. AMC Consultants facilitated the selection process.

Early due diligence of the project and the operating jurisdiction was a key component of the EOI phase and the contractor response was highly positive. A select number of the respondents have since passed into the formal tendering phase which is expected to be complete in Q2 of 2017. The mining contract is expected to include operations and maintenance and will be supported by an owner's technical services team. The structure and tendering approach has been designed to enable further optimisation of the mining operation.

### Initiated tendering process for power supply

In June 2016, Danakali initiated expressions of interest (EOI) for a power purchase agreement to tie in with the construction and operation of the Colluli project. This EOI phase, which completed in January 2017, resulted in a shortlist of internationally recognised power providers which are participating in competitive tender process for the Colluli power contract. The power station for Colluli is planned to be structured as a build own operate transfer (**BOOT**) model.

### Project Finance Update

#### Off-take

During the year, Danakali continued to progress off-take discussions with multi-national parties which included the signing of several non-binding Memorandums of Understanding (**MOUs**) for 800k of sulphate of potash (**SOP**) and 200k of sulphate of potash magnesium (**SOPM**). Parties include producers, end-users and traders.

In order to advance the off-take negotiations, Mr Danny Goeman was appointed as Head of Marketing. Mr Goeman has over 20 years of Marketing and Sales experience including industry analysis, price negotiation, market segmentation and product placement across multiple commodities and geographies (Australia, Asia and Europe).

Danakali has received strong interest in its product and has been able to provide interested parties with product samples generated in pilot tests from the Colluli resource, as well as provide indicative product specification sheets.

Following the signing of the MoUs, Danakali has made further positive progress on developing its marketing strategy and advancing offtake discussions.

The Company conducted additional SOP market research resulting in 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 proposed 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. The Company intends to finalise these non-binding HOAs by the middle of 2017.

## Directors' Report (Cont'd)

### Project Funding

Danakali and CMSC continues to work with its debt advisor, Endeavour Financial, on the funding solution for the project development.

Endeavour has engaged with several International Banks, Development Financial Institutions and Export Credit Agencies who have expressed interest in participating in the debt financing. Discussions are continuing as the procurement and off-take strategies are finalised.

To further support the funding solution, the company progressed its mining, engineering and procurement strategies, with the award of the contract to Fluor to conduct the FEED and optimisation for the project in January 2017.

In addition to its engineering capabilities, Fluor 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.

### Kieserite resource defined – in excess of 85 million tonnes

In August 2016, the kieserite content in the Colluli resource was quantified by AMC Consultants (*refer the Resource and Reserve section of this report*). Kieserite (Magnesium sulphate monohydrate) is a commonly used, chloride free, multi-nutrient fertiliser with limited primary production centres globally.

The Resource contains 18 million tonnes of kieserite in Measured Resource, 66 million tonnes of kieserite in Indicated Resource and 3 million tonnes of kieserite in Inferred Resource.

Table 1: Kieserite contained by Resource Classification

	Measured		Indicated		Inferred		Total <sup>1</sup>		
	Mt	Contained Kieserite (Mt)	Mt	Contained Kieserite (Mt)	Mt	Contained Kieserite (Mt)	Total (Mt)	Contained Kieserite (Mt)	Kieserite %
Sylvinite	90	0	160	0	15	0	265	0	0.03
Carnallite	80	16	303	59	15	3	398	78	20
Kainite	133	2	488	7	5	0	626	9	1
<b>Total</b>	<b>303</b>	<b>18</b>	<b>951</b>	<b>66</b>	<b>35</b>	<b>3</b>	<b>1,289</b>	<b>87</b>	<b>7</b>

<sup>1</sup>Weighted Average

Kieserite is suitable for magnesium deficient soils which are common in South East Asia, Africa and Eastern South America.

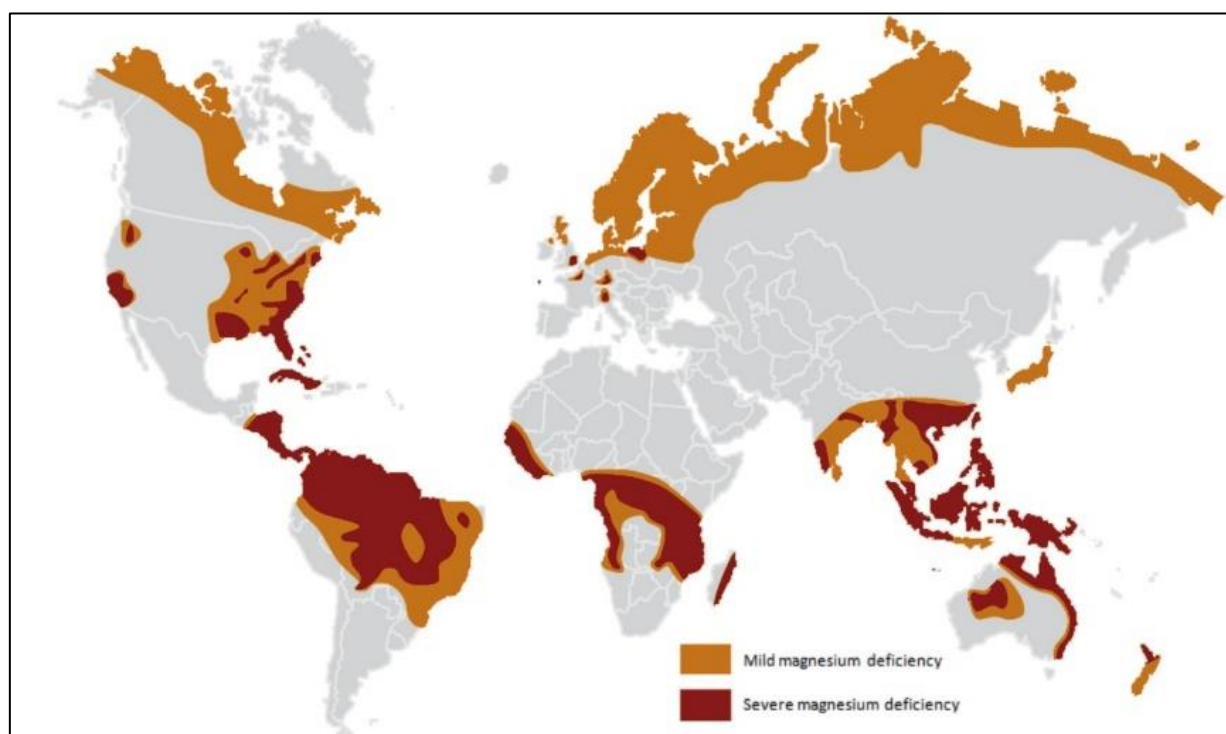


Figure: Distribution of Magnesium deficient soils (Source: CRU Consultants)

Metallurgical test work indicates that kieserite will report to the tailings stream of the planned processing plant. Test work was completed at the Saskatchewan Research Council (SRC) using salts from the Colluli resource. Preliminary liberation testing indicates the kieserite can be separated from the tailings salt. The large volume of kieserite adds to the multi-agri commodity potential of the Project.

# Directors' Report (Cont'd)

## CORPORATE

### Share Placements

On 21 March 2016, Danakali announced a placement of 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.

On 18 August 2016, Danakali announced that it had issued 20,200,000 shares (Placement Shares) at \$0.33 per share, to JP Morgan Asset Management (UK) Limited, a subsidiary of JP Morgan Chase to raise gross \$6.7 million (**Placement**). The Placement Shares were issued in a single tranche under the Company's 15% placement capacity pursuant to ASX Listing Rule 7.1.

Funds raised from the Placements 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, working capital and corporate purposes.

In addition to the Placements made during the year, a total of \$1,223,116 was received through the exercise of various options on issue in the Company.

### Sustainable Development Framework

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

Therefore the company implemented a Sustainable Development Framework to govern its Corporate Social Responsibilities (**CSR**) and Sustainability, and is aligned with its Corporate Governance Framework. The policies developed using this framework directly supported the management plans associated with the SEIA and SEMP for the project.

The following policies were approved during 2016:

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

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

### Site Visits

During the year, Danakali and CMSC hosted two site visits for mining analysts and mining media. Representatives from Hannam and Partners, Somers and Partners, Baillieu Host, Hartleys and Paydirt Media travelled to the future Colluli mine site, toured the Port of Massawa, toured the country capital of Asmara, and met with the Joint Venture partners and the Ministry of Energy and Mines.

All visits were well executed and attendees left with a positive view on the jurisdiction.

## RESERVE AND RESOURCE OVERVIEW

Colluli has a JORC-2012 compliant resource of 1.289 billion tonnes as shown in Table 2 as at 31 December 2016. Apart from the inclusion of Kieserite as discussed earlier in this report, there have been no changes to the Mineral resource since 25 February 2015.

The Colluli JORC-2012 compliant mineral resource estimate as at 31 December 2016 is as follows:

Table 2: Colluli Mineral Resource Estimate, 25 February 2015, with Kieserite added

Rock Unit	Tonnes Mt	Density t/m <sup>3</sup>	K <sub>2</sub> O Equiv. %	Kieserite %
Sylvinitite	265	2.2	12	0.03
Upper Carnallitite	51	2.1	12	3
Lower Carnallitite	347	2.1	7	22
Kainitite	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 3. There have been no changes to the Ore Reserve since 30 November 2015.

## Directors' Report (Cont'd)

The Colluli JORC-2012 compliant, Mineral Reserve estimate by potash mineral as at 31 December 2016 is as follows:

Table 3: JORC-2012 Colluli Potassium Sulphate Ore Reserve as at 30 November 2015

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

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

In addition to 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 as shown in Table 4. There have been no changes to the Mineral Resource estimate since 23 September 2015.

As at 31 December 2016, the JORC-2012 compliant Rock Salt Mineral Resource is as follows:

Table 4: JORC 2012 Colluli Rock Salt Mineral Resource as at 23 September 2015

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>

### SAFETY

Danakali is committed to ensuring all work activities are carried out safely with all practical measures taken to remove risks to health, safety and welfare of workers, contractors, authorised visitors, and anyone else who may be affected by the Group's activities.

Since the Company commenced exploration in 2010, no injuries have been reported. This safety performance, along with a strong safety culture, bodes well for the company as it moves into the construction and production phases at Colluli.

### ENVIRONMENT

The Group is subject to environmental regulation in respect to its exploration and development activities. Danakali aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with relevant environmental legislation. There were no breaches of environmental legislation for the period under review.

### EVENTS OCCURRING AFTER THE BALANCE DATE

On 9 January 2017, the company announced the appointment of Fluor as front end engineering design (FEED) and optimisation lead for Colluli project. Please refer to the activities undertaken during 2016 of this report for more details.

On 1 February 2017, the company announced both the award of the Mining Licence and approval of the Mining Agreement. Please refer to the activities undertaken during 2016 of this report for more details.

On 6 February 2017, the company announced the appointment of Mr Connochie as a non-executive director to the board. Details of Mr Connochie experience and qualifications can be found earlier in the Directors' Report. Mr Anthony Kiernan resigned as a non-executive director of the company with effect from 6 February 2017.

### ACTIVITIES PLANNED FOR 2017

The following key activities are scheduled over the coming year:

- Complete value engineering and optimisation as part of FEED process
- Initiate EPC bidding process
- Selection of preferred supplier for power generation
- Appointment of mining consultant to develop detailed mining schedules
- Selection of preferred mining contractor for the Colluli project
- 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

# Directors' Report (Cont'd)

## FINANCE REVIEW

The Group recorded a net loss after tax of \$4,925,558 for the financial year to 31 December 2016 compared to a loss of \$6,792,685 for the financial year to 31 December 2015. As the Group is still in the exploration and development stage, revenue streams mainly relate to interest earned on investing of surplus funds from capital raisings. The net losses after tax reflect the Groups' exploration and development expenditure on the Colluli Potash Project and ongoing administration costs.

The Groups' net assets increased by 38.7% compared to the net assets as at 31 December 2015, which is consistent with the increase in cash balance due to the successful equity raises during 2016 and the net increase in the investment and loan to the Colluli Mining Share Company.

Total consolidated cash on hand at the end of the financial year was \$10,904,760 (31 December 2015: \$2,756,341).

Operating activities utilised \$1,670,534 (31 December 2015: \$2,197,330 utilised) of net cash flows. Net cash outflow from investing activities of \$2,955,454 (31 December 2015: \$10,089,471) was primarily in relation to expenditure made to advance the Colluli Project in relation to:

- Initiation of front end engineering works (FEED).
- Initiating the mine contract tendering process.
- Obtaining mining approvals for the Colluli project.
- Pursuit of funding and off-take agreements.

Net cash inflow from financing activities of \$12,774,407 (31 December 2015: \$7,929,748) was due to the placement of shares and the exercise of options to fund the ongoing exploration and development work to advance the project.

## 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.

## DEVELOPMENTS AND EXPECTED RESULTS

Details of important developments occurring in this financial year have been covered in the Review of Operations section of the Directors' Report. The Group will continue to invest in the Colluli Potash Project to advance activities in the exploration, evaluation and development of the project with the objective of developing a significant mining operation. Any significant information or data will be released to the market and the shareholders pursuant to the Continuous Disclosure rules as and when they come to hand.

## DIVIDENDS

No dividends were paid or declared during the financial year to 31 December 2016. No recommendation for payment of dividends has been made.

## DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the financial year ended 31 December 2016 and the number of meetings attended by each Director were:

Director	Total Directors Meetings	Total Directors Meetings Attended	Total Audit and Risk Committee Meetings	Total Audit and Risk Committee Meetings Attended	Total Remuneration and Nomination Committee Meetings	Total Remuneration and Nomination Committee Meetings Attended
S I Cornelius	9	7	2	2	1	1
A W Kiernan	9	8	2	2	1	1
L R Cornelius	9	9	-	-	1	-
J D Fitzgerald	9	9	2	2	-	-
P M Donaldson	9	9	-	-	-	-
J Zhang	5	5	-	-	-	-



## Directors' Report (Cont'd)

### OPTIONS

At the date of this report, unissued ordinary shares in respect of which options are outstanding are as follows:

	Number of options
Balance at the beginning of the year	16,350,000
<b>Movements of share options during the financial year ended 31 December 2016:</b>	
Expired, exercisable at \$0.599, on or before 31 January 2016	(700,000)
Expired, exercisable at \$0.649, on or before 31 January 2016	(1,000,000)
Expired, exercisable at \$0.949, on or before 31 January 2016	(1,300,000)
Exercised, exercisable at \$0.278 on or before 17 November 2017	(400,000)
Exercised, exercisable at \$0.340 on or before 29 November 2016	(2,630,000)
Expired, exercisable at \$0.340, on or before 29 November 2016	(3,370,000)
Issued, exercisable at \$0.350, on or before 30 March 2018	11,635,232
Exercised, exercisable at \$0.350 on or before 30 March 2018	(622,046)
Issued, exercisable at \$0.350, on or before 13 May 2018	800,000
Issued, exercisable at \$0.405, on or before 13 May 2018	2,700,000
Issued, exercisable at \$0.450, on or before 23 June 2018	200,000
Issued, exercisable at \$0.550, on or before 4 November 2018	750,000
Issued, exercisable at \$0.550, on or before 31 December 2018	1,000,000
Issued, exercisable at \$0.558, on or before 8 August 2019	1,000,000
Issued, exercisable at \$0.543, on or before 7 October 2018	800,000
<b>Share options outstanding at 31 December 2016</b>	<b>25,213,186</b>
<b>Movements of share options during period since the financial year ended 31 December 2016:</b>	
Exercised, exercisable at \$0.350 on or before 30 March 2018	(630,001)
Exercised, exercisable at \$0.405, on or before 13 May 2018	(251,000)
<b>Total number of share options outstanding as at the date of this report</b>	<b>24,332,185</b>

Expiry date	Exercise price	Number of options
17 November 2017	\$0.278	4,600,000
30 March 2018	\$0.350	10,383,185
13 May 2018	\$0.350	800,000
13 May 2018	\$0.405	2,449,000
29 May 2018	\$0.527	750,000
31 May 2018	\$0.550	600,000
23 June 2018	\$0.450	200,000
4 November 2018	\$0.408	1,000,000
4 November 2018	\$0.550	750,000
31 December 2018	\$0.550	1,000,000
8 August 2019	\$0.558	1,000,000
7 October 2019	\$0.543	800,000
<b>Total number of share options outstanding at the date of this report</b>		<b>24,332,185</b>

No option holder has any right under the option to participate in any share issue of the Company or any other entity. No options were granted to key management personnel of the Company since the end of the financial year.

### PERFORMANCE RIGHTS

Details of performance rights over unissued shares in Danakali Ltd as at the date of this report are set out below:

	Number of rights
Balance at the beginning of the year	1,958,000
<b>Movements of performance rights during the year</b>	
No movements	-
<b>Performance rights outstanding at 31 December 2016</b>	<b>1,958,000</b>
<b>Movements since the financial year ended 31 December 2016:</b>	
Vested and Exercised <sup>(a)</sup>	(775,000)
Forfeited <sup>(b)</sup>	(75,000)
<b>Total number of performance rights as at the date of this report</b>	<b>1,108,000</b>

Note:

(a) Performance rights vested upon the grant of the mining lease.

(b) Performance rights forfeited upon the resignation of non-executive director, Anthony Kiernan on 6 February 2017.

No performance rights holder has any right to participate in any other share issue of the company or any other entity.



# Directors' Report (Cont'd)

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

### Indemnification

An indemnity agreement has been entered into with each of the directors and company secretary of the Company named earlier in this report. Under the agreements, the Company has agreed to indemnify those officers against any claim or for any expense or cost which may arise as a result of work performed in their respective capacities to the extent permitted by law. There is no monetary limit to the extent of this indemnity.

### Insurance

During the period, the Company paid an insurance premium in respect of Directors' and Officers' insurance. The premiums relate to costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome, and other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage. Premiums totalling \$8,000 (2015: \$8,000) were paid in respect of directors' and officers' liability cover. The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

## INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst and Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst and Young during or since the financial year.

## AUDIT AND RISK COMMITTEE

The Audit and Risk Committee has a documented charter, approved by the Board. All members are non-executive directors. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

The members of the Audit Committee during the period were:

- Mr John Fitzgerald, ACA, MAICD, Fellow of FINSIA - Chairman; Non-executive Director
- Mr Seamus Cornelius, LLB, LLM - Non-Executive Director
- Mr Anthony Kiernan, LLB - Non-Executive Director

The Audit and Risk Committee met twice during the year and the committee members' attendance record is disclosed in the table of Directors' meetings in section of the Directors' Report.

## NON-AUDIT SERVICES

The Board has considered the non-audit services provided during the financial year by the auditor and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor's independence requirements of the *Corporations Act 2001*.

All non-audit services provided during the financial year were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

During the period, Ernst and Young, the Company's auditors, performed the following services in addition to their statutory duties:

- Preparation and lodgement of income tax returns.
- Corporate Advisory Services.

	2016	2015
	\$	\$
<b>(a) Audit services</b>		
Ernst and Young	33,621	30,300
Rothsay Chartered Accountants	-	11,500
	<u>33,621</u>	<u>41,800</u>
<b>(b) Non-audit services</b>		
Ernst and Young – since appointment as auditor	33,103	31,750
Ernst and Young – prior to appointment as auditor	-	51,293
	<u>33,103</u>	<u>83,043</u>

## CORPORATE GOVERNANCE

The Company's corporate governance statement can be found at the following URL: <http://www.danakali.com.au/our-business/corporate-governance>

# Directors' Report *(Cont'd)*

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## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

No proceedings have been brought or intervened in or on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

## 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 separately in this report.

## REMUNERATION REPORT (AUDITED)

The Remuneration Report outlines the director and executive remuneration arrangement of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (Cth) and its Regulations. For the purposes of this report, Key Management Personnel (**KMP**) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Company. For the purposes of this report, the term 'Executive' includes the Chief Executive Officer and senior executives of the Group.

The Key Management Personnel of Danakali Ltd and the Group during the financial year to 31 December 2016 were:

### Directors

S I Cornelius	Non-Executive Chairman
P M Donaldson	Managing Director and Chief Executive Officer
A W Kiernan	Non-Executive Director (Resigned 6 February 2017)
L R Cornelius	Non-Executive Director
J D Fitzgerald	Non-Executive Director
J Zhang	Non-Executive Director (Appointed 17 June 2016)

### Named Executives

C P Els	Chief Financial Officer (Company Secretary Appointed 1 February 2016)
A D Just	Company Secretary (Resigned 1 February 2016)
S Tarrant	Head of Finance (Resigned 22 April 2016)

All of the above persons were key management personnel during the financial year to 31 December 2016 unless otherwise stated. The information provided in this remuneration report has been audited as required by section 308 (3C) of the Corporations Act 2001.

### Key Elements of Key Management Personnel/ Executive Remuneration Strategy

The remuneration strategy for Danakali Ltd is designed to provide rewards that achieve the following:

- attract, retain, motivate and reward executives;
- reward executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- link reward with the strategic goals and performance of the Company;
- provide remuneration that is competitive by market standards;
- align executive interests with those of the Company's shareholders; and
- comply with applicable legal requirements and appropriate standards of governance.

The Company is satisfied that its remuneration framework reflects current business needs, shareholder views and contemporary market practice and is appropriate to attract, motivate, retain and reward employees.

## Directors' Report (Cont'd)

A summary of the key elements of the current remuneration arrangement is as follows:

Remuneration Component	Item	Purpose	Link to Performance
Fixed Remuneration	<ul style="list-style-type: none"> <li>Base salary</li> <li>Superannuation contributions</li> <li>Other benefits</li> </ul>	Provide competitive remuneration with reference to the role and responsibilities, market and experience, to attract high calibre people.	Executive performance and remuneration packages are reviewed at least annually by the Board and Remuneration and Nomination Committee. The review process includes consideration of the individual's performance in addition to the overall performance of the Group.
Performance Based Short Term Incentive (STI)	<ul style="list-style-type: none"> <li>Cash bonus</li> </ul>	Provide reward to executives for the achievement of individual and Group performance targets linked to the Company's strategic objectives.	Award of STI linked directly to achievement of KPI's and performance targets.
Performance Based: Long Term Incentive (LTI)	<ul style="list-style-type: none"> <li>Shares</li> <li>Options</li> <li>Performance Rights Plan</li> </ul>	Provide reward to executives for their continued service and their contribution to achieving corporate objectives set by the Board to ensure the long-term growth of the Company.	Award of LTI linked directly to achievement of strategic Company objectives.

The Remuneration Report has been set out under the following headings:

- Decision Making Authority for Remuneration
- Principles Used to Determine the Nature and Amount of Remuneration
- Voting and Comments Made at the Last Annual General Meeting
- Details of Remuneration
- Service Agreements
- Details of Share Based Compensation
- Equity Instruments Held by Key Management Personnel
- Loans to Key Management Personnel
- Other Transactions with Key Management Personnel
- Additional Information

### a) Decision Making Authority for Remuneration

The Company's remuneration policy and strategies are overseen by the Remuneration and Nomination Committee on behalf of the Board. The Remuneration and Nomination Committee is responsible for making recommendations to the Board on all aspects of remuneration arrangements for key management personnel including:

- the Company's remuneration policy and framework;
- the remuneration arrangements for the Chief Executive Officer and other senior executives;
- the terms and conditions of long term incentives and short term incentives for the Chief Executive Officer and other senior executives;
- the terms and conditions of employee incentive schemes; and
- the appropriate remuneration to be paid to non-executive Directors.

The Remuneration and Nomination Committee Charter is approved by the Board and is published on the Company's website. Remuneration levels of the Directors and Key Management Personnel are set by reference to other similar sized mining and exploration companies with similar risk profiles and are set to attract and retain executives capable of managing the Group's operations in Australia and overseas.

Remuneration levels for the Chief Executive Officer and key management personnel are determined by the Board based upon recommendations from the Remuneration and Nomination Committee. Remuneration of non-executive directors is determined by the Board within the maximum levels approved by the shareholders from time to time.

### b) Principles Used to Determine the Nature and Amount of Remuneration

The Company's remuneration practices are designed to attract, retain, motivate and reward high calibre people capable of delivering the strategic objectives of the Company. The Company's Key Management Personnel remuneration framework aligns their remuneration with the achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward.

The Remuneration and Nomination Committee ensures that the remuneration of Key Management Personnel is competitive and reasonable, acceptable to shareholders and aligns remuneration with performance. The structure and level of remuneration for key management personnel is conducted annually by the Remuneration and Nomination Committee relative to the Company's circumstances, size, nature of business and performance.

# Directors' Report *(Cont'd)*

## **Remuneration of Non-Executive Directors**

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of the directors. Non-executive Directors are remunerated with both cash salary and annual option grants to enable the company to preserve cash reserves and to align the Directors interests to those of the shareholders. The Board views this approach to be reasonable relative to the stage of development of its flagship project. Non-executive directors' fees and payments are reviewed annually by the Board. The Board at times receives advice from independent remuneration consultants to ensure non-executive Directors fees and payments are appropriate and in line with the market. No advice was received during the period.

The general principles of non-executive Directors compensation are:

- Non-executive Directors are paid a base fee (\$40,000 per annum) prior to any statutory superannuation payments;
- Additional fees are paid to non-executive Directors who serve on the Audit and Risk and/or Nomination and Remuneration committees;
- Under the current remuneration structure and subject to shareholder approval, an annual grant of Options is made;
- Any options granted and approved have a term of at least 3 years and will be struck at significant premium to the 30 day VWAP. This is typically 140%;
- The amount of options proposed for each non-executive director is proportional to the equivalent underlying cash fees; and
- Adjustments may be made in the event that a specific non-executive Director's contribution warrants an adjustment. Such adjustments are at the recommendation of the board.

Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market and the specific requirements that the Company has of the Chairman.

- The Chairman is not present at any of the discussions relating to the determination of his own remuneration.

Fees for the Chairman and non-executive directors are determined within an aggregate directors' fee pool limit of \$400,000 as approved by shareholders on 17 November 2014. The disclosed Chairman and non-executive directors' fees are inclusive of committee fees.

## **Remuneration of Key Management Personnel**

The Company's remuneration and reward framework is designed to ensure reward structures are aligned with shareholders' interest by:

- being market competitive to attract and retain high calibre individuals;
- rewarding high individual performance;
- recognising the contribution of each key management personnel to the contributed growth and success of the Company; and
- ensuring that long term incentives are linked to shareholder value.

To achieve these objectives, the remuneration of key management personnel may comprise a fixed salary component and an 'at risk' variable component linked to performance of the individual and the Company as a whole. Fixed remuneration comprises base salary, superannuation contributions and other defined benefits. 'At risk' variable remuneration comprises both short term and long term incentives.

The remuneration and reward framework for key management personnel may consist of the following areas:

- i) Fixed Remuneration
- ii) Variable Short Term Incentives
- iii) Variable Long Term Incentives

The combination of these would comprise the key management personnel's total remuneration.

### ***i) Fixed Remuneration***

The fixed remuneration for each senior executive is influenced by the nature and responsibilities of each role and knowledge, skills and experience required for each position. Fixed remuneration provides a base level of remuneration which is market competitive and comprises a base salary and statutory superannuation. It is structured as a total employment cost package, which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Key management personnel are offered a competitive base salary that comprises the fixed component of pay and rewards. External remuneration consultants may provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. No external advice was taken this period. Base salary for key management personnel is reviewed annually to ensure the executives' pay is competitive with the market. The pay of key management personnel is also reviewed on promotion. There is no guaranteed pay increase included in any key management personnel's contract.

## Directors' Report (Cont'd)

### ii) Variable Remuneration – Short Term Incentives (STI)

The Danakali Ltd Short Term Incentive Scheme applies to executives in the Company and is designed to link any STI payment with the achievement by each Key Management Personnel of specified key performance indicators (KPI's) which are in turn linked to the Company's strategic objectives and targets.

A maximum of up to 50% of the fixed remuneration can be payable under the STI and the Board has the discretion to reduce or suspend any bonus payments where Company circumstances render it appropriate.

Given the current phase of Danakali's life cycle, the Board determined that the LTI is a more appropriate incentive measure to align KMP performance with company objectives. In reference to this, no KPI's were set and no STI's granted in the current period.

### iii) Variable Remuneration – Long Term Incentives (LTI)

Long term incentives have been provided to directors and employees through the issue of options and performance rights.

The Danakali Ltd Performance Rights Plan (PRP) was re-approved by shareholders at the general meeting held 17 November 2014. The PRP provides incentives, which promote the long-term performance, growth and support of the Company.

The PRP is designed to increase the range of potential incentives available to Directors and employees and to recognise their contribution to the Company's success.

Under the PRP, performance rights are granted over ordinary shares in the Company on an annual basis. The performance rights were originally granted subject to the following vesting conditions:

Class 1:

- 308,000 upon completion of a Feasibility Study for the Colluli Potash Project (vested November 2015); and
- 308,000 upon completion of securing finance for the development of the Colluli Potash Project

Class 2:

- 75,000 upon signing of the ENAMCO agreements for the Colluli Potash Project (vested November 2014);
- 75,000 upon granting of a Mining License for the Colluli Potash Project (vested February 2017); and
- 75,000 completion of securing finance for the development of the Colluli Potash Project (forfeited 6 February 2017).

Class 4:

- 300,000 upon completion of a Prefeasibility Study and the release of the study results to market (vested March 2015);
- 650,000 upon completion of a Definitive Feasibility Study and release of study results to market (vested November 2015);
- 700,000 upon awarding of the Colluli mining licence (vested February 2017); and
- 800,000 upon commencement of construction of the production facility.

Details of options issued to key management personnel can be found in section f(i) below.

Details of performance rights issued to key management personnel can be found in section f(ii) below.

Further performance rights details can be found in Note 22.

All performance rights will automatically expire on the earlier of the expiry date or the date the holder ceases to be an employee of the Company, unless the Board determines to vary the expiry date in the event the holder ceased to be an employee because of retirement, redundancy, death or total and permanent disability and such other cases the Board may determine. Performance rights granted under the PRP will carry no dividend or voting rights. When the vesting conditions have been met, each performance right will be converted into one ordinary share.

### c) Voting and Comments Made at the Last Annual General Meeting

The Company received approximately 96% of 'yes' votes on its Remuneration Report for the financial year ending 31 December 2016 and received no specific feedback on its Remuneration Report at the Annual General Meeting or throughout the period.

### d) Details of Remuneration

Details of the remuneration of the directors and other key management personnel of Danakali Ltd are set out in the following table. Given the size and nature of operations of Danakali Ltd, there are no other employees who are required to have their remuneration disclosed in accordance with the *Corporations Act 2001*.



## Directors' Report (Cont'd)

### Key management personnel of the Company for the financial year to 31 December 2016:

Financial Year to 31 December 2016	Short-Term	Post- Employment	LTI (d) Share Based Payments			Total \$	Options percentage of total remuneration %
	Salary and Fees \$	Super- annuation \$	Shares \$	Options \$	Performance Rights \$		
<b>Non-Executive Directors</b>							
S I Cornelius	68,604	-	-	162,018	-	230,622	70
A W Kiernan	57,725	5,484	-	42,320	27,810	133,339	32
L R Cornelius	42,308	4,019	-	42,320	6,314	94,961	45
J D Fitzgerald	57,778	5,489	-	42,320	-	105,587	40
J Zhang <sup>(a)</sup>	21,556	-	-	-	-	21,556	-
<b>Executive Directors</b>							
P M Donaldson	350,000	33,250	-	52,900	331,740	767,890	7
<b>Other Key Management Personnel</b>							
C P Els	275,000	26,199	-	122,881	-	424,080	29
A D Just <sup>(b)</sup>	5,250	-	-	-	-	5,250	-
S Tarrant <sup>(c)</sup>	68,814	-	-	-	-	68,814	-
<b>TOTAL</b>	<b>\$947,035</b>	<b>\$74,441</b>	<b>-</b>	<b>464,759</b>	<b>365,864</b>	<b>1,852,099</b>	<b>25</b>

Note:

- Ms Zhang was appointed a non-executive director on 17 June 2016.
- Ms Just resigned as company secretary on 1 February 2016.
- Mr Tarrant provided his services through Mars Consulting Pty Ltd. Fees charged by Mars are on an arms-length basis. The arrangement ended 22 April 2016.
- The recorded values of options will only be realised by the KMP's in the event the Company's share price exceeds the option exercise price.  
The recorded values of performance rights will only be realised by the KMP's in the event the Company achieves its stated objectives, which is expected to create further value for shareholders.

### Key management personnel of the Company for the financial year to 31 December 2015:

Financial Year to 31 December 2015	Short-Term	Post- Employment	LTI (e) Share Based Payments			Total \$	Options percentage of total remuneration %
	Salary and Fees \$	Super- annuation \$	Shares \$	Options \$	Performance Rights \$		
<b>Non-Executive Directors</b>							
S I Cornelius	72,000	-	-	-	-	72,000	-
A W Kiernan	60,000	5,700	-	-	8,310	74,010	-
L R Cornelius	45,000	4,275	-	-	4,358	53,633	-
J D Fitzgerald <sup>(a)</sup>	51,607	4,903	-	159,705	-	216,215	74
<b>Executive Directors</b>							
P M Donaldson	350,006	33,251	-	-	380,561	763,818	-
<b>Other Key Management Personnel</b>							
C P Els <sup>(b)</sup>	17,981	1,635	-	19,139	-	38,755	49
A D Just <sup>(c)</sup>	63,000	-	-	-	-	63,000	-
S Tarrant <sup>(d)</sup>	339,207	-	28,000	-	-	367,207	-
<b>TOTAL</b>	<b>998,801</b>	<b>49,764</b>	<b>28,000</b>	<b>178,844</b>	<b>393,229</b>	<b>1,648,638</b>	<b>11</b>

Note:

- Mr Fitzgerald was appointed a non-executive director on 19 February 2015.
- Mr Els was appointed Chief Financial Officer on 3 December 2015 and Company Secretary on 1 February 2016.
- Ms Just provides her services through Grange Consulting Pty Ltd and resigned 1 February 2016. During this period, company secretarial services were provided. Fees charged by Grange are on an arms-length basis.
- Mr Tarrant provides his services through Mars Consulting Pty Ltd. Fees charged by Mars are on an arms-length basis.
- The recorded values of options will only be realised by the KMP's in the event the Company's share price exceeds the option exercise price. The recorded values of performance rights will only be realised by the KMP's in the event the Company achieves its stated objectives, which is expected to create further value for shareholders.



## Directors' Report (Cont'd)

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Financial Year to 31 December 2016		
	Fixed Remuneration	At risk – STI	At risk - LTI
<b>Non-Executive Directors</b>			
S I Cornelius	30%	-	70%
A W Kiernan	47%	-	53%
L R Cornelius	49%	-	51%
J D Fitzgerald	60%	-	40%
J Zhang	100%	-	-
<b>Executive Directors</b>			
P M Donaldson	50%	-	50%
<b>Other Key Management Personnel</b>			
C P Els	71%	-	29%
A D Just	100%	-	-
S Tarrant	100%	-	-

### e) Service Agreements

Remuneration and other terms of employment for the executive managers are formalised in employment contracts. Other major provisions of the agreements relating to remuneration are set out below.

*P M Donaldson, Managing Director and Chief Executive Officer:*

- No set term of agreement.
- Base salary, for the financial year ended 31 December 2016 of \$350,000 (2015: \$350,000 per annum).
- Payment of termination benefit on early termination by the Company, other than for gross misconduct, equal to three months of the base salary.
- Notice period of three months required to be given by the Employee for termination.

*C P Els, Chief Financial Officer and Company Secretary:*

- No set term of agreement.
- Base salary, for the financial year ended 31 December 2016 of \$275,000 (2015: \$275,000 per annum).
- Notice period of three months, required to be given by either party for termination.

### f) Details of Share Based Compensation

#### (i) Options

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as set out in the following table:

Grant date	Vesting and first exercise date	Expiry date	Number of Options	Exercise price	Value per option at grant date	Vested and exercisable %
3 November 2015	30 June 2016 <sup>(a)</sup>	4 November 2018	200,000	\$0.408	\$0.126	100%
3 November 2015	31 December 2016 <sup>(b)</sup>	4 November 2018	200,000	\$0.408	\$0.126	-
3 November 2015	31 December 2016 <sup>(c)</sup>	4 November 2018	300,000	\$0.408	\$0.126	-
3 November 2015	31 March 2017 <sup>(d)</sup>	4 November 2018	300,000	\$0.408	\$0.126	-
13 May 2016	13 May 2016 <sup>(e)</sup>	13 May 2018	2,500,000	\$0.405	\$0.085	100%
4 November 2016	4 November 2016 <sup>(f)</sup>	4 November 2018	750,000	\$0.550	\$0.116	100%
<b>Total Options</b>			<b>4,250,000</b>			

Note:

- 200,000 options on the completion of equity raising during the first half of the 2016 financial year.
- 200,000 options on the securing of a debt funding term sheet.
- 300,000 options on completion of project financing.
- 300,000 options on the commencement of construction.  
The performance conditions for items (a) – (d) were chosen as they are closely aligned to the Group's objectives.
- The options were approved by shareholders at the Annual General meeting held on 13 May 2016. The options were issued in recognition of skill and expertise brought to the Company and therefore, there were no conditions attached to the options.
- The options were approved by shareholders at the General meeting held on 4 November 2016. The options were issued in recognition of skill and expertise brought to the Company and therefore, there were no conditions attached to the options.

Details of options over ordinary shares in the Company, provided as remuneration to key management personnel are set out in the following table.

Options will automatically expire on the earlier of the expiry date or the date the holder ceases to be an employee of the Company, unless the Board determines to vary the expiry date in the event the holder ceased to be an employee because of retirement, redundancy, death or total and permanent disability and such other cases the Board may determine.

## Directors' Report (Cont'd)

When exercisable, each option is convertible into one ordinary share. Further information on the options is set out in note 22.

Name	Year of grant	Year in which options vest	Number of options granted	Value of options at grant date	Number of options vested during the period	Vested and exercisable	Number of options forfeited during the period
C P Els	2015	2016	200,000	\$25,270	200,000	100%	-
C P Els	2015	2017	200,000	\$25,270	-	-	-
C P Els	2015	2017	300,000	\$37,800	-	-	-
C P Els	2015	2017	300,000	\$37,800	-	-	-
S I Cornelius	2016	2016	500,000	\$42,320	500,000	100%	-
P M Donaldson	2016	2016	500,000	\$42,320	500,000	100%	-
A W Kiernan	2016	2016	400,000	\$33,856	400,000	100%	-
J D Fitzgerald	2016	2016	400,000	\$33,856	400,000	100%	-
L R Cornelius	2016	2016	400,000	\$33,856	400,000	100%	-
C P Els	2016	2016	300,000	\$25,392	300,000	100%	-
S I Cornelius	2016	2016	750,000	\$87,294	750,000	100%	-
<b>Total Options</b>			<b>4,250,000</b>		<b>3,450,000</b>		

3,030,000 options held by key management personnel were exercised during the year, raising \$1,005,400 for working capital purposes.

### (ii) Performance Rights

During the financial year, no performance rights were granted to key management personnel.

The terms and conditions of each grant of Performance Rights to key personnel in the current or a future reporting period are as follows:

Name	Year of grant	Performance rights granted		Number of performance rights vested		Total Unvested
		Class	Number	In prior periods	In current period	
A W Kiernan	2013	Class 2	225,000	75,000	-	67%
L R Cornelius	2013	Class 1	100,000	50,000	-	50%
P M Donaldson	2014	Class 4	2,450,000	950,000	-	61%

The performance rights on issue to key management personnel, as set out above, vest, subject to the following vesting conditions:

#### Class 1:

- 308,000 upon completion of a Feasibility Study for the Colluli Potash Project (vested November 2015); and
- 308,000 upon completion of securing finance for the development of the Colluli Potash Project

#### Class 2:

- 75,000 upon signing of the ENAMCO agreements for the Colluli Potash Project (vested November 2014);
- 75,000 upon granting of a Mining License for the Colluli Potash Project (vested February 2017); and
- 75,000 completion of securing finance for the development of the Colluli Potash Project (forfeited 6 February 2017).

#### Class 4:

- 300,000 upon completion of a Prefeasibility Study and the release of the study results to market (vested March 2015);
- 650,000 upon completion of a Definitive Feasibility Study and release of study results to market (vested November 2015);
- 700,000 upon awarding of the Colluli mining licence (vested February 2017); and
- 800,000 upon commencement of construction of the production facility.

There were no performance rights, held by key management personnel, forfeited during the financial year ended 31 December 2016.

## Directors' Report (Cont'd)

### g) Equity Instruments Held by Key Management Personnel

#### (i) Shares

No shares were granted as remuneration during the year ended 31 December 2016.

The number of shares in the Company held during the financial period by each director of Danakali Ltd and other key management personnel of the Group, including their personally related parties, are set out in the following tables.

Financial Year to 31 December 2016 Shares	Balance at 31 December 2015	Granted as compensation	Received on exercise of options	Received on conversion of performance rights	On market purchases/ (sales)	Balance at 31 December 2016
<b>Directors</b>						
S I Cornelius	6,368,535	-	1,230,000	-	894,511	8,493,046
A W Kiernan	603,128	-	500,000	-	100,000	1,203,128
L R Cornelius	13,482,041	-	1,000,000	-	1,200,000	15,682,041
J D Fitzgerald	108,334	-	-	-	150,000	258,334
J Zhang <sup>(a)</sup>	-	-	-	-	-	-
P M Donaldson	1,418,334	-	300,000	-	100,000	1,818,334
<b>Other Key Management Personnel</b>						
C P Els	-	-	-	-	110,000	110,000
A D Just <sup>(b)</sup>	-	-	-	-	-	-
S Tarrant <sup>(c)</sup>	100,000	-	-	-	-	n/a
<b>TOTAL</b>	<b>22,080,372</b>	<b>-</b>	<b>3,030,000</b>	<b>-</b>	<b>2,554,511</b>	<b>27,564,883</b>

Note:

- (a) Appointed 17 June 2016
- (b) Resigned 1 February 2016
- (c) Resigned 22 April 2016

#### (ii) Options

During the financial year to 31 December 2016, the Company issued 3,250,000 options over unissued ordinary shares in the Company to Key Management Personnel.

The numbers of options over ordinary shares in the Company held during the financial period by each director of Danakali Ltd and other Key Management Personnel of the Group, including their personally related parties, are set out in the following tables.

Financial Year to 31 December 2016	Balance at 31 December 2015	Granted		Exercised	Expired	Balance at 31 December 2016	Vested and exercisable	Unvested
		Other <sup>(d)</sup>	Compensation					
<b>Directors</b>								
S I Cornelius	3,500,000	125,000	1,250,000	(1,230,000)	(970,000)	2,675,000	2,675,000	-
A W Kiernan	2,500,000	50,000	400,000	(500,000)	(700,000)	1,750,000	1,750,000	-
L R Cornelius	2,000,000	500,000	400,000	(1,000,000)	-	1,900,000	1,900,000	-
J D Fitzgerald	750,000	75,000	400,000	-	-	1,225,000	1,225,000	-
J Zhang <sup>(a)</sup>	-	-	-	-	-	-	-	-
P M Donaldson	5,000,000	50,000	500,000	(300,000)	(3,700,000)	1,550,000	1,550,000	-
<b>Other Management Personnel</b>								
C P Els	1,000,000	-	300,000	-	-	1,300,000	500,000	800,000
A D Just <sup>(b)</sup>	-	-	-	-	-	-	-	-
S Tarrant <sup>(c)</sup>	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>14,750,000</b>	<b>800,000</b>	<b>3,250,000</b>	<b>(3,030,000)</b>	<b>(5,370,000)</b>	<b>10,400,000</b>	<b>9,600,000</b>	<b>800,000</b>

Note:

- (a) Appointed 17 June 2016
- (b) Resigned 1 February 2016
- (c) Resigned 22 April 2016
- (d) Options granted were approved at the Annual General Meeting of the Company held 13 May 2016. The options were issued subsequent to the Director's participation in a placement to raise working capital.

## Directors' Report (Cont'd)

### (iii) Performance Rights held by Key Management Personnel

No performance rights were granted as remuneration during the year ended 31 December 2016.

Movements in Performance Rights held by Key Management Personnel are as set out in the following table:

Financial Year to 31 December 2015 Performance Rights	Balance At 31 December 2015	Granted as Remuneration	Vested during the period (a)	Balance at 31 December 2016
<b>Directors</b>				
S I Cornelius	-	-	-	-
A W Kiernan	150,000	-	-	150,000
L R Cornelius	50,000	-	-	50,000
J D Fitzgerald	-	-	-	-
P M Donaldson	1,500,000	-	-	1,500,000
<b>Other Key Management Personnel</b>				
C P Els	-	-	-	-
A D Just	-	-	-	-
S Tarrant	-	-	-	-
<b>TOTAL</b>	<b>1,700,000</b>	<b>-</b>	<b>-</b>	<b>1,700,000</b>

### h) Loans to Key Management Personnel

There were no loans to key management personnel during the period.

### i) Other Transactions with Key Management Personnel

There were no other transactions with key management personnel during the period.

### j) Additional Information

The remuneration structure has been set up with the objective of attracting and retaining the highest calibre staff who contribute to the success of the Company's performance and individual rewards. The remuneration policies seek a balance between the interests of stakeholders and competitive market remuneration levels. The overall level of key management personnel compensation takes into account the performance of the Group over a number of years and the stage of activities the Company is engaged in.

During the period, there was an active level of development activity, project permitting and generally progressing the Colluli Potash Project. Given the remuneration paid during the period is commercially reasonable, the link between remuneration, Company performance and shareholder wealth generation is tenuous, particularly in the exploration and development stage of a mining company. Company performance is measured against a comparable list of companies operating in the same market segment. There was no increase in key management personnel compensation during the period.

The Group is still in the exploration and development stage and revenue streams only relate to interest earned on investing surplus funds from capital raisings. The net losses after tax reflect the ongoing costs of the Group's exploration programs and development on the Colluli Potash Project. The table below shows the performance of the Group over the last 5 reporting periods:

Financial Year	31 Dec 2016	31 Dec 2015	31 Dec 2014 <sup>(a)</sup>	30 Jun 2014	30 Jun 2013
Basic EPS (Cents)	(2.32)	(4.01)	2.18	0.16	(4.20)
Share Price	\$0.48	\$0.29	\$0.19	\$0.15	\$0.20
(Loss)/ Income for the period	(\$4,925,558)	(\$6,792,685)	\$2,999,972	\$3,355,983	(\$5,299,559)

Note:

<sup>(a)</sup> 31 December 2014 was a six-month transitional period while adjusting to a December year end.

**-- END OF REMUNERATION REPORT --**

Signed in accordance with a resolution of the directors.



Seamus Cornelius

**CHAIRMAN**

**Perth, 9 March 2017**

# Directors' Report (Cont'd)

## Competent Persons and Responsibility Statements

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

### Competent Persons Statement (Sulphate of Potash 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 (KUTEK) 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<sup>+</sup>, Na<sup>+</sup>, Mg<sup>2+</sup>, Ca<sup>2+</sup>, Cl<sup>-</sup>, SO<sub>4</sub><sup>2-</sup>, H<sub>2</sub>O) 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.

## Auditor's Independence Declaration to the Directors of Danakali Limited

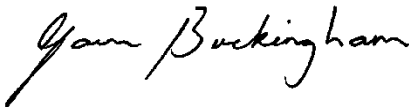
As lead auditor for the audit of Danakali Limited for the financial year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Danakali Limited and the entities it controlled during the financial year.



Ernst & Young



Gavin Buckingham  
Partner  
Perth  
9 March 2017



# Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 \$	2015 \$
<b>REVENUE</b>			
Interest income	4	109,537	149,149
Accretion relating to the unwinding of discount on joint venture loan	10	1,554,925	1,571,789
<b>OTHER INCOME</b>			
Research and Development tax rebate		-	177,441
Foreign exchange gain		224,230	661,400
Sundry		-	933
<b>EXPENSES</b>			
Depreciation expense	5	(10,131)	(13,344)
Administration expenses		(1,999,782)	(2,527,940)
Loss on disposal of fixed asset		(1,483)	(12,548)
Share based payment expense	22	(1,290,347)	(726,467)
Loss on re-measurement of loan to joint venture carried at amortised cost	10	(2,812,064)	-
Share of net loss of joint venture	10	(700,443)	(6,073,098)
<b>LOSS BEFORE INCOME TAX</b>		<b>(4,925,558)</b>	<b>(6,792,685)</b>
Income tax expense	7	-	-
<b>LOSS FOR THE YEAR</b>		<b>(4,925,558)</b>	<b>(6,792,685)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that may be reclassified to profit or loss</i>			
Share of foreign currency translation reserve relating to equity accounted investment	10,14	269,925	1,312,700
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>269,925</b>	<b>1,312,700</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(4,655,633)</b>	<b>(5,479,985)</b>
<b>Earnings per share for loss attributable to the ordinary equity holders of the Company <sup>(i)</sup>:</b>			
Basic loss per share (cents per share)	17	(2.35)	(3.86)
Diluted loss per share (cents per share)	17	(2.35)	(3.86)

(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 has 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 above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2016

	Notes	2016 \$	2015 \$
<b>CURRENT ASSETS</b>			
Cash	6	10,904,760	2,756,341
Trade and other receivables	8	93,985	180,582
Prepayments		25,101	27,034
<b>TOTAL CURRENT ASSETS</b>		<b>11,023,846</b>	<b>2,963,957</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	8	9,519,503	9,878,007
Investment in joint venture	10	13,502,312	12,064,742
Plant and equipment	9	7,920	16,412
<b>TOTAL NON-CURRENT ASSETS</b>		<b>23,029,735</b>	<b>21,959,161</b>
<b>TOTAL ASSETS</b>		<b>34,053,581</b>	<b>24,923,118</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	210,742	552,085
Provisions	12	134,701	114,466
<b>TOTAL CURRENT LIABILITIES</b>		<b>345,443</b>	<b>666,551</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	12	42,450	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>42,450</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>387,893</b>	<b>666,551</b>
<b>NET ASSETS</b>		<b>33,665,688</b>	<b>24,256,567</b>
<b>EQUITY</b>			
Issued capital	13	61,758,320	48,983,913
Reserves	14	12,466,779	10,906,507
Accumulated losses	15	(40,559,411)	(35,633,853)
<b>TOTAL EQUITY</b>		<b>33,665,688</b>	<b>24,256,567</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Reserves			Accumulated Losses	Total Equity
		Issued Capital	Share Based Payments	Foreign Currency Translation		
		\$	\$	\$	\$	\$
<b>BALANCE AT 1 JANUARY 2016</b>		<b>48,983,913</b>	<b>9,137,189</b>	<b>1,769,318</b>	<b>(35,633,853)</b>	<b>24,256,567</b>
Loss for the period		-	-	-	(4,925,558)	(4,925,558)
Other comprehensive income	14	-	-	269,925	-	269,925
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>269,925</b>	<b>(4,925,558)</b>	<b>(4,655,633)</b>
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued	13	13,360,664	-	-	-	13,360,664
Costs of capital raised	13	(586,257)	-	-	-	(586,257)
Options issued	14	-	1,290,347	-	-	1,290,347
<b>BALANCE AT 31 DECEMBER 2016</b>		<b>61,758,320</b>	<b>10,427,536</b>	<b>2,039,243</b>	<b>(40,559,411)</b>	<b>33,665,688</b>
<b>BALANCE AT 1 JANUARY 2015</b>		<b>41,026,165</b>	<b>8,438,722</b>	<b>456,618</b>	<b>(28,841,168)</b>	<b>21,080,337</b>
Loss for the period		-	-	-	(6,792,685)	(6,792,685)
Other comprehensive income	14	-	-	1,312,700	-	1,312,700
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>1,312,700</b>	<b>(6,792,685)</b>	<b>(5,479,985)</b>
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued	13	8,190,061	-	-	-	8,190,061
Costs of capital raised	13	(232,313)	-	-	-	(232,313)
Options and performance rights issued	14	-	698,467	-	-	698,467
<b>BALANCE AT 31 DECEMBER 2015</b>		<b>48,983,913</b>	<b>9,137,189</b>	<b>1,769,318</b>	<b>(35,633,853)</b>	<b>24,256,567</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 \$	2015 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		104,964	171,422
Realised foreign exchange gain		169,987	-
Payments to suppliers and employees		(1,945,485)	(2,547,126)
Sundry income		-	933
Research and Development tax rebate		-	177,441
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	16	<b>(1,670,534)</b>	<b>(2,197,330)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Funding of joint venture		(2,952,332)	(10,085,193)
Payments for plant and equipment		(3,122)	(4,278)
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b>(2,955,454)</b>	<b>(10,089,471)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of ordinary shares		13,360,664	8,162,061
Costs of capital raised		(586,257)	(232,313)
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>		<b>12,774,407</b>	<b>7,929,748</b>
<b>NET INCREASE / (DECREASE) IN CASH</b>		<b>8,148,419</b>	<b>(4,357,053)</b>
Cash at the beginning of the financial year		2,756,341	7,113,394
<b>CASH AT THE END OF THE YEAR</b>	6	<b>10,904,760</b>	<b>2,756,341</b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. GENERAL INFORMATION

Danakali Ltd ('Danakali or the 'Company') is a for profit company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange (ASX). The consolidated financial Report of the Group as at, and for the year ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as the 'Group'). The address of the registered office is Ground Floor, 31 Ventnor Avenue, West Perth, WA, 6005.

The financial statements are presented in the Australian currency.

The financial report of Danakali for the year ended 31 December 2016 was authorised for issue by the Directors on 9 March 2017. The directors have the power to amend and reissue the financial statements.

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

## 2. BASIS OF PREPARATION

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

The consolidated financial statements of the Danakali Ltd Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared under the historical cost convention.

### (a) Principles of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

### (c) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Danakali's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### (iii) Foreign operations

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## (d) Revenue recognition

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

## (e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

## (f) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## (g) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are consolidated at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## (h) Cash and cash equivalents

For Consolidated Statement of Cash Flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

## (i) Trade and other receivables

Receivables are recognised and carried at original invoice amount less an allowance for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.



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

FOR THE YEAR ENDED 31 DECEMBER 2016

## (j) Investments and other financial assets

### Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

### (i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

### (k) Investment in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investment in a joint venture is accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognises the loss as 'Share of profit of the equity accounted investment' in profit or loss.

Upon loss of joint control over a joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### (l) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is de-recognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 20% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group's policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

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

FOR THE YEAR ENDED 31 DECEMBER 2016

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## **(m) Exploration and evaluation costs**

Acquired exploration and evaluation costs are capitalised. Ongoing exploration and evaluation costs are expensed in the period they are incurred.

## **(n) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

## **(o) Employee benefits**

### ***(i) Wages and salaries and annual leave***

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

### ***(ii) Share-based payments***

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions') refer to note 22.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of options is determined by an internal valuation using a Black-Scholes option pricing model. The fair value of performance rights determined by consideration of the Company's share price at the grant date and consideration of the specific non-market vesting conditions applicable to the performance rights.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

## **(p) Issued capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## **(q) Earnings per share**

### ***(i) Basic earnings per share***

Basic earnings per share is calculated by dividing the profit or loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period.

### ***(ii) Diluted earnings per share***

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## **(r) Critical accounting judgements, estimates and assumptions**

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## (i) Impairment

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. Where an impairment trigger exists, the recoverable amount of the asset is determined. As at 31 December 2016 the Group assessed that, no indication of impairment existed (31 December 2015: Nil).

## (ii) Interests in Joint Arrangements

The Group accounts for its 50% interest in CMSC as a joint venture using the equity method.

Danakali holds 3 of 5 CMSC Board seats, however in reference to certain material decisions which are reserved for Majority Shareholder approval it has been determined that the interest in CMSC is more appropriately classified as an interest in a joint venture and has been accounted for using the equity method. These shareholder voting rights are considered to be substantive rights particularly in the early stages of the project development.

The assumptions applied in accounting for the interest in the joint venture includes determining the timing of cash receipts and the discount rate applied. At 31 December 2016 a discount rate of 25% was applied, which is consistent with previous years. The timing of cash receipts has been adjusted according to management's best estimate and is currently estimated to run to March 2020.

Further context is detailed in note 10.

## (iii) Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 22.

The fair value of performance rights is determined by the share price at the date of valuation and consideration of the probability of the vesting condition being met.

## (s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

## (t) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

## (u) Application of new accounting standards

All new accounting standards or amendments applicable to the Group and effective from 1 January 2016 have been adopted. The adoption of these new and amended standards and interpretations did not result in any significant changes to the Group's accounting policies.

The accounting policies and methods of computation adopted in the preparation of the financial report are consistent with those adopted and disclosed in the Group's annual financial report period ended 31 December 2015.

## (v) New accounting standards and interpretations not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting year ended 31 December 2016 are outlined in the table below. The potential effect of these Standards is yet to be fully determined.

Reference	Title	Summary	Application date	
			of standard*	for Group*
AASB 9	Financial Instruments	AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected	1 January 2018	1 January 2018

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

FOR THE YEAR ENDED 31 DECEMBER 2016

Reference	Title	Summary	Application date	
			of standard*	for Group*
		<p>loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.</p> <p><b>Classification and measurement</b></p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.</p> <p>The main changes are described below.</p> <p><b>Financial assets</b></p> <p>a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p><b>Financial liabilities</b></p> <p>Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option.</p> <p>Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> <li>▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>▶ The remaining change is presented in profit or loss</li> </ul> <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.</p> <p><b>Impairment</b></p> <p>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to</p>		

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

FOR THE YEAR ENDED 31 DECEMBER 2016

Reference	Title	Summary	Application date	
			of standard*	for Group*
		<p>recognise full lifetime expected losses on a more timely basis.</p> <p><b>Hedge accounting</b></p> <p>Amendments to AASB 9 (December 2009 and 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>AASB 2014-8 limits the application of the existing versions of AASB 9 ((AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.</p>		
AASB 15	Revenue from Contracts with Customers	<p>AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue—Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).</p> <p>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ol style="list-style-type: none"> <li>Step 1: Identify the contract(s) with a customer</li> <li>Step 2: Identify the performance obligations in the contract</li> <li>Step 3: Determine the transaction price</li> <li>Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ol> <p>AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications</p>	1 January 2018	1 January 2018



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

FOR THE YEAR ENDED 31 DECEMBER 2016

Reference	Title	Summary	Application date	
			of standard*	for Group*
		to AASB 15 amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.		
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>AASB 2014-10 amends AASB 10 Consolidated Financial Statements and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:</p> <p>a) A full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not)</p> <p>b) A partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p> <p>AASB 2014-10 also makes an editorial correction to AASB 10.</p> <p>AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018** instead of 1 January 2016.</p>	1 January 2018	1 January 2018
AASB 16	Leases	<p>The key features of AASB 16 are as follows:</p> <p>Lessee accounting</p> <ul style="list-style-type: none"> <li>• Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</li> <li>• Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</li> <li>• AASB 16 contains disclosure requirements for lessees.</li> </ul> <p>Lessor accounting</p> <ul style="list-style-type: none"> <li>• AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</li> <li>• AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</li> </ul> <p>AASB 16 supersedes:</p> <ol style="list-style-type: none"> <li>AASB 117 Leases</li> <li>Interpretation 4 Determining whether an Arrangement contains a Lease</li> <li>SIC-15 Operating Leases—Incentives</li> <li>SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease</li> </ol> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new</p>	1 January 2019	1 January 2019



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

FOR THE YEAR ENDED 31 DECEMBER 2016

Reference	Title	Summary	Application date	
			of standard*	for Group*
		revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.		
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	This Standard amends AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 January 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 January 2017
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions [AASB 2]	This standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: <ul style="list-style-type: none"> <li>The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments</li> <li>Share-based payment transactions with a net settlement feature for withholding tax obligations</li> <li>A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled</li> </ul>	1 January 2018	1 January 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle <sup>^</sup>	Annual Improvements to IFRS Standards 2014–2016 Cycle	This amending standard addresses the following: <ul style="list-style-type: none"> <li>IFRS 12 Disclosure of Interests in Other Entities Clarification of the scope of the Standard (effective date 1 January 2017)</li> <li>IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (effective date 1 January 2018)</li> <li>IAS 28 Investments in Associates and Joint Ventures - Measuring an associate or joint venture at fair value. (effective date 1 January 2018)</li> </ul>	1 January 2017	1 January 2017
IFRIC Interpretation 22 <sup>^</sup>	IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency, is effective 1 January 2018.	1 January 2018	1 January 2018

The Company is currently evaluating the impact of these new standards.

\* Designates the beginning of the applicable annual reporting period unless otherwise stated

\*\* In December 2015, the IASB postponed the effective date of the amendments indefinitely pending the outcome of its research project on the equity method of accounting.

<sup>^</sup> Currently only issued by the IASB but may be adopted by the AASB in future periods.

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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. REVENUE

	2016 \$	2015 \$
Interest	109,537	149,149

## 5. EXPENSES

	2016 \$	2015 \$
<b>Profit/(loss) before income tax includes the following specific expenses:</b>		
Lease payments relating to operating leases	116,691	111,396
Share based payment expense	1,290,347	726,467
Depreciation	10,131	13,344
Employee Benefits	1,181,957	807,600

## 6. CASH

	2016 \$	2015 \$
Cash at bank and in hand	10,904,760	2,756,341

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

## 7. INCOME TAX

	2016 \$	2015 \$
<b>(a) Income tax recognised in profit or loss</b>		
Current tax	-	-
Deferred tax	-	-
Total tax benefit/(expense)	-	-
<b>(b) Reconciliation of income tax expense to prima facie tax payable</b>		
Loss before income tax expense	(4,925,558)	(6,792,685)
Prima facie tax benefit at the Australian tax rate of 30% (2015: 30%)	(1,477,667)	(2,037,806)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
<i>Share-based payments</i>	387,104	217,940
<i>Research and Development tax refund</i>	-	(53,232)
<i>Share of net loss of equity accounted associate</i>	210,133	1,821,929
<i>Accretion relating to the unwinding of discount on joint venture loan</i>	(466,478)	(471,537)
Movements in unrecognised temporary differences and tax effect of current year tax losses:	1,346,908	522,706
Income tax expense/(benefit)	-	-

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 7. INCOME TAX (Cont'd)

### (c) Deferred Income Tax

Deferred income tax at 31 December relates to the following:

	Statement of Financial Position		Statement of Comprehensive Income	
	2016 \$	2015 \$	2016 \$	2015 \$
<i>Deferred Tax Liabilities:</i>				
Interest receivable	(3,151)	(1,779)	(1,372)	6,682
<i>Deferred Tax Assets:</i>				
Provision for employee entitlements	53,145	34,340	18,805	15,260
Accrued expenditure	6,600	6,000	600	(1,050)
s.40-880 expenditure	182,609	323	182,286	(420)
Revenue tax losses	4,660,393	3,960,812	699,581	502,234
Deferred tax assets not brought to account as realisation is not probable	(4,899,596)	(3,999,696)	(899,900)	(522,706)
	-	-	-	-

### (d) Deferred Tax Assets

	2016 \$	2015 \$
<i>On Income Tax Account:</i>		
Tax losses	15,534,643	13,202,707
Deferred tax assets offset against deferred tax liabilities	-	-
Deferred tax assets not brought to account	(15,534,643)	(13,202,707)
	-	-

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

## 8. TRADE AND OTHER RECEIVABLES

	2016 \$	2015 \$
<b>Current</b>		
Net GST receivable	28,546	119,694
Accrued interest	10,504	5,931
Trade debtors	652	1,375
Other receivables	2,283	440
Security bonds	52,000	53,142
	93,985	180,582
<b>Non-Current</b>		
Loan to Colluli Mining Share Company	9,519,503	9,878,007
	9,519,503	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%.

During the year ended 31 December 2016 the repayment profile of the receivable was changed to consider the results generated by the completion of the definitive feasibility study on 30 November 2015 and timing of the completion of construction. This resulted in a loss on the re-measurement of the loan amounting to \$2,812,064.

The undiscounted underlying loan balance at 31 December 2016 is \$24,993,066 (31 December 2015: \$23,266,475).

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 9. PLANT AND EQUIPMENT

	2016 \$	2015 \$
<b>Plant and equipment</b>		
Cost	47,659	50,452
Accumulated depreciation	(39,739)	(34,040)
Net book amount	<u>7,920</u>	<u>16,412</u>
<b>Plant and equipment</b>		
Opening net book amount 1 January	16,412	38,026
Additions	3,122	4,278
Disposals	(1,483)	(12,548)
Depreciation charge	(10,131)	(13,344)
Closing net book amount 31 December	<u>7,920</u>	<u>16,412</u>

## 10. INVESTMENT IN JOINT VENTURE

The Group has an interest in the following joint arrangement:

Project	Activities	Equity Interest		Carrying Value	
		2016 %	2015 %	2016 \$	2015 \$
Colluli Potash	Mineral Exploration	50	50	13,502,312	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 8).

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 31 December 2016.

	2016 \$	2015 \$
Investment in joint venture – Colluli Mining Share Company	<u>13,502,312</u>	12,064,742

	2016 \$	2015 \$
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### Reconciliation of movement in investments accounted for using the equity method:

Opening carrying amount at 1 January	12,064,742	8,674,357
Additional investment during the year	1,868,088	8,150,783
Share of net losses for the year	(700,443)	(6,073,098)
Other comprehensive income for the year	269,925	1,312,700
Closing carrying amount at 31 December	<u>13,502,312</u>	12,064,742

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 10. INVESTMENT IN JOINT VENTURE (Cont'd)

Summarised financial information of joint venture:

	2016 \$	2015 \$
<b>Financial position (Aligned to Danakali accounting policies)</b>		
<i>Current Assets:</i>		
Cash	26,653	52,641
Other current assets	90,123	110,552
	<u>116,776</u>	<u>163,193</u>
<i>Non-current assets</i>		
Fixed Assets	99,346	190,322
Mineral Property	30,500,729	30,078,350
	<u>30,600,075</u>	<u>30,268,672</u>
<i>Current liabilities</i>		
Trade & other payables and provisions	(151,648)	(288,408)
	<u>(151,648)</u>	<u>(288,408)</u>
<i>Non-current liabilities</i>		
Loan from Danakali Ltd	(9,519,503)	(9,878,007)
	<u>(9,519,503)</u>	<u>(9,878,007)</u>
NET ASSETS	<u>21,045,700</u>	<u>20,265,450</u>
Group's share of net assets	<u>10,522,850</u>	<u>10,132,725</u>
<b>Reconciliation of Equity Investment:</b>		
Group's share of net assets	10,522,850	10,132,725
Share of initial contribution on establishment of the Joint Venture not recognised by Danakali	(4,305,107)	(4,305,107)
Outside shareholder interest in equity contributions by Danakali	7,284,569	6,237,124
Carrying amount at the end of the period	<u>13,502,312</u>	<u>12,064,742</u>

	2016 \$	2015 \$
<b>Financial performance</b>		
Interest expense relating to the unwinding of discount	(1,554,925)	(1,571,789)
Gain on re-measurement of loan	2,812,064	-
Exploration and evaluation expenditure	(2,658,024)	(10,574,408)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(1,400,885)</u>	<u>(12,146,197)</u>
Group's share of total loss for the year	<u>(700,443)</u>	<u>(6,073,098)</u>

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

During the year ended 31 December 2016 the repayment profile of the loan was changed to consider the results generated by the completion of the definitive feasibility study on 30 November 2015 and timing of the completion of construction. This resulted in a gain on the re-measurement of the loan amounting to \$2,812,064.

## 11. TRADE AND OTHER PAYABLES

	2016 \$	2015 \$
Trade payables	132,827	169,423
Accrued expenses	42,125	343,447
Other payables	35,790	39,215
	<u>210,742</u>	<u>552,085</u>

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 12. PROVISIONS

	2016 \$	2015 \$
<b>Current</b>		
Employee entitlements	134,701	114,466
<b>Non-Current</b>		
Employee entitlements	42,450	-
	<b>177,151</b>	<b>114,466</b>

Employee entitlements relate to the balance of annual leave and long service leave accrued by the Group's employees. Recognition and measurement criteria have been disclosed in note 2.

## 13. ISSUED CAPITAL

	2016		2015	
	Number of shares	\$	Number of shares	\$
<b>(a) Share capital</b>				
Ordinary shares fully paid	224,494,677	61,758,320	175,772,167	48,983,913
Total issued capital	<b>224,494,677</b>	<b>61,758,320</b>	175,772,167	48,983,913
<b>(b) Movements in ordinary share capital</b>				
Balance at the beginning of the year	175,772,167	48,983,913	139,427,826	41,026,165
<i>Issued during the year:</i>				
– Issued at \$0.205 per share	-	-	10,000,000	2,050,000
– Issued at \$0.220 per share	24,870,464	5,471,548	-	-
– Issued at \$0.250 per share	-	-	24,374,341	6,093,591
– Issued at \$0.278 per share on option exercise	400,000	111,200	-	-
– Issued at \$0.280 per share as performance shares	-	-	100,000	28,000
– Issued at \$0.295 per share	-	-	50,000	14,750
– Issued at \$0.310 per share	-	-	12,000	3,720
– Issued at \$0.330 per share	20,200,000	6,666,000	-	-
– Issued at \$0.340 per share on option exercise	2,630,000	894,200	-	-
– Issued at \$0.350 per share on option exercise	622,046	217,716	-	-
– Costs of capital raised	-	(586,257)	-	(232,313)
– Issued on vesting of performance rights	-	-	1,808,000	-
Balance at the end of the year	<b>224,494,677</b>	<b>61,758,320</b>	175,772,167	48,983,913
<b>(c) Ordinary shares</b>				

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.



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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 13. ISSUED CAPITAL (Cont'd)

	2016 Options	2015 Options
<b>(d) Movements in options on issue</b>		
Balance at beginning of the year	16,350,000	28,050,000
<i>Issued during the year:</i>		
– Exercisable at \$0.527, on or before 29 May 2018	-	750,000
– Exercisable at \$0.550, on or before 31 May 2018	-	600,000
– Exercisable at \$0.408, on or before 4 November 2018	-	1,000,000
– Exercisable at \$0.350, on or before 30 March 2018	11,635,232	-
– Exercisable at \$0.350, on or before 13 May 2018	800,000	-
– Exercisable at \$0.405, on or before 13 May 2018	2,700,000	-
– Exercisable at \$0.450, on or before 23 June 2018	200,000	-
– Exercisable at \$0.550, on or before 4 November 2018	750,000	-
– Exercisable at \$0.550, on or before 31 December 2018	1,000,000	-
– Exercisable at \$0.558, on or before 8 August 2019	1,000,000	-
– Exercisable at \$0.543, on or before 7 October 2018	800,000	-
<i>Exercised, cancelled or expired during the year:</i>		
– Expired, exercisable at \$1.949, on or before 31 March 2015	-	(1,250,000)
– Expired, exercisable at \$0.699, on or before 30 June 2015	-	(3,800,000)
– Expired, exercisable at \$0.350, on or before 4 September 2015	-	(8,000,000)
– Expired, exercisable at \$1.449, on or before 30 November 2015	-	(500,000)
– Expired, exercisable at \$1.949, on or before 30 November 2015	-	(500,000)
– Expired, exercisable at \$0.599, on or before 31 January 2016	(700,000)	-
– Expired, exercisable at \$0.649, on or before 31 January 2016	(1,000,000)	-
– Expired, exercisable at \$0.949, on or before 31 January 2016	(1,300,000)	-
– Exercised, exercisable at \$0.278 on or before 17 November 2017	(400,000)	-
– Exercised, exercisable at \$0.340 on or before 29 November 2016	(2,630,000)	-
– Expired, exercisable at \$0.340, on or before 29 November 2016	(3,370,000)	-
– Exercised, exercisable at \$0.350 on or before 30 March 2018	(622,046)	-
Balance at end of the year	<u>25,213,186</u>	<u>16,350,000</u>

## 14. RESERVES

	2016 \$	2015 \$
<b>(a) Reserves</b>		
<b>Share-based payments reserve</b>		
Balance at beginning of the year	9,137,189	8,438,722
Employee and contractor share options and performance rights (note 22)	1,290,347	698,467
Balance at end of the year	<u>10,427,536</u>	<u>9,137,189</u>
<b>Foreign currency translation reserve</b>		
Balance at beginning of the year	1,769,318	456,618
Currency translation differences arising during the year/ period	269,925	1,312,700
Balance at end of the year	<u>2,039,243</u>	<u>1,769,318</u>
<b>Total reserves</b>	<u>12,466,779</u>	<u>10,906,507</u>

### (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.

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 15. ACCUMULATED LOSSES

	2016	2015
	\$	\$
Balance at beginning of the year	(35,633,853)	(28,841,168)
Loss for the year	(4,925,558)	(6,792,685)
Balance at end of the year	(40,559,411)	(35,633,853)

## 16. STATEMENT OF CASH FLOWS

	2016	2015
	\$	\$
<b>(a) Reconciliation of net loss after income tax to net cash outflow from operating activities</b>		
Net loss for the year	(4,925,558)	(6,792,685)
<i>Non-Cash Items:</i>		
Depreciation of plant and equipment	10,131	13,344
Loss of disposal of plant and equipment	1,483	12,548
Share-based payment expense	1,290,347	726,467
Unrealised gain on receivable	(1,554,925)	(1,571,789)
Share of net loss of associate	700,443	6,073,098
Foreign exchange gain	(54,243)	(661,400)
Loss on re-measurement of loan to joint venture carried at amortised cost	2,812,064	-
<i>Change in operating assets and liabilities:</i>		
Decrease/(increase) in trade and other receivables	71,163	(57,962)
Decrease/(increase) in trade and other payables	(84,124)	10,184
Increase/(decrease) in provisions	62,685	50,865
Net cash outflow from operating activities	(1,670,534)	(2,197,330)
<b>(b) Funding of joint venture operations</b>		
Cash contribution to joint venture operations during the period	(2,952,332)	(10,085,193)

## 17. EARNINGS PER SHARE

### (a) Reconciliation of earnings used in calculating earnings per share (EPS)

	2016	2015
	\$	\$
Loss attributable to the owners of the Company used in calculating basic and diluted loss per share	(4,925,558)	(6,792,685)

### (b) Weighted average number of shares used as the denominator

	2016	2015
	No. of Shares	No. of Shares
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	202,482,410	165,132,675

As the Group incurred a loss for the period, the options on issue have an anti-dilutive effect, therefore the diluted EPS is equal to the basic EPS. 25,213,186 (2015: 16,350,000) share options which could potentially dilute basic EPS in the future have been excluded from the diluted EPS calculation because they are anti-dilutive for the current year presented.

Basic and diluted earnings per share for all periods prior to the issue of placement shares and free attaching options in March 2016 have been restated by an adjustment factor of 1.0367 to account for the bonus element. Details of the shares issued are outlined in note 13.

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 18. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to market, liquidity and credit risks arising from its financial instruments.

The Group's management of financial risk is aimed at ensuring net cash flows are sufficient to meet all of its financial commitments and maintain the capacity to fund the Colluli project and ancillary exploration activities. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of risks.

Market, liquidity (including foreign exchange and interest rate risks) and credit risks arise in the normal course of business. These risks are managed under Board approved treasury processes and transactions.

The principal financial instruments as at reporting date include cash receivables and payables.

This note presents information about exposures to the above risks, the objectives, policies and processes for measuring and managing risk, and the management of capital.

### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements. The international operations are at the start-up stage and there is limited exposure at the reporting date to assets and liabilities denominated in foreign currencies. The loan of \$9,519,503 (2015: \$9,878,007) to Colluli Mining Share Company is denominated in Eritrean Nakfa (**Nakfa**) which is pegged to the US Dollar.

The following table demonstrates the sensitivity to a reasonably possible change in Nakfa exchange rates, with all other variables held constant. An increase in Nakfa Rate, reflects a strengthening of the Australian Dollar, which results in an increased loss before tax. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in Nakfa Rate %	Effect on Loss before tax \$
Year to 31 December 2016	+5%	(475,975)
	-5%	475,975
Year to 31 December 2015	+5%	(493,900)
	-5%	493,900

#### (ii) Interest rate risk

The Group is exposed to movements in market interest rates on cash. The Group's policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash - for the Group of \$10,904,760 (31 December 2015: \$2,756,341) is subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the period depending on current working capital requirements. The weighted average interest rate received on cash by the Group was 1.10% (31 December 2015: 2.25%).

#### Sensitivity analysis

At 31 December 2016, if interest rates had changed by +/- 80 basis points from the weighted average rate for the period with all other variables held constant, post-tax loss for the Group would have been \$87,238 higher/lower (31 December 2015: \$22,051 higher/lower) as a result of lower/higher interest income from cash and cash equivalents.

### (b) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings.

The Board of Directors constantly monitors the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the Consolidated Statement of Financial Position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

### (c) Credit risk

The Group's significant concentration of credit risk is cash. The maximum exposure to credit risk at balance date is the carrying amount of cash and trade and other receivables as disclosed in the Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements.

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 18. FINANCIAL RISK MANAGEMENT (Cont'd)

As the Group does not presently have any material debtors, lending or significant stock levels, a formal credit risk management policy is not maintained.

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 31 December 2016:

	Loans and receivables \$	Fair value through profit and loss \$	Fair value through other comprehensive income \$
<b>Financial Assets:</b>			
Trade and other receivables	93,985	-	-
Total current	93,985	-	-
Other receivable	9,519,503	-	-
Total non-current	9,519,503	-	-
Total Assets	9,613,488	-	-
<b>Financial liabilities:</b>			
Trade and other payables	210,742	-	-
Total current	210,742	-	-
Total Liabilities	210,742	-	-

The current receivables and payables carrying values approximates fair values due to the short-term maturities of these instruments.

The fair value of the long-term receivable is determined by discounting future cashflows using an estimated market interest rate. The fair value disclosure is categorised as Level 3 in the fair value hierarchy as the estimated market interest rate is an unobserved input in the valuation. An unobserved input is used to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

## 19. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

The focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration and project development programmes plus corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

The working capital position of the Group at 31 December 2016 and 31 December 2015 are as follows:

	2016 \$	2015 \$
Cash and cash equivalents	10,904,760	2,756,341
Trade and other receivables	93,985	180,582
Prepayments	25,101	27,034
Trade and other payables and provisions	(345,443)	(666,551)
Working capital position	10,678,403	2,297,406

## 20. CONTINGENCIES

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

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 21. COMMITMENTS

	2016 \$	2015 \$
<b>Lease commitments: Group as lessee</b>		
<i>Operating leases (non-cancellable):</i>		
Minimum lease payments		
- within one year	47,885	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	<b>47,885</b>	165,044
<i>Technical services commitment:</i>		
Minimum payment		
- within one year	1,214,793	-
- later than one year but not later than five years	-	-
	<b>1,214,793</b>	-
Total Commitments	<b>1,262,678</b>	165,044

### Operating Leases:

The minimum future payments above relate to non-cancellable operating leases for offices. Subsequent to 31 December 2016 Danakali has signed for a new office lease arrangement for 12 months, commencing 1 March 2017 for a total annual cost of \$70,000.

### Technical Services Commitment:

The payments above related to a contract for technical services to be provided in relation to the Colluli Project.

## 22. SHARE-BASED PAYMENTS

### (b) Option Plans

The Group provides benefits to employees (including directors), contractors and consultants of the Group in the form of share-based payment transactions, whereby employees, contractors and consultants render services in exchange for options to acquire ordinary shares. All options issued have exercise prices ranging from \$0.278 each to \$0.558 each and expiry dates ranging from 17 November 2017 to 7 October 2019.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights. Set out below is a summary of the options granted.

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	16,350,000	\$0.420	28,050,000	\$0.546
Granted (a) (b)	18,885,232	\$0.397	2,350,000	\$0.482
Exercised	(3,652,046)	\$0.335	-	-
Expired	(6,370,000)	\$0.547	(14,050,000)	\$0.683
Outstanding at end of the year	<b>25,213,186</b>	<b>\$0.384</b>	16,350,000	\$0.420
Exercisable at end of the year	<b>22,613,186</b>	<b>\$0.370</b>	15,350,000	\$0.421

Note:

(a) Options granted during the year to 31 December 2016 include:

- 1,000,000 options granted to Arlington Group Asset Management Ltd in consideration for services provided.
- 200,000 options granted to Mr C Wirth in consideration for services provided.

(b) Options granted during the year to 31 December 2015 includes 600,000 options granted to Arlington Group Asset Management Ltd, for services provided to assist the Company in equity raising.

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.38 years (31 December 2015: 0.77 years), with exercise prices ranging from \$0.278 to \$0.558.

The weighted average fair value of the options granted during the period was \$0.091 (31 December 2015: \$0.172). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs, to produce the fair value per option:

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 22. SHARE-BASED PAYMENTS (Cont'd)

Options Granted during the period to 31 December 2016:

Number of Options	Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price at Grant Date	Risk Free Interest Rate	Estimated Volatility
11,635,232	31/03/2016	31/03/2018	\$0.071	\$0.350	\$0.225	1.890%	80%
800,000	13/05/2016	13/05/2018	\$0.123	\$0.350	\$0.300	1.590%	80%
2,700,000	13/05/2016	13/05/2018	\$0.106	\$0.405	\$0.300	1.590%	80%
200,000	23/06/2016	23/06/2018	\$0.145	\$0.450	\$0.375	1.720%	80%
750,000	04/11/2016	04/11/2018	\$0.146	\$0.550	\$0.410	1.645%	80%
1,000,000	08/08/2016	31/12/2018	\$0.149	\$0.550	\$0.390	1.490%	80%
1,000,000	08/08/2016	08/08/2019	\$0.169	\$0.558	\$0.390	1.450%	80%
800,000	07/10/2016	07/10/2019	\$0.173	\$0.543	\$0.390	1.650%	80%

Options Granted during the period to 31 December 2015:

Number of Options	Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price at Grant Date	Risk Free Interest Rate	Estimated Volatility
750,000	29/05/2015	29/05/2018	\$0.213	\$0.527	\$0.380	1.875%	100%
600,000	02/10/2015	31/05/2018	\$0.136	\$0.550	\$0.295	1.805%	100%
1,000,000	03/11/2015	04/11/2018	\$0.158	\$0.408	\$0.285	1.865%	100%

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate. The life of the options is based on historical exercise patterns, which may not eventuate in the future.

### (c) Performance Rights Plan

The Performance Rights Plan 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.

Under the Performance Rights Plan, shares are issued in the future subject, to the performance based vesting conditions being met. 1,958,000 performance rights on issue at 31 December 2016 and 2015 had the following vesting conditions.

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 (vested February 2017); and
- 75,000 upon completion of securing finance for the development of the Colluli Potash Project (forfeited 6 February 2017).

Class 4:

- 700,000 upon awarding of the Colluli mining licence (vested February 2017); and
- 800,000 upon commencement of construction of the production facility.

Subject to achievement of either one of these performance conditions, one share will be issued for each Performance Right that has vested.

There were no performance rights issued during the year to 31 December 2016 (31 December 2015: 255,000). Details of performance rights on issue are set out in the following tables.

2016 Grant Date	Balance at 1 January 2016	Reissued during the period	Vested and converted to shares	Cancelled upon termination	Balance 31 December 2016
25 January 2012 (Class 1)	50,000	-	-	-	50,000
15 May 2012 (Class 1)	258,000	-	-	-	258,000
12 December 2012 (Class 2)	150,000	-	-	-	150,000
9 December 2014 (Class 4)	1,500,000	-	-	-	1,500,000
TOTAL	1,958,000	-	-	-	1,958,000



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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 22. SHARE-BASED PAYMENTS (Cont'd)

2015 Grant Date	Balance at 1 January 2015	Reissued during the period	Vested and converted to shares	Cancelled upon termination	Balance 31 December 2015
25 January 2012 (Class 1)	100,000	-	(50,000)	-	50,000
15 May 2012 (Class 1)	277,000	255,000 <sup>(a)</sup>	(258,000)	(16,000)	258,000
12 December 2012 (Class 2)	150,000	-	-	-	150,000
13 November 2014 (Class 3)	550,000	-	(550,000)	-	-
9 December 2014 (Class 4)	2,450,000	-	(950,000)	-	1,500,000
<b>TOTAL</b>	<b>3,527,000</b>	<b>255,000</b>	<b>(1,808,000)</b>	<b>(16,000)</b>	<b>1,958,000</b>

Note:

- (a) 255,000 class 1 performance rights were re-issued on the original terms, to non-related parties after being incorrectly cancelled on 14 October 2014.

### (d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	2016 \$	2015 \$
Shares	-	28,000
Options and Performance Rights issued to directors, employees and contractors	1,290,347	698,467
	<b>1,290,347</b>	<b>726,467</b>

## 23. RELATED PARTY TRANSACTIONS

### (a) Parent entity

The ultimate parent entity within the Group is Danakali Limited.

### (b) Subsidiary

Interests in the subsidiary is set out in note 25.

### (c) Investment in Joint Venture

Transactions with Colluli Mining Share Company are set out in notes 8 and 10 of this report.

### (d) Key management personnel compensation

	2016 \$	2015 \$
Short-term benefits	947,035	998,801
Post-employment benefits	74,441	49,764
Share-based payments	830,623	600,073
	<b>1,852,099</b>	<b>1,648,638</b>

There were no material related party transactions.

### (d) Key management personnel placement participation

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 transaction detailed above, is set out in the following table.

Related Party	Position	Placement Shares	Free Attaching Unlisted Options
Seamus Ian Cornelius	Non-Executive Chairman	250,000	125,000
Paul Michael Donaldson	Managing Director	100,000	50,000
Anthony William Kiernan	Non-Executive Director	100,000	50,000
Liam Raymond Cornelius	Non-Executive Director	1,000,000	500,000
John Daniel Fitzgerald	Non-Executive Director	150,000	75,000
		<b>1,600,000</b>	<b>800,000</b>

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

FOR THE YEAR ENDED 31 DECEMBER 2016

## 24. REMUNERATION OF AUDITORS

During the period, the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

	2016 \$	2015 \$
<b>(a) Audit services</b>		
Ernst and Young	33,621	30,300
Rothsay Chartered Accountants	-	11,500
	<u>33,621</u>	<u>41,800</u>
<b>(b) Non-audit services</b>		
Ernst and Young – since appointment as auditor	33,013	31,750
Ernst and Young – prior to appointment as auditor	-	51,293
	<u>33,103</u>	<u>83,043</u>

## 25. 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	
				2016 %	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.

## 26. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Danakali Limited. The information presented here has been prepared using accounting policies consistent with those presented in note 2.

	2016 \$	2015 \$
Current assets	11,023,845	2,963,957
Non-current assets	23,029,735	21,959,161
<b>Total assets</b>	<u>34,053,580</u>	<u>24,923,118</u>
Current liabilities	345,443	641,187
Non-current liabilities	42,450	25,364
<b>Total liabilities</b>	<u>387,893</u>	<u>666,551</u>
Issued capital	61,758,320	49,511,393
Share-based payments reserve	10,427,536	8,609,709
Accumulated losses	(38,520,169)	(33,864,535)
<b>Total equity</b>	<u>33,665,687</u>	<u>24,256,567</u>
Loss for the year	(4,655,632)	(18,444,653)
<b>Total Comprehensive loss for the year</b>	<u>(4,655,632)</u>	<u>(18,444,633)</u>

## 27. 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)*

FOR THE YEAR ENDED 31 DECEMBER 2016

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## 28. EVENTS OCCURRING AFTER THE BALANCE DATE

On 9 January 2017, the company announced the appointment of Fluor as front end engineering design (**FEED**) and optimisation lead for Colluli project. Please refer to the activities undertaken during 2016 of this report for more details.

On 1 February 2017, the company announced both the award of the Mining Licence and approval of the Mining Agreement. Please refer to the activities undertaken during 2016 of this report for more details.

On 6 February 2017, the company announced the appointment of Mr Connochie as a non-executive director to the board. Details of Mr Connochie experience and qualifications can be found earlier in the Directors' Report. Mr Anthony Kiernan resigned as a non-executive director of the company with effect from 6 February 2017.

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## Directors' Declaration

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In the Directors' opinion:

- (a) the financial statements and notes set out on pages 27 to 53 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial period ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



Seamus Cornelius

**CHAIRMAN**

Perth, 9 March 2017

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Danakali Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Danakali Limited (the Company), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 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 year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

In our opinion:

the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's consolidated financial position as at 31 December 2016 and of its consolidated financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

## Accounting for the Group's interest in Colluli Mining Share Company ("CMSC")

### Why significant

The Group acquired an interest in Colluli Mining Share Company ("CMSC") 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.

The Group's 50% interest in CMSC is accounted for as a joint venture using the equity method.

The accounting for the results of and investment in CMSC is significant to our audit due to complexity involved in measuring both the investment as well as the shareholder loan receivable. Specifically key assumptions underpinning the measurement of these balances relate to the timing as to when the Group considers CMSC will have generated free cashflows from the project to enable repayment of monies loaned to them and an appropriate discount rate to reflect the risk applicable to the timing and repayment of the shareholder loan.

Refer to note (1)(r)(ii) and notes 8 and 10 to the financial report for further detail explaining the key judgements underpinning the accounting discussed in the two preceding paragraphs.

At 31 December 2016, the Investment in associates amounted to \$13.5 million (refer to Note 10 in the financial statements) and the receivable from CMSC amounted to \$9.5 million (refer to Note 8 in the financial statements).

### How our audit addressed the key audit matter

Our procedures included the following:

- ▶ We reviewed the applicable Shareholders Agreement and the Group's position paper which concluded that it is appropriate for Danakali's investment in CMSC to be equity accounted.
- ▶ We assessed the Group's calculations supporting the measurement of the investment and the shareholder loan. This calculation included the discounting of the shareholder loan balance based on the Group's current best estimate of when the shareholder loan will be repaid.
- ▶ We involved our valuation specialists to assess the assumed discount rate having regard to factors such as the project and country risk.
- ▶ We assessed the Group's shareholder loan repayment assumptions having regard to the current status of the project and the Group's best estimates of the timeline to finance, develop, commission and produce free cashflow from the project to repay the shareholder loan.
- ▶ We assessed the arithmetical accuracy of the Group's calculations, including where applicable any foreign currency translations embedded in the measurement process.
- ▶ We obtained, and where applicable audited, the results of CMSC and confirmed that Danakali's 50% interest in these results were accounted for on an equity basis in the financial statements of the Group.
- ▶ We considered whether there were any impairment indicators to suggest that Danakali's investment in and shareholder loan to CMSC may be impaired at balance date.



## Information other than the financial statements and auditor's report

The Directors are responsible for the other information. The other information comprises the information in the Group's Annual Report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon. We obtained the Directors report prior to the date of our auditor's report. The commentary on the Potash Project Overview, Economic outcome of the DFS, Development approach, Ownership and financing structure is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based upon the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Directors' responsibilities for the financial report

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

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- ▶ Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the remuneration report

### Opinion on the remuneration report

We have audited the Remuneration Report included in pages 16 to 24 of the Directors' Report for the year ended 31 December 2016.

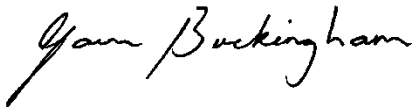
In our opinion, the Remuneration Report of Danakali Limited for the year ended 31 December 2016 complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Gavin Buckingham  
Engagement Partner  
Perth  
9 March 2017