



ASX Release

16 October 2017

## SEPTEMBER 2017 QUARTERLY REPORT

Danakali Ltd (ASX: DNK) (**Danakali** or the **Company**) is pleased to provide this quarterly update on its Colluli Potash Project (**Colluli** or the **Project**), located in Eritrea, East Africa.

### HIGHLIGHTS

#### CONTINUED SUCCESSFUL ADVANCEMENT OF THE WORLD CLASS COLLULI POTASH PROJECT

- Colluli Project **fully permitted** for construction
- **Board and Management Team strengthened** to enhance the areas of **project financing, market development and construction execution**
- **Project Financing and Offtake Strategies** well defined and progressing through execution phase
- Key pre-requisite **funding activities well progressed**
- **Offtake negotiations** well advanced with **parties working towards final binding agreements**
- Advancement of key operational contracts is a **key step towards obtaining Project Financing**
- FEED optimisation **reduces Colluli earthworks and recovery pond area** requirements

#### Planned for December Quarter

- **Progress negotiations** to final binding offtake agreements
- **Advance** discussions with commercial lenders
- Complete technical compliance and financial evaluation of **mining contractor proposals**
- Evaluate and finalise **preferred power provider proposal**
- **Complete outstanding** FEED activities
- **Issue** the tender package to suitably qualified Engineering Consulting and Contractors for project execution

### CORPORATE

- Strong cash position of **A\$16.3m** (30 September 2017)
- Mr Andre Liebenberg appointed as **independent non-executive director**
- Mr Will Sandover appointed as **Head of Corporate Development and External Affairs**
- **Appointment** of Ms Melissa Chapman and Ms Catherine Grant-Edwards as **Joint Company Secretaries**
- **Resignation** of Mr Chris Els as **Company Secretary**
- **1,415,000** options exercised
- **Dual listing on the London Stock Exchange (LSE)** currently under evaluation



## PROJECT OVERVIEW

### Colluli is Positively Unique

Colluli hosts one of the largest and highest-grade sulphate of potash (**SOP**) ore reserves in the world. The Project is permitted for construction and is one of the most advanced stage greenfield SOP developments globally.

Following the completion of a successful definitive feasibility study<sup>1</sup> (**DFS**) for the production of SOP and the approval of a comprehensive social, environmental impact assessment (**SEIA**) and associated management plans by Eritrean Ministry of Land, Water and Environment<sup>2</sup>, a Mining Agreement for the Colluli Project was signed in early 2017<sup>3</sup>. Mining licenses have been awarded for the exploitation of mineral salts within the Colluli resource including potassium, calcium, sodium, magnesium and bromine<sup>4</sup>.

The life of mine estimate from the planned DFS production rate is in excess of 200 years. When combined with the diverse range of salts within the resource, low incremental growth capital and highly favourable cost curve position, Colluli demonstrates significant future growth potential over and above the highly favourable DFS outcomes<sup>1</sup>.



*Photo: Colluli hosts over 1.2 billion tonnes of potassium bearing salts<sup>1</sup>*



### Simplicity is Key

Production of SOP from Colluli is planned to be conducted using the same, simple, commercially proven technology utilised by existing primary producers<sup>5</sup>. One of the unique and significant advantages of the Colluli Project relative to many emerging SOP projects, is the ability to produce SOP without additional heating, as a result of the right combination of salts (kainite and sylvite) within the resource. In the absence of this combination (kainite only), SOP production requires heating of potassium brines to over 50°C resulting not only in increased energy costs, but lower overall ore feed to product yields<sup>5</sup>.

Colluli is the only resource globally where primary production of SOP can be achieved with potassium salts extracted in solid form. This provides two key advantages. Firstly, it negates the need for large evaporation ponds, providing a significant capital intensity advantage relative to brine producers. Secondly, it eliminates the time taken to generate a harvest salt via evaporation, providing immediate revenue generation. Combined, these improve overall project returns and deliver lower development capital intensity relative to brine projects.



**Photo:** Colluli Kainite core. Colluli is the **ONLY** resource globally that allows SOP to be produced from solid form potassium salts

<sup>1</sup> ASX announcement, Colluli Definitive Feasibility Study Results, 30 November 2015

<sup>2</sup> ASX announcement, Ministry Approves Social and Environmental Impact Assessment, 6 December 2016

<sup>3</sup> ASX announcement, CMSC enters into Mining Agreement for World Class Colluli Project, 1 February 2017

<sup>4</sup> ASX announcement, Award of Mining Licenses for World Class Colluli Project, 1 February 2017

<sup>5</sup> Company research



## PROGRESS SUMMARY

The Company's focus has shifted to funding, offtake and construction activities following the signing of a mining agreement, award of mining licenses and approval of the SEIA. Funding and marketing (offtake) strategies have been developed and approved by both the Danakali and Colluli Mining Share Company (**CMSC**) boards.

**The funding strategy** defines the likely funding structure, potential sources and costs of funding and the key requirements from potential lenders to progress through due diligence. These key requirements include product offtake, procurement strategy and key operational and engineering contracts.

**With regard to offtake**, the award of the mining licenses for the Colluli Project is a key enabler to advance offtake discussions including volumes, physical form of product, shipment methods and the associated commercial terms<sup>6</sup>. As discussions have progressed, a select group of potential offtake parties has expressed interest in completing country and site visits which are currently being planned.

**To develop a robust procurement strategy**, front end engineering design (**FEED**) was initiated in the first half of 2017. FEED is being led by global engineering company, Fluor, and will deliver a higher level of accuracy of operating and capital costs, finalise key equipment lists and preferred suppliers and increase the level of engineering relative to the DFS. Increased geotechnical work has also been completed at the recovery pond site, site access road, process plant location and water delivery pipeline corridor.

**An additional 10% of production** capacity was identified during the initial phase of the FEED process<sup>7</sup>. Mining schedules were subsequently refined by AMC Consultants prior to the commencement of the mining contract tendering process. Extensive test work completed throughout the pre-feasibility and definitive feasibility study phases confirmed both the suitability of the open cut mining method for the resource and the suitability of surface miners for the selective extraction of the suite of salts within the resource. The open cut method provides superior resource to reserve conversion relative to alternate mining methods and allows selective extraction of the various salts within the resource.

**The Colluli Potash Project mining tendering process commenced in August 2017**. Following an "Expression of Interest" process, tendering documents were developed and issued to the interested parties. Site visits were completed in August 2017. Bids have been received and are undergoing technical compliance and cost adjudication review. The selected bid will be incorporated in the FEED economic model.

**Power generation will follow a build own operate transfer (BOOT) model**. Significant progress has been made with Inglett and Stubbs International (**ISI**), the preferred power supplier for the Project. ISI is working alongside the Colluli project team to provide a power generation solution which is right sized and integrated into the FEED process outcomes. The draft power contract has been developed in collaboration with ISI.

<sup>6</sup> ASX announcement, Colluli Potash Project – Progress Update, 19 April 2016

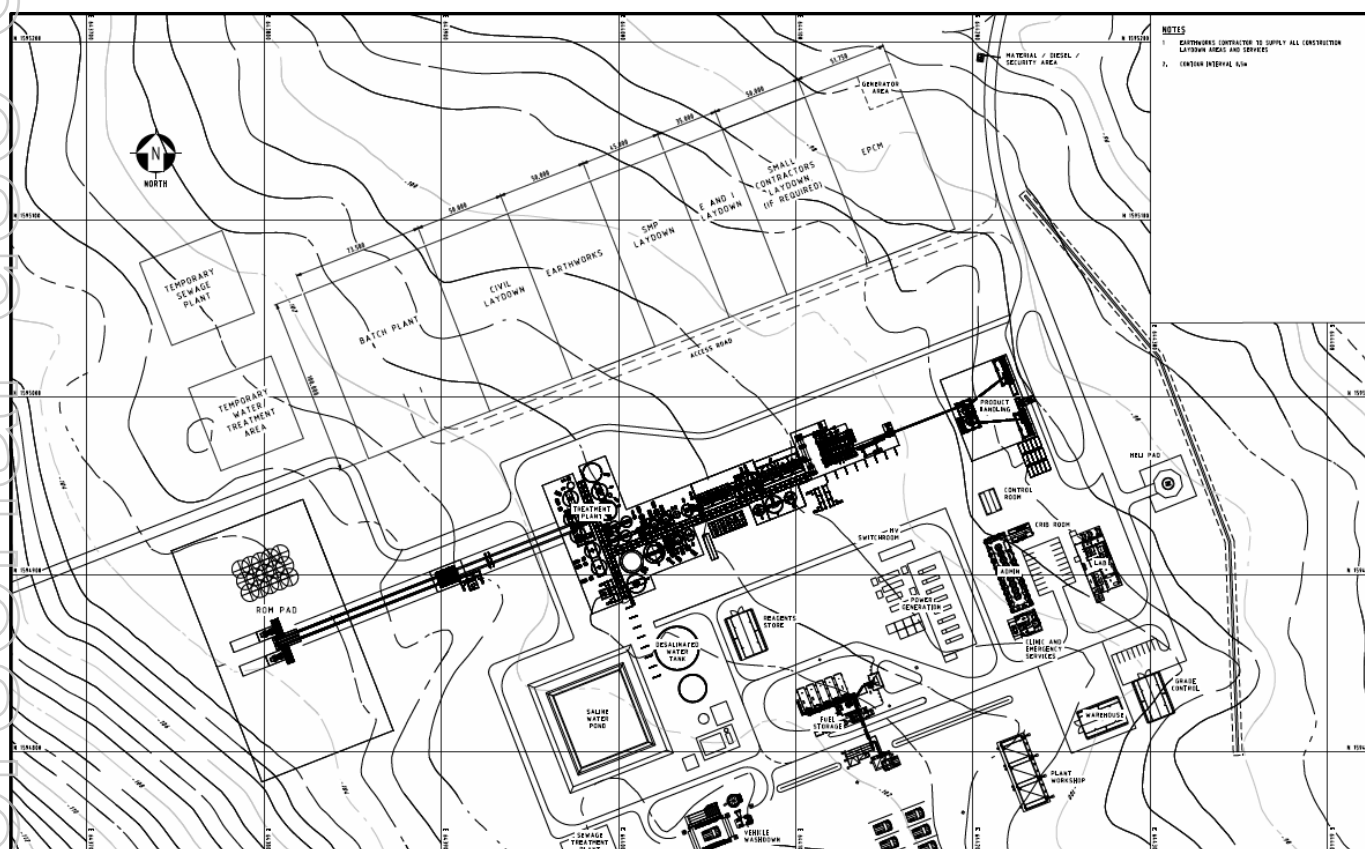
<sup>7</sup> ASX announcement, FEED optimisation increases planned Sulphate of Potash production capacity at Colluli, 3 May 2017





Results of FEED will be combined with the outcomes of competitive bidding for key operational contracts to deliver a revised set of project economics.

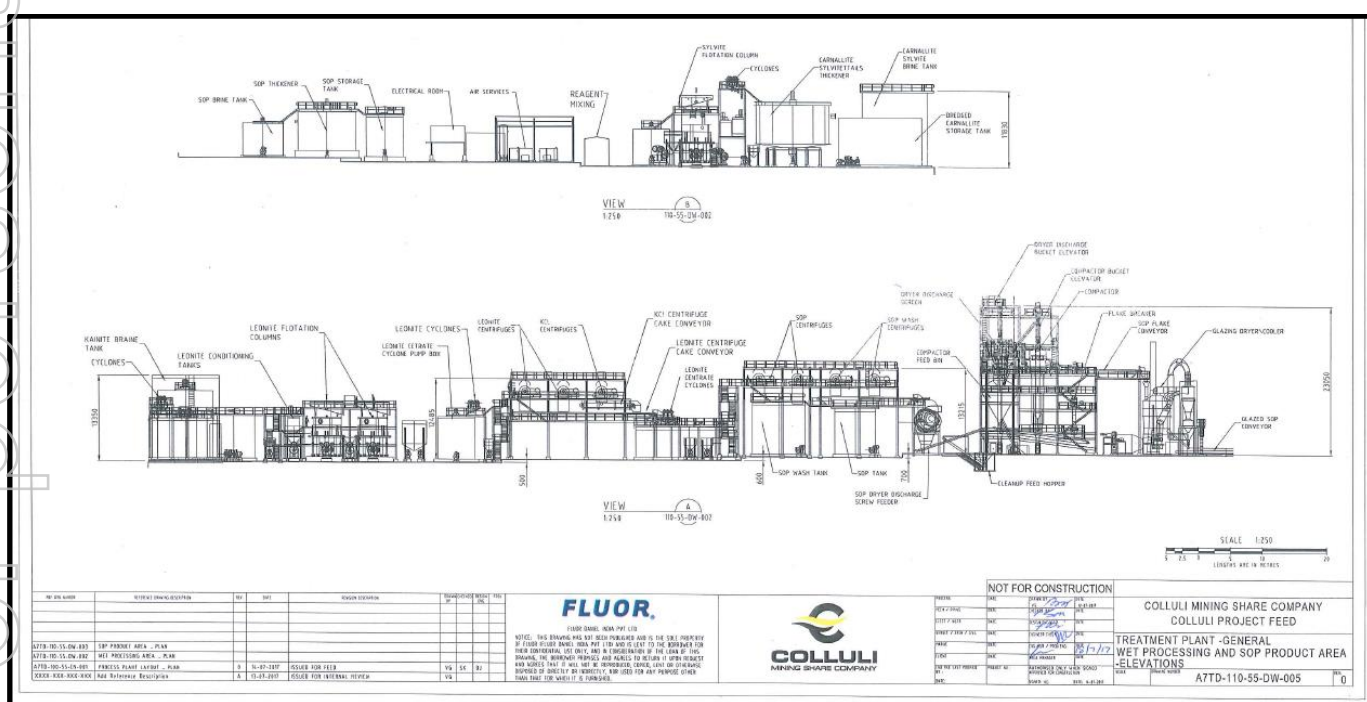
The effective delivery in these areas has facilitated through the **strengthening of both the Danakali Board and Management Team** in the areas of project financing, market development and construction execution.



**Diagram:** Colluli planned site construction layout



**Image:** Artist impression of Colluli taken from feasibility study drawings



**Diagram:** FEED phase well progressed. Colluli general processing and SOP product area



## 1. Strengthening of Danakali Board and Management Team

Over the past 12 months the Danakali board has been strengthened with the appointments of Mr Robert Connochie in February 2017 and Mr Andre Liebenberg most recently in October 2017. A number of appointments have also been made to the Danakali executive management team. These appointments add depth in the areas of market development, capital markets, project financing and construction execution. These skills will support the transition of the Company from an explorer to a developer and ultimately a producer.

### *Appointment of Bob Connochie as Non-Executive Director*

Mr Connochie is a highly-experienced potash and mining specialist with over 40 years of industry experience who brings extensive senior line management experience from the potash industry, including corporate development, evaluations, marketing, 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. Other notable former positions include Chairman and CEO of Potash Company of America, CEO Asia Pacific Potash and Director, Athabasca Potash. Mr Connochie was Chairman of the Phosphate and Potash Institute, Director of the Fertiliser Institute, and Director of the Saskatchewan Potash Producers Association.

### *Appointment of Andre Liebenberg as Non-Executive Director<sup>8</sup>*

Mr Liebenberg is an experienced mining industry professional with extensive capital markets, finance, business development and management experience, and has spent over 25 years in private equity, investment banking, and in senior roles within QKR Corporation and BHP Billiton.

In his role of CFO of QKR, Mr Liebenberg had the opportunity to visit Eritrea, and is highly familiar with the jurisdiction. In addition to the CFO role of QKR Corporation, Mr Liebenberg occupied senior executive roles within BHP Billiton including Head of Group Investor Relations and CFO of the Energy Coal and Diamonds and Speciality Products divisions. These roles were based in London, Melbourne and Sydney.

Mr Liebenberg's experience within BHP Billiton included key roles in the BHP Billiton merger, the bid for Rio Tinto and the bid for Potash Corp. of Saskatchewan.

Prior to BHP Billiton, Mr Liebenberg worked at UBS in London and Standard Bank Group in South Africa.

<sup>8</sup> ASX announcement, Appointment of Mr. Andre Liebenberg to Danakali Board, 2 October 2017



#### *Appointment of Danny Goeman to Head of Marketing*

Mr Goeman joined Danakali from an executive management role in Rio Tinto's marketing team and has over 20 years of Marketing and Sales experience including marketing strategy formulation and implementation, contract and price negotiation, industry analysis, and portfolio optimisation, across multiple commodities and geographies (Australia, Asia, Europe). Mr Goeman has made considerable progress in developing and implementing a marketing and offtake strategy for the Colluli Project, establishing the framework for the final binding agreements and aligning the short term and medium logistics solutions for the project.

#### *Appointment of Tony Harrington as Project Construction Manager*

Mr Tony Harrington was appointed to the role of Project Manager for the construction phase of the Colluli Project in the first half of 2017. Mr Harrington has over 37 years' experience in the mining industry delivering EPC, lump sum and EPCM projects in the capacity of both client representative and service provider over a diverse range of commodities, with a wide range of mineral processing units, across multiple jurisdictions including East Africa, West Africa, Southern Africa, China, Continental Europe, UK and Australia.

Key former roles included:

- Project Manager for the construction of the circa US\$300m Kwale Mineral Sands Project in Kenya, owned by Base Resources. This was the first ever large scale mine to be built in the country and at the time of commissioning was the largest capital project undertaken in Kenya in the past 40 years.
- Project Manager for the circa US\$330m Chimimiwango expansion at the Lumwana Copper Mine in Zambia, owned by Equinox/Barrick, which included debottlenecking existing process plant and installation of additional processing infrastructure including flotation, pumping and cyclone circuits.
- Project Manager for the circa US\$190m Dundee Precious Metals Chelopech Mine underground materials handling system in Bulgaria.

Since joining Danakali, Mr Harrington has been overseeing the development of the EPC(M) bidding contract, working with the FEED study team to develop the Project Execution Plan and supporting the overall FEED delivery with specific focus on the early works program.

#### *Appointment of Stuart Tarrant to Chief Financial Officer*

Mr Tarrant, a fellow of the Association of Chartered Certified Accountants (ACCA) and a former accounting executive with both BHP and HWE Mining has extensive experience in the mining industry with core skills in financial modelling, financial systems deployment, procurement, budgeting, and cost analysis and optimisation.

Mr Tarrant has a long-standing relationship with debt advisors Endeavour Financial, and was responsible for the development and integrity of the Colluli financial model underpinning the prefeasibility and definitive feasibility studies.





### *Appointment of Will Sandover to Head of Corporate Development and External Affairs<sup>9</sup>*

Mr Sandover joins Danakali from an Executive Director role at independent capital markets advisory firm, Vesparum Capital, and is a former employee of top tier investment banks including Macquarie and UBS. Mr Sandover brings extensive experience in the areas of corporate strategy, equity capital markets, advanced financial modelling and project valuation, mergers & acquisitions, and strategic partnerships. During his career, Mr Sandover has carried out high profile transactions and provided corporate advisory services for companies such as Barrick Gold, Galaxy Resources, Goodman Group, and QBE. He has also acted as strategic investor relations advisor to numerous mid-cap ASX listed companies across the metals and mining, financial services, funds management, and sustainable technology sectors, and possesses skills in the sophisticated analysis of markets, sectors, valuations, and funding sources.

## **2. Project Debt Financing**

### *Colluli Debt Adviser*

Endeavour Financial (**Endeavour**) is the appointed debt funding advisor. Endeavour have considerable natural resource financing experience globally, with precedent-setting project financing transactions in Russia, Kenya, Eritrea and Kazakhstan. Specifically, Endeavour have been involved with both the Bisha and Asmara mining projects in Eritrea.

Endeavour have representatives in London and Vancouver with a range of experience including structured finance, offtake negotiation, cash flow modelling, technical analysis and the potash industry.

### *Funding Strategy*

The expected funding structure for the Colluli Project includes Export Credit Agencies (**ECA**), commercial banks and Development Finance Institutions (**DFI**). These structures are often used in Mining Project Financing.

ECA involvement stems from its objective to promote export trade from the region within which it resides, and the involvement of ECAs allows for the provision of credit and political risk insurance which reduces the risk exposure for commercial lenders in the areas of credit such as protracted default, insolvency or bankruptcy.

DFIs provide a broad range of financial services in developing countries to promote regional development through positively impacting social and economic conditions as an outcome of their investment.

### *Financier requirements*

Consistent feedback from potential lenders indicate that the work plan and strategy being executed by the Company is aligned to lending requirements.

<sup>9</sup> ASX announcement, Appointment of Head of Corporate Development and External Affairs, 12 October 2017



**Key requirements requested by potential lenders include:**

- Final equipment lists (Procurement) including key suppliers and service providers
- Agreement of expected legal form and provisions for key commercial contracts including definition of likely counterparties. The key commercial contracts have been defined as:
  - EPC(M)
  - Mining
  - Power generation
- Agreement of expected legal form and provisions for product sale agreements (Offtake) including definition of likely counterparties

Danakali and the project joint venture company, the Colluli Mining Share Company (**CMSC**) are well advanced in meeting these requirements and this has been the focus of company activities since the permitting of the project.

***Funding and FEED***

**Three key objectives from the FEED phase were defined to support funding as follows:**

1. Develop equipment lists, including suppliers and jurisdictions, to support the procurement requirements of the debt funding process
2. Develop a more detailed Project Execution Plan (**PEP**) to accelerate construction
3. Improve the accuracy of capital and operating cost estimates to support the funding process

***Progress with Financiers***

Over the past 18 months a wide range of financial institutions consistent with the funding structure have been engaged, and an ongoing dialogue established.

Discussions with a number of these parties have progressed to entering into Non-Disclosure Agreements (**NDA**) to allow access to the project studies and supporting technical, environmental and social data as part of pre-finance due diligence. Information Memoranda have also been provided to institutions under NDA and detail progress regarding:

- Engineering & Design;
- Procurement Strategy & Contracting;
- Offtake strategy and potential offtakers; and
- Equity strategy.

***Future Funding Activities***

Engagements with financiers by the Company and Endeavour Financial will continue over the coming months. Due diligence activities, including site visits, will continue towards the finalisation of Term Sheets and formation of a syndicate lending group. It is envisaged that this group will ultimately collaborate to progress towards credit approvals and then financial close.



### 3. Product Offtake

#### *Marketing Strategy*

Danakali continues to progress its well-defined offtake strategy on behalf of CMSC. The Company is now well advanced in its commercial discussions with prominent offtake parties in Europe, South America, and the Middle East. Industry interest in securing SOP offtake remains high, with the aggregate offtake volumes sought by parties now far exceeding the Company's revised stage one production forecast of 472,000 tonnes of SOP per annum.

As part of its marketing strategy, the Company has developed a range of market and customer segmentation criteria, to optimise the value of the Colluli project over different time horizons. The Company intends to optimise its offtake portfolio by reaching agreement with a number of offtake parties comprising a combination of end-users, and traders/distributors. Industry analysis confirms that the highest value netback markets for the Colluli SOP products are Africa, Europe, the Middle East, South America, and South-East Asia.

#### *Binding Offtake Agreement Negotiations*

Negotiations have been progressing well, with parties now negotiating the detailed commercial terms and conditions necessary to move to final binding bankable offtake contracts. The Company appointed legal firm Norton Rose Fulbright (**NRF**) to assist with drafting of the final bankable offtake agreements.

NRF were appointed to act as legal adviser due to their (i) unparalleled experience of advising on potash mining projects, (ii) expertise in mining projects in Africa, (iii) thorough understanding of the challenges involved in developing potash offtake arrangements, and (iv) involvement in all of the most recent potash projects in the market.

To facilitate the negotiations with prospective offtakers on the bankable offtake agreements, the Company, in conjunction with its legal team, developed a list of minimum offtake bankability requirements. These have been shared with prospective offtakers to provide guidance on what is required within the binding agreements.

Negotiations are now focussed on finalising a range of key commercial terms including:

- purchase volumes and product splits;
- agreed marketing and sales activities;
- delivery schedules;
- provisional price and final price formation;
- territories for distribution;
- take or pay provisions;
- payment arrangements and associated payment schedules;
- performance standards;
- the proposed regime for weighing, sampling, analysis, loading and lifting product; and
- other customary commercial terms usually contained in binding bankable offtake agreements.



#### *Product Sample Feedback*

As part of ongoing negotiations, the Company has provided potential parties with samples of Colluli SOP product for testing in their respective laboratories. The samples were produced from Colluli Ore at the Saskatchewan Research Council (SRC) Laboratories in Saskatoon. The feedback from parties following testing confirms that Colluli's SOP samples meet customers' strict quality requirements.



*Photo: Colluli product samples generated from Colluli salts in pilot tests*

## **4. Contracting**

In addition to offtake support, Norton Rose Fulbright (**NRF**) have been appointed to provide legal support for the development and negotiation of Colluli's commercial contracts and project finance agreements.

#### *Mining Contract*

Formal tendering for the mining contract is underway following the expression of interest phase which confirmed a strong level of interest from mining contractors in Africa, Europe and India<sup>10</sup>. Site visits were undertaken in early August 2017 to support the mining contract bids and AMC Consultants have been engaged to support the development of material and assessment of tender packages.

The draft mining contract has been developed with the support of NRF and has been shared with the potential contractors as part of the mining tendering process.

The mining contract bid adjudication process will be completed in the next quarter.

<sup>10</sup> ASX announcement, Appointment of Head of Corporate Development and External Affairs, 12 October 2017





### *Power Contract*

The power solution, defined in the DFS, was that of a Build Own Operate Transfer (**BOOT**) model. The BOOT model was chosen to lower project development capital requirements and utilise the experience of proven operators. The Colluli Potash Project power process has advanced well since the announcement of Inglett Stubbs International (**ISI**) as the preferred power generation provider in May 2017, following a competitive bidding process.

ISI have refined the power generation proposal to align with the revised production capacity and FEED process plant power demand. The power contract framework has been developed with the support of NRF with the final commercial terms under discussion. Power financials, expected to be received in the December 2017 quarter, will be incorporated in the FEED economics.

## **5. Execution of FEED activities**

### *Quarterly Activities*

FEED and contracting activities are progressing to plan.

Process flow sheets have been comprehensively reviewed and verified for technical compliance. A debottlenecking exercise identified additional capacity from the processing plant units. The DFS production capacity was increased from 425ktpa to 472ktpa. Resizing of equipment in the processing plant was completed following the liberation of additional production capacity<sup>11</sup>. Mining schedules were realigned to the planned change in SOP production rate prior to issuing the mining contract for tender.

The optimisation workshops completed at the commencement of the FEED phase also identified portions of the construction works that might be more cost effective if included in the key operating contract packages. The scopes of these packages were modified and have underpinned the tendering process throughout the FEED phase.

As per section 4 of this report, mining contracting companies completed site visits throughout the quarter as part of the tendering process. Mining tenders have been received and are currently undergoing technical and financial evaluation.

During the quarter it was also announced that FEED optimisation had reduced Colluli recovery pond area<sup>11</sup> and earthworks requirements<sup>12</sup>. These have been achieved despite an increase in the processing plant throughput relative to the definitive feasibility study (DFS). Earthworks bids for the revised pond construction requirements were modified as part of the pond construction tendering process. The level engineering relative to the DFS has been increased substantially in the FEED phase and considerable work has been completed on the project execution plan and construction methodology. No material changes to the construction timeline have been made to date.

<sup>11</sup> ASX announcement, FEED optimisation reduces Colluli recovery pond area, 20 July 2017

<sup>12</sup> ASX announcement, FEED optimisation significantly reduces Colluli earthworks requirements, 27 July 2017



FEED activities and revised economics for the project are currently expected to be completed by the end of the calendar year.

*Reserve and resource*

There have been no changes to the potassium bearing salt ore reserve since 30 November 2015 nor the rock salt mineral resource estimate since 23 September 2015.

*Upcoming Activities*

The bidding processes for the key operating contracts and finalisation of the revised process design, equipment lists and associated construction costs are expected to complete by the end of the calendar year. Upon finalisation of the key contracts, a revised set of economics will be released to accompany the FEED phase of the project. It is anticipated that upon completion of these activities, funding discussions will progress expeditiously to completion.



## CORPORATE

### CASH

Consolidated cash on hand as at 30 September 2017 was A\$16.3 million.

### CORPORATE APPOINTMENT

During the quarter, Ms Melissa Chapman and Ms Catherine Grant-Edwards were appointed as Joint Company Secretaries following the resignation of Mr Chris Els.

### EQUITY

#### Share Capital - Placement

There were no shares placed during the quarter.

#### Share Capital – Conversion of Unlisted Options

A total of 1,415,000 fully paid shares were issued on conversion of unlisted options, with various option prices and expiry dates, during the quarter. Total issued capital at the end of the quarter was 248,290,868 fully paid ordinary shares.

#### Options

During the quarter, the following unlisted options were converted to fully paid ordinary shares:

- 1,300,000 unlisted options with exercise price of \$0.278, expiring 17 November 2017; and
- 115,000 unlisted options with exercise price of \$0.35, expiring 30 March 2018.

No unlisted options were issued or lapsed during the quarter.

The balance of unlisted options as at 30 September 2017 was 23,152,640 (various options prices and expiry dates).

#### Performance Rights

No performance rights were issued or vested during the quarter. Outstanding performance rights as at 30 September 2017 was 1,258,000.

### MISCELLANEOUS

#### Dual listing on the London Stock Exchange (LSE) currently under evaluation

The Company is currently undertaking a comprehensive review to determine the potential benefits of completing a dual listing on the LSE as the Company advances its equity strategy.



## INTERESTS IN MINING TENEMENTS

The Mining Agreement for the Colluli Potash Project provides CMSC exclusive exploitation rights of all Mineral Resources within the Agreement area, the exclusive right to apply for and be granted one or more mining licenses within the Agreement area, and the exclusive right of land use within the agreement area over the life of the resource<sup>13</sup>.

The Agreement area covers approximately 100km<sup>2</sup> and covers the entire Colluli resource which includes a JORC-2012 Mineral Resource estimate of 1.3 billion tonnes of potassium bearing salts, an Ore Reserve estimate of over 1.1 billion tonnes, a rock salt Mineral Resource estimate of over 300 million tonnes and a kieserite (magnesium sulphate) Mineral Resource estimate of over 80 million tonnes<sup>1, 13</sup>.

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 definitive feasibility study (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<sup>14</sup>.

The award of the Mining Licenses follows the completion of a series of pre-requisites which include the completion and submission of a DFS, submission of a comprehensive social and environmental impact assessment and associated management plans, a series of pre-and post DFS stakeholder engagements with local and regional communities and stakeholders, and the signing of a Mining Agreement<sup>14</sup>.

Further details are provided below. There was no change in tenement holding during the quarter.

Tenement:	Colluli, Eritrea	License Type:	Mining Licenses
Nature of Interest:	Owned	Current Equity:	50%

### For more information, please contact:

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Managing Director

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-ENDS-

<sup>13</sup> ASX announcement, CMSC enters into Mining Agreement for World Class Colluli Potash Project, 01 February 2017

<sup>14</sup> ASX announcement, Award of Mining Licenses for World Class Colluli Potash Project, 01 February 2017





DANAKALI

### About Danakali Ltd

Danakali is an ASX listed company and 50% owner of the Colluli Potash Project in Eritrea, East Africa. The company is currently developing the Colluli Project in partnership with the Eritrean National Mining Corporation (ENAMCO).

The project is located in the Danakil Depression region of Eritrea, and is ~75km from the Red Sea coast, making it one of the most accessible potash deposits globally. Mineralisation within the Colluli resource commences at just 16m, making it the world's shallowest potash deposit. The resource is amenable to open pit mining, which allows higher overall resource recovery to be achieved, is generally safer than underground mining and is highly advantageous for modular growth.

The company has completed a definitive feasibility study for the production of potassium sulphate, otherwise known as SOP. SOP is a chloride free, specialty fertiliser which carries a substantial price premium relative to the more common potash type; potassium chloride. Economic resources for production of SOP are geologically scarce. The unique composition of the Colluli resource favours low energy input, high potassium yield conversion to SOP using commercially proven technology. One of the key advantages of the resource is that the salts are present in solid form (in contrast with production of SOP from brines) with which reduces infrastructure costs and substantially reduces the time required to achieve full production capacity.

The resource is favourably positioned to supply the world's fastest growing markets.

Our vision is to bring the Colluli project into production using the principles of risk management, resource utilisation and modularity, using the starting module as a growth platform to develop the resource to its full potential.

### Competent Persons Statement (Rock Salt Resource)

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

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

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

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

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

The information relating to the 2015 Colluli Mineral Resource estimate was compiled by Mr. John Tyrrell, under the supervision of Mr. Stephen Halabura M. Sc. P. Geo. Fellow of Engineers Canada (Hon), Fellow of Geoscientists Canada, and as a geologist with over 25 years' experience in the potash mining industry. Mr. Tyrrell is a member of the Australian Institute of Mining and Metallurgy and a full-time employee of AMC. Mr. Tyrrell has more than 25 years' experience in the field of Mineral Resource estimation.

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

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

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

The November 2015 Colluli Ore Reserve is reported according to the JORC Code and estimated at 1,113Mt @10% K<sub>2</sub>O Equiv. The Ore Reserve is classed as 286Mt @ 11% K<sub>2</sub>O Equiv Proved and 827Mt @ 10% K<sub>2</sub>O Equiv Probable. The Competent Person for the estimate is Mr Mark Chesher, a mining engineer with more than 30 years' experience in the mining industry. Mr. Chesher is a Fellow of the AusIMM, a Chartered Professional, a full-time employee of AMC Consultants Pty Ltd, and has sufficient open pit mining activity experience relevant to the style of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the JORC Code. Mr Chesher consents to the inclusion of information relating to the Ore Reserve in the form and context in which it appears.

In reporting the Mineral Resources and Ore Reserves referred to in this public release, AMC Consultants Pty Ltd acted as an independent party, has no interest in the outcome of the Colluli Project and has no business relationship with Danakali Ltd other than undertaking those individual technical consulting



assignments as engaged, and being paid according to standard per diem rates with reimbursement for out-of-pocket expenses. Therefore, AMC Consultants Pty Ltd and the Competent Persons believe that there is no conflict of interest in undertaking the assignments which are the subject of the statements.

### Quality Control and Quality Assurance

Danakali Exploration programs follow standard operating and quality assurance procedures to ensure that all sampling techniques and sample results meet international reporting standards. Drill holes are located using GPS coordinates using WGS84 Datum, all mineralisation intervals are downhole and are true width intervals.

The samples are derived from HQ diamond drill core, which in the case of carnallite ores, are sealed in heat sealed plastic tubing immediately as it is drilled to preserve the sample. Significant sample intervals are dry quarter cut using a diamond saw and then resealed and double bagged for transport to the laboratory.

Halite blanks and duplicate samples are submitted with each hole. Chemical analyses were conducted by Kali-Umwelttechnik GmbH Sondershausen, Germany utilising flame emission spectrometry, atomic absorption spectroscopy and ion chromatography. Kali-Umwelttechnik (KUTEC) Sondershausen1 have extensive experience in analysis of salt rock and brine samples and is certified according to DIN EN ISO/IEC 17025 by the Deutsche AkkreditierungssystemPrüfwesen GmbH (DAR). The laboratory follows standard procedures for the analysis of potash salt rocks chemical analysis ( $K^+$ ,  $Na^+$ ,  $Mg^{2+}$ ,  $Ca^{2+}$ ,  $Cl^-$ ,  $SO_4^{2-}$ ,  $H_2O$ ) and X-ray diffraction (XRD) analysis of the same samples as for chemical analysis to determine a qualitative mineral composition, which combined with the chemical analysis gives a quantitative mineral composition.

### Forward Looking Statements and Disclaimer

The information in this document is published to inform you about Danakali Limited (the "Company" or "DNK") and its activities. DNK has endeavoured to ensure that the information enclosed is accurate at the time of release, and that it accurately reflects the Company's intentions. All statements in this document, other than statements of historical facts, that address future production, project development, reserve or resource potential, exploration drilling, exploitation activities, corporate transactions and events or developments that the Company expects to occur, are forward-looking statements. Although the Company believes the expectations expressed in such statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements.

Factors that could cause actual results to differ materially from those in forward-looking statements include market prices of potash and, exploitation and exploration successes, capital and operating costs, changes in project parameters as plans continue to be evaluated, continued availability of capital and financing and general economic, market or business conditions, as well as those factors disclosed in the Company's filed documents.

There can be no assurance that the development of the Colluli Project will proceed as planned. Accordingly, readers should not place undue reliance on forward looking information. Mineral Resources and Ore Reserves have been reported according to the JORC Code, 2012 Edition. To the extent permitted by law, the Company accepts no responsibility or liability for any losses or damages of any kind arising out of the use of any information contained in this document. Recipients should make their own enquiries in relation to any investment decisions.

Mineral Resource, Ore Reserve and financial assumptions made in this presentation are consistent with assumptions detailed in the Company's ASX announcements dated 25 February 2015, 4 March 2015, 19 May 2015, 23 September 2015, 30 November 2015, 15 August 2016 and 1 February 2017 which continue to apply and have not materially changed. The Company is not aware of any new information or data that materially affects assumptions made.

## Appendix 5B

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

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

#### Name of entity

Danakali Limited

#### ABN

57 097 904 302

#### Quarter ended ("current quarter")

30 SEPTEMBER 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	-	-
(b) development	-	-
(c) production	-	-
(d) staff costs	(136)	(357)
(e) administration and corporate costs	(230)	(764)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	73	158
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(293)</b>	<b>(963)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(5)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other – Funding of Joint Venture	(2,105)	(6,292)
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(2,105)</b>	<b>(6,297)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	12,351
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	402	1,023
3.4	Transaction costs related to issues of shares, convertible notes or options	(108)	(779)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>294</b>	<b>12,595</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	18,344	10,905
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(293)	(963)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,105)	(6,297)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	294	12,595
4.5	Effect of movement in exchange rates on cash held	58	58
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>16,298</b>	<b>16,298</b>



5.	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	16,298	18,344
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>16,298</b>	<b>18,344</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2 and 2.5
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter  
\$A'000**

155

-

Item 1.2 includes aggregate amounts paid to directors including salary, directors' fees, and superannuation.

**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter  
\$A'000**

-

-

**8. Financing facilities available**

*Add notes as necessary for an understanding of the position*

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
Nil	Nil
Nil	Nil
Nil	Nil

8.1 Loan facilities

8.2 Credit standby arrangements

8.3 Other (please specify)

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

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**9. Estimated cash outflows for next quarter**

**\$A'000**

9.1 Exploration and evaluation

9.2 Development

9.3 Production

9.4 Staff costs

9.5 Administration and corporate costs

9.6 Other - Funding of Joint Venture

**9.7 Total estimated cash outflows**

-

-

-

(171)

(775)

(4,123)

**(5,069)**

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

### Compliance statement

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

Sign here:

  
(Joint Company Secretary)

Date: 16 October 2017

Print name: Catherine Grant-Edwards

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.