DANAKALI

DANAKALI LIMITED

ABN 56 097 904 302

FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2018

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2017 and any public announcements made by Danakali Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Corporate Information

Directors

Seamus Cornelius	(Executive Chairman)
Paul Donaldson	(Non-Executive Director)
John Fitzgerald	(Non-Executive Director)
Jing Zhang	(Non-Executive Director)
Robert Connochie	(Non-Executive Director)
Andre Liebenberg	(Non-Executive Director)

Executive Management

Stuart Tarrant (Chief Financial Officer)

Joint Company Secretaries

Catherine Grant-Edwards
Melissa Chapman

Registered Office & Principal Place of Business

Level 1, 234 Churchill Avenue
Churchill Court
SUBIACO WA 6008
Telephone: +61 (0)8 6315 1444
Facsimile: +61 (0)8 9467 9119

Bank

National Australia Bank
100 St Georges Terrace
PERTH WA 6000

Auditors

Ernst & Young
11 Mounts Bay Road
PERTH WA 6000

Share Register

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
PERTH WA 6000
Telephone: 1300 850 505 (Inside Australia)
Telephone: +61 (0)3 9415 4000 (Outside Australia)
Facsimile: +61 (0)3 9473 2500
www.computershare.com

To facilitate trading of Danakali's shares on the Standard Segment of the London Stock Exchange (**LSE**) Main Market, Danakali has established a Depositary Interest (**DI**) facility, under which it has appointed Computershare Investor Services Plc as the depositary. Securities of Australian issuers such as Danakali cannot be directly registered, transferred or settled through CREST (which is the electronic settlement system in the UK). The DI facility overcomes this by creating entitlements to Danakali's shares (the DIs), which are deemed to be UK securities and therefore admissible to CREST. The underlying shares are listed and traded on the Standard Segment of the LSE Main Market, while the DIs are transferred in CREST to settle those trades.

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS13 8AE, United Kingdom
Telephone: +44 (0) 370 702 0003

Website

www.danakali.com.au

Stock Exchange Listing

Danakali Limited Shares are listed on the Australian Stock Exchange (ASX:DNK) and the London Stock Exchange (LSE:DNK).

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.otcmarkets.com/stock/DNKLY/quote

DNK's ADR information can also be viewed here: http://www.adrbnymellon.com/dr_profile.jsp?cusip=23585T101

ADR Holders seeking information on their shareholding should contact: shrrelations@bnymellon.com OR

LONDON
Mark Lewis
mark.lewis@bnymellon.com
Telephone +44 207 163 7407

NEW YORK
Rick Maehr
richard.maehr@bnymellon.com
Telephone +1 212 815 2275

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Directors' Report

Your directors submit their report together with the condensed financial statements of the consolidated entity, being Danakali Limited (**Danakali** or the **Company**) and its controlled entities (the **Group**) for the half year ended 30 June 2018.

DIRECTORS

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

▪ Seamus Cornelius	(Executive Chairman) (transitioned from Non-Executive Chairman to Executive Chairman 14 June 2018)
▪ Paul Donaldson	(Non-Executive Director)
▪ John Fitzgerald	(Non-Executive Director)
▪ Zhang Jing	(Non-Executive Director)
▪ Robert Connochie	(Non-Executive Director)
▪ Andre Liebenberg	(Non-Executive Director)

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

PRINCIPAL ACTIVITIES

The principal activity of the Group during the half-year ended 30 June 2018 was advancing the Colluli Potash Project (**Colluli**, or the **Project**) in Eritrea, East Africa. There was no significant change in the nature of the Group's activities during the six months to 30 June 2018.

REVIEW AND RESULTS OF OPERATIONS

The net loss after tax of the Group for the half-year ended 30 June 2018 amounted to $1,108,408 (30 June 2017: $4,870,508). Total consolidated cash on hand at the end of the period was $14,455,709 (31 December 2017: $15,559,980).

PROJECT OVERVIEW

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

The proven large resource, with low development capital intensity and, 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 almost 200 years, at production rate increasing to 944ktpa defined during the Front End Engineering Design (**FEED**) study demonstrates growth potential over decades (ASX Announcement 29 January 2018).

The JORC-2012 compliant Mineral Resource for Colluli is estimated at 1.289Bt @ 11% K_2O for 260Mt of contained potassium sulphate (Sulphate of Potash or **SOP**) equivalent (ASX Announcement, 25 February 2015). The JORC-2012 compliant Ore Reserve estimate for Colluli is estimated at 1,100Mt @ 10.5% K_2O for 203Mt of contained SOP equivalent (ASX Announcement 19 February 2018). The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves (detailed tables follow below).

Mineralisation commences at a depth from surface of 16m, making Colluli the world's shallowest evaporite deposit. The resource is amenable to open cut 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. Colluli is located in the Danakil Depression region of Eritrea and is approximately 230km by road south-east of the port of Massawa, which is Eritrea's key import/export facility. The Danakil Depression is an emerging potash province, which commences in Eritrea and extends south across the border into Ethiopia.

Following the positive outcomes of a Pre-Feasibility Study (**PFS**) for the production of SOP (ASX Announcement 4 March 2015) in February 2015 and a Definitive Feasibility Study (**DFS**) (ASX Announcement 30 November 2015) that was completed in November 2015, FEED was completed in January 2018. FEED contemplates a modular SOP development. Module I is expected to produce 472ktpa of premium SOP product; and Module II, commencing production in year 6 of the Project, will increase total SOP production to 944ktpa.

FEED has provided offtakers and funders with a high level of detail, accuracy and confidence, and provides a robust platform for project execution. FEED confirmed a post-tax project NPV of US$902M and post-tax IRR of 29.9% for Colluli.

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.

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

With the award of the Mining Licences and approval of the Mining Agreement in early 2017 (ASX Announcement 1 February 2017), Colluli is materially fully permitted.

In June 2018, a binding take-or-pay offtake agreement was reached with EuroChem Trading GmbH (**EuroChem**) for up to 100% of Module I SOP production from Colluli (ASX Announcement 12 June 2018). The take-or-pay nature of the Agreement provides cash flow certainty and strengthens the Colluli and Danakali investment propositions.

Reserves and Resources tables

The massive Colluli Ore Reserve has significant capacity to underpin further expansions and support decades of growth beyond Modules I and II.

Table [A]: Colluli SOP Ore Reserve[1,2,3]

	Proved		Probable		Total		
Occurrence	**Mt**	**K_2O equiv.**	**Mt**	**K_2O equiv.**	**Mt**	**K_2O equiv.**	**K_2SO_4 equiv. Mt[4]**
Sylvinite ($KCl.NaCl$)	77	15.0%	173	12.1%	**250**	**13.0%**	
Carnallitite ($KCl.MgCl_2.H_2O$)	77	6.9%	279	7.8%	**356**	**7.6%**	
Kainitite ($KCl.MgSO_4.H_2O$)	131	11.8%	363	11.2%	**494**	**11.4%**	
Total	**285**	**11.3%**	**815**	**10.3%**	**1,100**	**10.5%**	**203**

1 The SOP Ore Reserve includes dilutant material; only Sylvite, Carnallite and Kainite mineral species from Sylvinite, Carnallitite and Kainitite rock types contribute to recovered product
2 See ASX announcement, "Colluli Ore Reserve update", 19-Feb-18 for further basis and JORC Code 2012 – Table 1, Sections 1, 2, 3 & 4 for the Colluli SOP Ore Reserve and Colluli SOP Mineral Resource
3 The Measured and Indicated SOP Mineral Resources below are inclusive of those SOP Mineral Resources modified to produce the SOP Ore Reserves
4 Equivalent SOP sourced from Sylvite, Carnallite and Kainite mineral species only, shown prior to the application of processing losses

Over 85% of the Measured and Indicated SOP Mineral Resources are included in the SOP Ore Reserve. Colluli's JORC Code 2012 compliant SOP Mineral Resource remains estimated at 1.289Bt @ 11% K2O for 260Mt of contained SOP equivalent (ASX announcement 25 February 2015). The resource remains open to the south-east of Area A and the west of Area B. The SOP Mineral Resource estimate was completed by AMC Consultants Pty Ltd (AMC), and updates the previous work conducted by Ercosplan Ingenieurgesellschaft Geotechnik und Bergbau mbH. 97% of the SOP Mineral Resource is classified as Measured and Indicated. See Table [B] for a summary of the SOP Mineral Resource.

Table [B]: Colluli SOP Mineral Resource,[5,6,7,8]

		Measured		Indicated		Inferred		Total	
Area	**Rock unit**	**Mt**	**K_2O equiv.**	**Mt**	**K_2O equiv.**	**Mt**	**K_2O equiv.**	**Mt**	**K_2O equiv.**
Area A	Sylvinite	66	12%	38	11%	10	8%	**115**	**11%**
	Carnallitite	55	7%	190	9%	6	16%	**251**	**9%**
	Kainitite	86	12%	199	11%	1	10%	**285**	**11%**
Area B	Sylvinite	24	15%	122	13%	5	12%	**150**	**13%**
	Carnallitite	25	6%	114	7%	8	7%	**147**	**7%**
	Kainitite	48	13%	289	13%	4	13%	**341**	**13%**
Sub-total – Areas A & B	Sylvinite	90	13%	160	13%	15	9%	**265**	**12%**
	Carnallitite	80	7%	303	8%	15	11%	**398**	**8%**
	Kainitite	133	12%	488	12%	5	12%	**626**	**12%**
Total		**303**	**11%**	**951**	**11%**	**35**	**10%**	**1,289**	**11%**

5 ASX announcements 25-Feb-15, 30-Nov-15, 15-Aug-16, 29-Jan-18 and 19-Feb-18
6 The Colluli SOP Mineral Resource also contains an 85Mt Kieserite Mineral Resource
7 The Measured and Indicated SOP Mineral Resources are inclusive of those SOP Mineral Resources modified to produce the SOP Ore Reserve
8 See ASX announcement, "Colluli Ore Reserve update", 19-Feb-18 for further basis and JORC Code 2012 – Table 1, Sections 1, 2, 3 & 4 for the Colluli SOP Ore Reserve and Colluli SOP Mineral Resource

Colluli also has a JORC Code 2012 compliant Measured, Indicated and Inferred Rock Salt Mineral Resource estimate of 347Mt @ 96.9% NaCl. The Rock Salt Mineral Resource contains 28Mt @ 97.2% NaCl of Measured Rock Salt Mineral Resources, 180Mt @ 96.6% NaCl of Indicated Rock Salt Mineral Resources, and 139Mt @ 97.2% NaCl of Inferred Rock Salt Mineral Resources. See Table [C] for a summary of the Rock Salt Mineral Resource.

Table [C]: Colluli Rock Salt Mineral Resource[9,10]

Classification	Mt	NaCl	K	Mg	$CaSO_4$	Insolubles
Measured	**28**	97.2%	0.05%	0.05%	2.2%	0.23%
Indicated	**180**	96.6%	0.07%	0.06%	2.3%	0.24%
Inferred	**139**	97.2%	0.05%	0.05%	1.8%	0.25%
Total	**347**	**96.9%**	**0.06%**	**0.05%**	**2.1%**	**0.24%**

9 ASX announcements 23-Sep-15, 30-Nov-15, 29-Jan-18 and 19-Feb-18
10 See ASX announcement, "Colluli Ore Reserve update", 19-Feb-18 for further basis and JORC Code 2012 – Table 1, Sections 1, 2, 3 & 4 for the Colluli SOP Ore Reserve and Colluli SOP Mineral Resource

PROJECT UPDATE

FEED results released

As announced on 29 January 2018, the final FEED results have been released, confirming Colluli as the most advanced and economically attractive SOP greenfield development project. There is no other known SOP greenfield development project that has completed FEED.

FEED results underpin the Financial Model prepared for the debt providers and provided offtakers with additional confidence on project economics and fundability, which supported finalisation of bankable offtake agreements (see below). The FEED results reaffirm the outstanding project economics of Colluli.

Binding offtake agreement executed

As announced on 12 June 2018, CMSC entered into a binding take-or-pay offtake agreement with EuroChem for up to 100% (minimum 87%) of Module I SOP production from Colluli. The offtake agreement has a 10 year term from the date of first commissioning of the Colluli SOP processing plant, with an option, if mutually agreed, to extend for a further 3 years.

The offtake agreement reinforces Colluli's position as an advanced stage and economically attractive project relative to other SOP greenfield development projects. The offtake agreement is also expected to be instrumental in unlocking project funding and represents a strong endorsement for the Project. The take-or-pay nature of the offtake agreement (and associated terms) provides cash flow certainty and strengthens the Colluli and Danakali investment propositions.

EuroChem has agreed to provide technical support to the Project on terms to be agreed. EuroChem Group AG will provide a parent company guarantee as part of the Agreement.

Ore Reserve update

Danakali engaged recognised, capable and competent consultants for the development of FEED and the associated cost estimates, including many who were involved with the Colluli DFS (ASX announcement 30 November 2015), providing the engineering team with a high level of specific Colluli expertise and study continuity.

The FEED phase of study investigated options to improve SOP production and cost outcomes for the Project. The Colluli SOP Ore Reserve estimate, as at 29 January 2018, is based on a plant configuration comprising two processing modules and offsite water infrastructure to support the site water requirements. Modifying factors for SOP Ore Reserve estimation are drawn from the sections of the FEED and DFS reports as required. This is the third SOP Ore Reserve estimate for the Project. This estimate replaces the SOP Ore Reserve reported on 30 November 2015.

See above in the Project Overview section for Ore Reserve specifics.

Other key project, Company and external updates

Other key updates during the period include:

- Material completion of gaining admission to the Standard Segment of the Official List of the Financial Conduct Authority and trading on the LSE Main Market (completed in July 2018) (ASX Announcements 12 July and 24 July 2018)
- Debt Information Memorandum released to select financial institutions
- EPCM and mining contracts advanced to final negotiation stage
- Contract terms for preferred power provider, Inglett & Stubbs International, moved towards finalisation
- Material completion of the Social and Environmental Management Plans
- Progress on development of operations and in-country readiness systems and structures
- Significant positive developments in Eritrean-Ethiopian relations including signing of peace treaty providing a platform of stability for the region
- SOP demand growth continuing to outpace low cost supply growth, resulting in a robust pricing environment

SUSTAINABLE DEVELOPMENT FRAMEWORK

Danakali and CMSC (**CMSC**) have 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.

The company has a Sustainable Development Framework to govern its Corporate Social Responsibilities and Sustainability, which is aligned with its Corporate Governance Framework. The Anti-Bribery Policy has been updated in line with UK standards as a result of the LSE listing.

Further, following a period of consultation and further works, the Eritrean Ministry of Land, Water & Environment requested that CMSC finalise the Social and Environmental Management Plans (**SEMPs**) by incorporating agreed responses and changes. These have now been agreed and finalised (ASX Announcement 22 August 2018).

PROJECT FUNDING UPDATE

Debt

Danakali is engaging in ongoing discussions with potential debt providers. Multiple potential debt providers are well progressed with their due diligence.

Equity

Danakali's Ordinary Shares were admitted to the Standard Segment of the Official List of the Financial Conduct Authority and to trading on the LSE Main Market at 8.00am BST on 24 July 2018, ticker "DNK".

The Company believes Admission will increase its reach to institutional investors in the UK, Europe, Africa and the Middle East, increase share trading liquidity, and further raise the profile of the Project.

CORPORATE

Board changes

Mr Seamus Cornelius was appointed as Executive Chairman on 14 June 2018. Mr Cornelius has served as Non-Executive Chairman of Danakali since July 2013. He has a high degree of expertise in cross-border transactions, particularly in the resources and finance sectors.

Mr Cornelius is a member of the Company's Audit Committee, and Technical and Risk Committee, and is the Chairman of the Colluli Mining Share Company (**CMSC**) (the 50:50 joint venture between Danakali and the Eritrean National Mining Company (**ENAMCO**) and 100% owner of the Colluli Potash Project (**Colluli**, or **the Project**)). Mr Cornelius has to this point been an integral part of the Company's progression from Scoping Study through to Front End Engineering Design, signing of a Mining Agreement, awarding of Mining Licences, and, as announced on Tuesday, 12 June 2018, the achievement of a binding take-or-pay offtake agreement with EuroChem Trading GmbH (**EuroChem**).

Management changes

Mr Danny Goeman resigned as Chief Executive Officer (**CEO**) of the company with effect from 3 August 2018. Mr Goeman joined Danakali in 2016 as Head of Marketing before assuming the role of CEO in 2017. During his time with the Company, Mr Goeman developed the offtake strategy and contract framework, and led the offtake negotiations on behalf of CMSC. Mr. Goeman's leadership resulted in the execution of a binding take or pay offtake agreement with EuroChem covering up to 100% (minimum 87%) of the planned Module I SOP production from Colluli. Mr Goeman has accepted an offer to become Global Director Sales & Marketing for Fortescue Metals Group (ASX: FMG).

During the period, the board announced the appointment of Mr Niels Wage as the Company's new Chief Commercial Officer effective 11 June 2018. Mr Wage has significant shipping, trading and commodity experience, and has held a number of senior management roles at BHP, including Vice President Potash, Vice President Freight and Vice President Diamonds.

At Danakali, Mr. Wage will be responsible for workstreams including:

- Conducting a detailed joint logistics study with EuroChem
- Further developing CMSC's product sales strategy
- Developing plans for CMSC's own product export terminal at Anfile Bay, 87km from Colluli
- Assessing the expansion of CMSC's product range

Shares

During the period, the Company issued the following fully paid ordinary shares:

- 10,381,821 shares on traditional exercise of unlisted options at $0.35 each
- 400,000 shares on traditional exercise of unlisted options at $0.405 each
- 200,000 shares on traditional exercise of unlisted options at $0.450 each
- 738,346 shares on cashless exercise of 1,949,000 unlisted options at $0.405 each
- 116,586 shares on cashless exercise of 750,000 unlisted options at $0.527 each
- 241,974 shares on cashless exercise of 1,600,000 unlisted options at $0.550 each

- 35,000 shares on vesting of performance rights (Class 7: 20,000; Class 8: 15,000)

At 30 June 2018, there were a total of 263,811,414 fully paid ordinary shares on issue.

Options

There were no unlisted options issued during the period.

The following unlisted options were exercised and converted to shares during the period:

- 10,381,821 unlisted options exercised at $0.35 each raising $3,633,637
- 400,000 unlisted options exercised at $0.405 each raising $162,000
- 200,000 unlisted options exercised at $0.450 each raising $90,000
- 1,949,000 unlisted options with an exercise price of $0.405 were cashless exercised
- 750,000 unlisted options with an exercise price of $0.527 were cashless exercised
- 1,600,000 unlisted options with an exercise price of $0.550 were cashless exercised

There were 75,000 unlisted options exercisable at $0.350 that expired on 29 May 2018.

At 30 June 2018, there were a total of 3,840,000 unlisted options on issue at various exercise prices and expiry dates.

Performance Rights

There were no performance rights issued or cancelled during the period.

The following performance rights vested and were converted to shares during the period:

- 20,000 Class 7 performance rights vested and converted to shares
- 15,000 Class 8 performance rights vested and converted to shares

At 30 June 2018, there were a total of 1,373,000 performance rights on issue in the following classes:

- 308,000 Class 1 performance rights
- 800,000 Class 4 performance rights
- 100,000 Class 5 performance rights
- 50,000 Class 6 performance rights
- 30,000 Class 7 performance rights
- 85,000 Class 8 performance rights

Annual General Meeting

The Company's annual general meeting was held on 11 May 2018 (**AGM**). For more information, refer to the Notice of AGM announced 10 April 2018 and results of the meeting announced 11 May 2018.

INTERESTS IN MINING TENEMENTS

The exploration license for the Colluli Potash Project covers over 200km^2 and the seven mining licenses awarded to CMCS span over 60km^2 of the 100km^2 Agreement area. Further details are provided below. There was no change in tenement holding during the period.

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

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.

EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Company's Ordinary Shares were admitted to the Standard Segment of the Official List of the Financial Conduct Authority and to trading on the LSE Main Market at 8.00am BST on 24 July 2018 (LSE:DNK).

CMSC's SEMPs were agreed and finalised following an extensive review process by the Eritrean Ministry of Land, Water & Environment's Department of Environment.

On 24 July 2018 the Company issued 356,049 fully paid ordinary shares in lieu of fees to its financial adviser in relation to admission to and trading on the LSE Main Market.

On 26 July 2018 the Company issued 30,000 fully paid ordinary shares on the vesting of performance rights (10,000 Class 6 and 20,000 Class 8).

There are no other events subsequent to 30 June 2018 and up to the date of this report that would materially affect the operations of the Group or its state of affairs which have not otherwise been disclosed in this financial report.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 11.

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

Seamus Cornelius
CHAIRMAN
Perth, 12 September 2018

Directors' Report

COMPETENT PERSONS AND RESPONSIBILITY STATEMENT

Competent Persons Statement (Sulphate of Potash and Kieserite Mineral Resource)

Colluli has a JORC-2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 1,289Mt @11% K_20 Equiv. and 7% Kieserite. The Mineral Resource contains 303Mt @ 11% K_20 Equiv. and 6% Kieserite of Measured Resource, 951Mt @ 11% K_20 Equiv. and 7% Kieserite of Indicated Resource and 35Mt @ 10% K_20 Equiv. and 9% Kieserite of Inferred Resource.

The information relating to the Colluli Mineral Resource estimate is extracted from the report entitled "Colluli Review Delivers Mineral Resource Estimate of 1.289Bt" disclosed on 25 February 2015 and the report entitled "In excess of 85 million tonnes of Kieserite defined within Colluli Project Resource adds to multi agri-commodity potential" disclosed on 15 August 2016, which are available to view at www.danakali.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Competent Persons Statement (Sulphate of Potash Ore Reserve)

Colluli Proved and Probable Ore Reserve is reported according to the JORC Code and estimated at 1,100Mt @ 10.5% K_2O Equiv. The Ore Reserve is classified as 285Mt @ 11.3% K_2O Equiv. Proved and 815Mt @ 10.3% K_2O Equiv. Probable. The Colluli SOP Mineral Resource includes those Mineral Resources modified to produce the Colluli SOP Ore Reserves.

The information relating to the January 2018 Colluli Ore Reserve is extracted from the report entitled "Colluli Ore Reserve update" disclosed on 19 February 2018 and is available to view at www.danakali.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Competent Persons Statement (Rock Salt Mineral Resource)

Colluli has a JORC-2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 347Mt @ 96.9% NaCl. The Mineral Resource estimate contains 28Mt @ 97.2% NaCl of Measured Resource, 180Mt @ 96.6% NaCl of Indicated Resource and 139Mt @ 97.2% NaCl of Inferred Resource.

The information relating to the Colluli Rock Salt Mineral Resource estimate is extracted from the report entitled "+300M Tonne Rock Salt Mineral Resource Estimate Completed for Colluli" disclosed on 23 September 2015 and is available to view at www.danakali.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

AMC Consultants Pty Ltd (AMC) independence

In reporting the Mineral Resources and Ore Reserves referred to in this public release, AMC acted as an independent party, has no interest in the outcomes of Colluli and has no business relationship with Danakali 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 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) has extensive experience in analysis of salt rock and brine samples and is certified according by DIN EN ISO/IEC 17025 by the Deutsche Akkreditierungsstelle 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 and its activities. Danakali 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 Colluli 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, production target, forecast financial information and financial assumptions made in this announcement are consistent with assumptions detailed in the Company's ASX announcements dated 25 February 2015, 23 September 2015, 15 August 2016, 1 February 2017, 29 January 2018, and 19 February 2018 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.

No representation or warranty, express or implied, is or will be made by or on behalf of the Company, and no responsibility or liability is or will be accepted by the Company or its affiliates, as to the accuracy, completeness or verification of the information set out in this announcement, and nothing contained in this announcement is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or the future. The Company and each of its affiliates accordingly disclaims, to the fullest extent permitted by law, all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this announcement or any such statement.

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Auditor's Independence Declaration to the Directors of Danakali Limited

As lead auditor for the review of Danakali Limited for the half-year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
12 September 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE HALF YEAR ENDED 30 JUNE 2018

	Notes	Half Year Ended 30 June 2018 $	30 June 2017 $
REVENUE			
Interest income		90,863	102,303
Accretion relating to the unwinding of discount	6	1,198,376	573,325
Other income		1,438	-
EXPENSES			
Depreciation expense		(3,979)	(1,525)
Administration expenses	4	(929,668)	(870,577)
Share based payment reversal/(expense)		226,946	(1,026,210)
Loss on re-measurement of loan to joint venture carried at amortised cost	6	-	(1,005,001)
Share of net loss of joint venture	6	(1,955,768)	(2,211,406)
Foreign exchange gain/(loss)		263,384	(431,417)
LOSS BEFORE INCOME TAX		**(1,108,408)**	**(4,870,508)**
Income tax expense		-	-
NET LOSS FOR THE PERIOD		**(1,108,408)**	**(4,870,508)**
OTHER COMPREHENSIVE INCOME / (LOSS)			
Items that may be reclassified to profit and loss			
Share of foreign currency translation reserve relating to joint venture		464,969	(733,109)
TOTAL OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		**464,969**	**(733,109)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(643,439)**	**(5,603,617)**
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic loss per share (cents per share)		(0.44)	(2.14)
Diluted loss per share (cents per share)		(0.44)	(2.14)

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

Consolidated Statement of Financial Position

AS AT 30 JUNE 2018

	Notes	30 June 2018 $	31 December 2017 $
CURRENT ASSETS			
Cash and cash equivalents		14,455,709	15,559,980
Trade and other receivables	5	127,088	174,321
Prepayments		29,097	50,094
TOTAL CURRENT ASSETS		**14,611,894**	**15,784,395**
NON-CURRENT ASSETS			
Receivables	5	15,244,552	12,216,952
Investment in joint venture	6	14,402,977	13,811,946
Plant and equipment		20,543	15,110
TOTAL NON-CURRENT ASSETS		**29,668,072**	**26,044,008**
TOTAL ASSETS		**44,279,966**	**41,828,403**
CURRENT LIABILITIES			
Trade and other payables	7	586,604	1,097,087
Provisions		101,006	166,219
TOTAL CURRENT LIABILITIES		**687,610**	**1,263,306**
NON-CURRENT LIABILITIES			
Provisions		39,815	27,811
TOTAL NON-CURRENT LIABILITIES		**39,815**	**27,811**
TOTAL LIABILITIES		**727,425**	**1,291,117**
NET ASSETS		**43,552,541**	**40,537,286**
EQUITY			
Issued capital	8	79,300,674	75,415,034
Reserves	9	12,759,622	12,521,599
Accumulated losses	10	(48,507,755)	(47,399,347)
TOTAL EQUITY		**43,552,541**	**40,537,286**

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

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 30 JUNE 2018

			Reserves			
	Notes	Issued Capital $	Share Based Payments $	Foreign Currency Translation $	Accumulated Losses $	Total Equity $
BALANCE AT 1 JANUARY 2018		**75,415,034**	**11,416,109**	**1,105,490**	**(47,399,347)**	**40,537,286**
Loss for the period		-	-	-	(1,108,408)	(1,108,408)
Other comprehensive income		-	-	464,969	-	464,969
Total comprehensive income/(loss) for the period		**-**	**-**	**464,969**	**(1,108,408)**	**(643,439)**
Transactions with owners in their capacity as owners:						
Shares issued during the period	8	3,885,640	-	-	-	3,885,640
Costs of capital raised	8	-	-	-	-	-
Share based payments reversal		-	(226,946)	-	-	(226,946)
BALANCE AT 30 JUNE 2018		**79,300,674**	**11,189,163**	**1,570,459**	**(48,507,755)**	**43,552,541**
BALANCE AT 1 JANUARY 2017		**61,758,320**	**10,427,536**	**2,039,243**	**(40,559,411)**	**33,665,688**
Loss for the period		-	-	-	(4,870,508)	(4,870,508)
Other comprehensive loss		-	-	(733,109)	-	(733,109)
Total comprehensive loss for the period		**-**	**-**	**(733,109)**	**(4,870,508)**	**(5,603,617)**
Transactions with owners in their capacity as owners:						
Shares issued during the period	8	12,971,646	-	-	-	12,971,646
Costs of capital raised	8	(671,366)	-	-	-	(671,366)
Share based payments expense		-	1,026,210	-	-	1,026,210
BALANCE AT 30 JUNE 2017		**74,058,600**	**11,453,746**	**1,306,134**	**(45,429,919)**	**41,388,561**

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

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 30 JUNE 2018

	Notes	Half Year Ended 30 June 2018 $	30 June 2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		89,875	85,782
Payments to suppliers and employees		(1,613,080)	(1,004,043)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(1,523,205)	(918,261)
CASH FLOWS FROM INVESTING ACTIVITIES			
Funding of joint venture		(3,499,160)	(3,743,134)
Payments for plant and equipment		(9,412)	(4,558)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(3,508,572)	(3,747,692)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares	8	3,885,640	12,971,646
Costs of capital raised	8	-	(671,366)
NET CASH INFLOW FROM FINANCING ACTIVITIES		3,885,640	12,300,280
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(1,146,137)	7,634,327
Cash and cash equivalents at the beginning of the financial period		15,559,980	10,904,760
Realised foreign exchange gain on cash		41,866	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**14,455,709**	**18,539,087**

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

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

Danakali Limited (**Danakali** or the **Company**) is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange (**ASX**) and the London Stock Exchange (**LSE**). The consolidated half year financial report of the consolidated group as at, and for the six months ended 30 June 2018 comprises the Company and its subsidiaries (together referred to as the **Group**).

The financial report of Danakali for the half year ended 30 June 2018 was authorised for issue by the Directors on 11 September 2018.

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

2. BASIS OF PREPARATION

(a) Basis of preparation

This condensed general purpose financial report for the half year ended 30 June 2018 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. It is recommended that the half year financial report be read in conjunction with the annual financial report for the financial year ended 31 December 2017 and considered together with any public announcements made by the Company during the half year ended 30 June 2018 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

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

(b) New standards, interpretations and amendments adopted by the Group

The Group applied all new and amended Accounting Standards and Interpretations that were effective as at 1 January 2018, including:

AASB 9 *Financial Instruments* (AASB 9)

The Group has adopted AASB 9 as issued in July 2014 with the date of initial application being 1 January 2018. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated. AASB 9 replaces AASB *39 Financial Instruments: Recognition and Measurement* ("AASB 39"), bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The accounting policies have been updated to reflect the application of AASB 9 for the period from 1 January 2018 (see note 2(d) for details of the new accounting policy for receivables).

Measurement and classification

Under AASB 9, debt instruments are subsequently measured at fair value through profit or loss (**FVPL**), amortised cost, or fair value through other comprehensive income (**FVOCI**). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). The SPPI test is applied to the entire financial asset, even if it contains an embedded derivative. Consequently, a derivative embedded in a debt instrument is not accounted for separately.

At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. The assessment was conducted on instruments that had not been derecognised as at 1 January 2018. In this regard, the Group has determined that the adoption of AASB 9 has impacted the classification of financial instruments at 1 January 2018 as follows:

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB139 (prior to 1 January 2018)	New measurement category under AASB 9 (from 1 January 2018)
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Loan receivable	Loans and receivables	Financial assets at Fair Value Through Profit and Loss
Trade and other payables	Financial liability at amortised cost	Financial liabilities at amortised cost

The loan to Colluli Mining Share Company (see note 5) failed the SPPI test due to the limited recourse nature of the loan. Accordingly, on adoption of AASB 9, the loan has been classified as a financial asset at FVPL.

The change in classification of financial instruments has not resulted in any re-measurement adjustments at 1 January 2018.

Impairment of financial assets

In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information. In accordance with AASB 9, where the directors concluded that it would require undue cost and effort to determine the credit risk of a financial asset on initial recognition, the Group recognises lifetime ECL. The result of the assessment is as follows:

Items existing as at 1 January 2018 that are subject to the impairment provisions of AASB 9	Credit risk attributes	Cumulative additional loss allowance recognised on 1 January 2018 $'000:
Cash and cash equivalents and deposits	All bank balances are assessed to have low credit risk as they are held with a reputable financial institution with a Moody's Credit Rating of AA3.	-
Security Bond	The security is assessed to have low credit risk as they are held with a reputable institution.	-
Receivables at amortised cost	The Group applied the simplified approach and concluded that the lifetime ECL for these assets would be negligible and therefore no loss allowance was required at 1 January 2018.	-

Hedge accounting

The Group has not applied hedge accounting.

AASB 15 *Revenue from Contracts with Customers* (AASB 15)

The Group has adopted AASB 15 as issued in May 2014 with the date of initial application being 1 January 2018. In accordance with the transitional provisions in AASB 15 the standard has been applied using the full retrospective approach.

AASB 15 supersedes AASB 18 *Revenue*, AASB 111 *Construction Contracts* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

At 1 January 2017 and at 1 January 2018 it was determined that the adoption of AASB 15 had no impact on the Group.

(c) Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

At balance date, the Group had cash and cash equivalents of $14,455,709 (31 December 2017: $15,559,980) and a net working capital surplus of $13,924,284 (31 December 2017: $14,521,089). Whilst the existing cash reserves are sufficient to cover the working capital requirements of the Group for the next 12 months, it is anticipated that the Group will commence execution of the project development during this period and as such, additional funding will be necessary to carry out these planned activities.

Under the mining agreement entered into between the Government of the State of Eritrea and Colluli Mining Share Company (**CMSC**) dated 31 January 2017 (**Mining Agreement**), CMSC is obliged to spend US$200 million on infrastructure and mine development within the area of the Colluli project mining licences in the 36 months following the provision of formal notice to the Ministry of Energy and Mines that development has commenced. This notice, which is expected to be provided prior to the deadline of 30 October 2018, may be given provided that a certain amount of preliminary work has been done and is not dependent on the Company securing the necessary financing for full development of the Project.

At the date of this report, the directors are satisfied there are reasonable grounds to believe that the Group will be able to continue its planned activities and the Group will be able to meet its obligations as and when they fall due. The directors are confident that the Group will be able to obtain the additional funding requirement via equity raising and the securing of debt. If it appeared that such financing was likely to be delayed, the directors would seek to defer its planned capital expenditure on the project and may seek an extension of the deadline to meet its expenditure obligations pursuant to the Colluli Mining Agreement.

Should the Group not achieve the matters set out above, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(d) Trade and other receivables (new policy applied from 1 January 2018 due to adoption of AASB 9)

Trade receivables are initially recognised at their transaction price and other receivables at fair value. Receivables that are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest are classified and subsequently measured at amortised cost. Receivables that do not meet the criteria for amortised cost are measured at fair value through profit or loss. This latter category includes the loan to Colluli Mining Share Company.

The group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group always recognises the lifetime expected credit loss for trade receivables carried at amortised cost. The expected credit losses on these financial assets are estimated based on the Group's historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast conditions at the reporting date.

For all other receivables measured at amortised cost, the Group recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. If the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to expected credit losses within the next 12 months.

The Group considers an event of default has occurred when a financial asset is more than 120 days past due or external sources indicate that the debtor is unlikely to pay its creditors, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

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.

With the exception of fixed assets which are located in Australia, the Group's non-current assets are geographically located in Eritrea.

4. EXPENSES

	30 June 2018 $	30 June 2017 $
Employee benefits (net of recharges)	114,591	178,704
Director fees	185,929	142,849
Compliance and regulatory expenses	399,992	185,636
Lease payments relating to operating leases	56,771	102,355
Other administration expenses	172,385	261,033
	929,668	870,577

5. TRADE AND OTHER RECEIVABLES

	30 June 2018 $	31 December 2017 $
Current		
Net GST receivable	63,366	112,705
Accrued interest	988	-
Trade debtors	75	75
Other receivables	3,409	2,291
Security bonds	59,250	59,250
	127,088	174,321
Non-Current		
Loan to Colluli Mining Share Company - at fair value	15,244,552	-
Loan to Colluli Mining Share Company - at amortised cost	-	12,216,952
	15,244,552	12,216,952

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 fair value of the loan has been determined by applying an interest rate of 25%. The fair value of the loan has been determined using a discounted cash flow methodology. Due to the significant unobserved inputs the fair value is a categorised as level 3 in the fair value hierarchy. The fair value of the loan is sensitive to the discount rate applied. A 50bps movement in the discount rate would change the valuation by $187,859.

The undiscounted underlying loan balance at 30 June 2018 is $30,599,638 (31 December 2017: $27,176,517).

6. INVESTMENT IN JOINT VENTURE

The Group has an interest in the following joint arrangement:

		Equity Interest		Carrying Value	
Project	Activities	30 June 2018 %	31 December 2017 %	30 June 2018 $	31 December 2017 $
Colluli Potash	Mineral Exploration	50	50	14,402,977	13,811,946

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 a shareholders agreement entered into with the Eritrean National Mining Corporation (**ENAMCO**) and executed in November 2013 (**Shareholders Agreement**). 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.

Pursuant to 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. The balance of the allowable historic exploration costs transferred to CMSC are recoverable via a shareholder loan account (see note 5).

The Group's 50% interest in CMSC is accounted for as a joint venture using the equity method. The following tables summarise the financial information of the Group's investment in CMSC at 30 June 2018.

	30 June 2018 $	31 December 2017 $
Investment in joint venture – Colluli Mining Share Company	14,402,977	13,811,946

	Half Year to 30 June 2018 $	Financial Year to 31 December 2017 $
Reconciliation of movement in investments accounted for using the equity method:		
Carrying amount at the beginning of the period	13,811,946	13,502,312
Additional investment during the period	2,081,830	6,354,472
Share of net losses for the period	(1,955,768)	(5,111,085)
Other comprehensive income for the period	464,969	(933,753)
Carrying amount at the end of the period	14,402,977	13,811,946

Summarised financial information of joint venture:

	30 June 2018 $	31 December 2017 $
Financial position (Aligned to Danakali accounting policies)		
Current assets:		
Cash and cash equivalents	56,958	43,901
Other current assets	117,920	83,582
	174,878	127,483
Non-current assets:		
Fixed assets	126,542	108,727
Mineral property	29,652,548	27,610,315
	29,779,090	27,719,042
Current liabilities:		
Trade & other payables and accruals	230,446	250,832
	230,446	250,832
Non-current liabilities:		
Loan from Danakali Limited	15,244,552	12,216,952
	15,244,552	12,216,952
NET ASSETS	14,478,970	15,378,741
Group's share of net assets	7,239,485	7,689,371
Reconciliation of Equity Investment:		
Group's share of net assets	7,239,485	7,689,371
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	11,468,599	10,427,682
Carrying amount at the end of the period	14,402,977	13,811,946

	Half Year to 30 June 2018 $	Half Year to 30 June 2017 $
Financial performance		
Interest expense relating to the unwinding of discount	(1,198,376)	(573,325)
Gain on re-measurement of loan	-	1,005,001
Exploration and evaluation expenditure	(2,713,160)	(4,854,487)
LOSS FOR THE PERIOD	(3,911,536)	(4,422,811)
Group's share of total loss for the period	(1,955,768)	(2,211,406)

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

7. TRADE AND OTHER PAYABLES

	30 June 2018 $	31 December 2017 $
Trade payables	393,464	925,470
Accrued expenses	152,162	103,453
Other payables	40,978	68,164
	586,604	1,097,087

8. ISSUED CAPITAL

	Half Year to 30 June 2018		Financial Year to 31 December 2017	
	Number of shares	$	Number of shares	$
(a) Share capital				
Ordinary shares fully paid	263,811,414	79,300,671	251,697,687	75,415,034
(b) Movements in ordinary share capital				
Beginning of the period	251,697,687	75,415,034	224,494,677	61,758,320
Issued during the period*:*				
– Issued at $0.278 per share on option exercise	-	-	4,600,000	1,278,800
– Issued at $0.350 per share on option exercise	10,381,821	3,633,640	1,356,365	474,728
– Issued at $0.405 per share on option exercise	400,000	162,000	351,000	142,155
– Issued at $0.408 per share on option exercise	-	-	200,000	81,600
– Issued at $0.450 per share on option exercise	200,000	90,000	-	-
– Issued at $0.652 per share via cashless exercise of 1,949,000 options with an exercise price of $0.405	738,346	-	-	-
– Issued at $0.624 per share via cashless exercise of 750,000 options with an exercise price of $0.527	116,586	-	-	-
– Issued at $0.648 per share via cashless exercise of 1,600,000 options with an exercise price of $0.550	241,974	-	-	-
– Issued on vesting of performance rights	35,000	-	775,000	-
– Issued at $0.620 per share	-	-	19,920,645	12,350,800
– Costs of capital raised	-	-	-	(671,369)
End of the period	263,811,414	79,300,674	251,697,687	75,415,034

9. RESERVES

	Half Year to 30 June 2018 $	Financial Year to 31 December 2017 $
(a) Reserves		
Share-based payments reserve		
Balance at beginning of the period	11,416,109	10,427,536
Employee and contractor share options & performance rights	(226,946)	988,573
Balance at end of the period	11,189,163	11,416,109
Foreign currency translation reserve		
Balance at beginning of the period	1,105,490	2,039,243
Currency translation differences arising during the period	464,969	(933,753)
Balance at end of the period	1,570,459	1,105,490
Total reserves	**12,759,622**	**12,521,599**

(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.

10. ACCUMULATED LOSSES

	Half Year to 30 June 2018 $	Financial Year to 31 December 2017 $
Balance at beginning of the period	(47,399,347)	(40,559,411)
Loss for the period	(1,108,408)	(6,839,936)
Balance at end of the period	(48,507,755)	(47,399,347)

11. SHARE BASED PAYMENTS

(a) Options

Movements in the number of unlisted options (being those the subject of share based payments) on issue during the period is as follows:

Unlisted Option	Opening balance	Exercised (Traditional)	Exercised (Cashless) (i)	Lapsed / Expired	Closing balance
Exercise price $0.405 expiry date 13/05/2018	2,349,000	(400,000)	(1,949,000)	-	-
Exercise price $0.527 expiry date 29/05/2018	750,000	-	(750,000)	-	-
Exercise price $0.550 expiry date 31/05/2018	600,000	-	(600,000)	-	-
Exercise price $0.450 expiry date 23/06/2018	200,000	(200,000)	-	-	-
Exercise price $0.550 expiry date 04/11/2018	750,000	-	-	-	750,000 (ii)
Exercise price $0.550 expiry date 31/12/2018	1,000,000	-	(1,000,000)	-	-
Exercise price $0.558 expiry date 08/08/2019	1,000,000	-	-	-	1,000,000 (iii)
Exercise price $0.543 expiry date 07/10/2019	250,000	-	-	-	250,000 (iv)
Exercise price $0.940 expiry date 19/05/2020	1,440,000	-	-	-	1,440,000 (ii)
Exercise price $0.960 expiry date 20/06/2019	400,000	-	-	-	400,000 (ii)
	8,739,000	(600,000)	(4,299,000)	-	3,840,000

(i) During the period, 1,096,906 ordinary shares were issued on the cashless exercise of 3,399,000 unlisted options previously granted as compensation to directors, employees and advisors. The number of shares issued was calculated using the cashless exercise mechanism in accordance with the terms and conditions as amended and approved by shareholders at the Company's annual general meeting held 11 May 2018.

(ii) Vested options.

(iii) 900,000 vested options; 100,000 unvested options.

(iv) Unvested options.

(b) Performance Rights

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

Movements in the number of performance rights on issue during the period is as follows:

Performance Rights - Class	Opening balance	Granted	Vested	Cancelled	Closing balance
Class 1	308,000	-	-	-	308,000
Class 4	800,000	-	-	-	800,000
Class 5	100,000	-	-	-	100,000
Class 6	50,000	-	-	-	50,000
Class 7	50,000	-	(20,000)	-	30,000
Class 8	100,000	-	(15,000)	-	85,000
	1,408,000	-	(35,000)	-	1,373,000

Notes to the Consolidated Financial Statements

The 1,373,000 Performance Rights on issue at 30 June 2018 are subject to the following performance conditions:

Class 1:
- 308,000 upon completion of securing finance for the development of the Colluli Potash Project

Class 4:
- 800,000 upon commencement of construction of the production facility for Colluli.

Class 5:
- 20,000 upon commencement of the first development work on the ground at the Colluli site within 1 week of the scheduled development time;
- 60,000 upon 6-month construction mark if safety, costs and schedule are all on target; and
- 20,000 upon completion of commissioning and completion of performance testing (performance testing to meet contractual requirements).

Class 6:
- 10,000 upon successful completion of a dual listing of the Company on the London stock exchange;
- 15,000 upon Endeavour Financial being paid its first milestone success fee which is linked to a letter of finance support from a lending institution; and
- 25,000 upon term sheets being signed for the project financing of the Colluli project.

Class 7:
- 15,000 upon completion of a strategic investment at greater than 30-day VWAP plus 10%; and
- 15,000 on signing a debt terms sheet for project financing or debt is secured from a strategic investor.

Class 8:
- 20,000 on completion of a London stock exchange listing;
- 5,000 on completion of an approval and issued CSR report befitting an ASX200 company;
- 50,000 on securing a strategic equity partner; and
- 10,000 on finalising broker mandates which support the equity capital market strategy.

12. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 30 June 2018:

		Fair value	
	At amortised cost $	through profit and loss $	through other comprehensive income $
Financial Assets:			
Trade and other receivables	127,088	-	-
Total current	127,088	-	-
Receivable	-	15,244,552	-
Total non-current	-	15,244,552	-
Total Assets	127,088	15,244,552	-
Financial liabilities:			
Trade and other payables	586,604	-	-
Total current	586,604	-	-
Total Liabilities	586,604	-	-

Fair values:

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 30 June 2018:

	Carrying amount $	Fair value $
Financial Assets:		
Trade and other receivables	127,088	127,088
Total current	127,088	127,088
Receivable	15,244,552	15,244,552
Total non-current	15,244,552	15,244,552
Total Assets	15,371,640	15,371,640
Financial liabilities:		
Trade and other payables	586,604	586,604
Total current	586,604	586,604
Other payables	-	-
Total non-current	-	-
Total Liabilities	586,604	586,604

13. SUBSIDIARY

Interest in subsidiary

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

Name	Principal Activities	Country of Incorporation	Class of Shares	Equity Holding 30 June 2018 %	Equity Holding 31 December 2017 %
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.

14. RELATED PARTY INFORMATION

Key Management Personnel (KMP)

The Company has entered into revised arrangements with the following key management personnel (**KMP**) during the half-year ended 30 June 2018:

Mr Seamus Cornelius, Executive Chairman (Transitioned from Non-Executive to Executive Chairman 14 June 2018):

- Mr Cornelius is entitled to receive $109,000 per annum under an executive services agreement for the provision of executive duties, the term of which will be three months after the appointment of a new CEO
- Mr Cornelius remains entitled to receive his pre-existing director fees (approximately $89,000)

Mr Stuart Tarrant, Chief Financial Officer:
Effective from 1 June 2018:

- Engaged as a permanent full time employee
- Remuneration of $300,000 per annum (including statutory superannuation)
- Notice period of 3 months, required to be given by either party for termination

Transactions with directors, director related entities and other related parties

During the half year to 30 June 2018 the following transactions with related parties took place:

Options:

- On 26 February 2018, 50,000 unlisted options with an exercise price of $0.35 each were exercised by KMP (traditional exercise);
- On 29 March 2018, 125,000 unlisted options with an exercise price of $0.35 each were exercised by KMP (traditional exercise);
- On 14 May 2018, 1,400,000 unlisted options with an exercise price of $0.405 were exercised by KMP (cashless exercise)
- On 29 May 2018, 750,000 unlisted options with an exercise price of $0.527 were exercised by KMP (cashless exercise);

- On 13 May 2018, 75,000 unlisted options to a KMP exercisable at $0.35 expired;
- On 29 June 2018, the board resolved, subject to receipt of shareholder approval, to issue of 500,000 unlisted options to Mr Liebenberg.

Performance Rights:

- On 12 March 2018, 10,000 shares were issued to KMP upon vesting of performance rights; and
- On 14 June 2018, 10,000 shares were issued to KMP upon vesting of performance rights.

Shares:

- A total of 175,000 shares were issued to KMP upon traditional exercise of 175,000 unlisted options;
- A total of 646,953 shares were issued to KMP upon cashless exercise of 2,150,000 unlisted options; and
- A total of 20,000 shares were issue to KMP upon vesting of performance rights.

15. CONTINGENCIES

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

16. COMMITMENTS

	Half Year to 30 June 2018 $	Financial Year to 31 December 2017 $
Lease commitments (Group as lessee):		
Operating leases (non cancellable)		
Minimum lease payments		
- Within one year	46,667	70,000
- Later than one year but not later than five years	-	11,667
	46,667	81,667

17. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Company's Ordinary Shares were admitted to the Standard Segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange's (**LSE**) Main Market at 8.00am BST on 24 July 2018 (LSE:DNK).

CMSC's SEMPs were agreed and finalised following an extensive review process by the Eritrean Ministry of Land, Water & Environment's Department of Environment.

On 24 July 2018 the Company issued 356,049 fully paid ordinary shares in lieu of fees to its financial adviser in relation to admission to and trading on the LSE Main Market.

On 26 July 2018 the Company issued 30,000 fully paid ordinary shares on the vesting of performance rights (10,000 Class 6 and 20,000 Class 8).

There are no other events subsequent to 30 June 2018 and up to the date of this report that would materially affect the operations of the Group or its state of affairs which have not otherwise been disclosed in this financial report.

Directors' Declaration

In the directors' opinion:

1. the financial statements and notes set out on pages 12 to 25 are in accordance with the *Corporations Act 2001*, including:

   a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   b) giving a true and fair view of the entity's financial position as at 30 June 2018 and of its performance for the half year ended on that date; and

2. there are reasonable grounds to believe that Danakali Limited will be able to pay its debts as and when they become due and payable subject to achieving the matters set out in note 2(c).

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

Seamus Ian Cornelius

CHAIRMAN

Perth, 12 September 2018

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Independent auditor's review report to the Members of Danakali Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Danakali Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of matter –material uncertainty related to going concern

Without qualifying our conclusion, we draw attention to Note 2(c) in the financial report. The matters as set forth in Note 2(c) indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
12 September 2018