



DANAKALI



# DANAKALI LIMITED

(Formerly South Boulder Mines Limited)

## FINANCIAL REPORT FOR THE HALF YEAR ENDED

30 JUNE 2015

ABN 56 097 904 302

*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 2014 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.*

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DANAKALI





## INTERIM FINANCIAL REPORT

for the half year ended 30 June 2015

### DIRECTORS & EXECUTIVE MANAGEMENT

Seamus Ian Cornelius  
Non-Executive Chairman

Paul Michael Donaldson  
Managing Director & Chief Executive Officer

Anthony William Kiernan  
Non-Executive Director

Liam Raymond Cornelius  
Non-Executive Director

John Daniel Fitzgerald  
Non-Executive Director

### COMPANY SECRETARY

Amy Just

### AUSTRALIAN BUSINESS NUMBER

56 097 904 302

### REGISTERED & ADMINISTRATIVE OFFICE

Ground Floor, 31 Ventnor Avenue  
West Perth, WA 6005  
Australia

Telephone: +61 (0)8 6315 1444

Facsimile: +61 (0)8 9486 7093

Website: [www.danakali.com](http://www.danakali.com)

### BANK

ANZ  
1275 Hay Street  
WEST PERTH, WA 6005

### SHARE REGISTRY

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
Applecross, WA 6153

Telephone: +61 (0)8 9315 2333

Facsimile: +61 (0)8 9315 2233

### AUDITORS

Ernst & Young  
11 Mounts Bay Road  
PERTH WA 6000

Telephone: +61 (0)8 9429 2222

Facsimile: +61 (0)8 9429 2436

### STOCK EXCHANGE LISTING

Australian Securities Exchange (ASX) (Code: DNK)

### AMERICAN DEPOSITORY RECEIPTS

DNK's ADRs are traded on the over-the-counter (OTC) securities market in the US under the:

- Symbol: SBMSY
- CUSIP: 836709105

One ADR represents one ordinary share in DNK



## INTERIM FINANCIAL REPORT

for the half year ended 30 June 2015

Dear fellow shareholder,

On behalf of the Board I thank you for your continued support of Danakali.

Danakali is developing the Colluli potash and agrichemicals project in Eritrea through a 50:50 joint venture with the Eritrean National Mining Corporation (ENAMCO). The Colluli Potash Project is a truly outstanding asset that, once developed, will produce potash and other agrichemical products for many, many decades if not centuries. When people speak of "world class" or "tier one" globally significant assets it is assets such as Colluli about which they are speaking.

During the last six months, funds totalling \$8.14 million have been raised from two placements and a very well supported rights issue. These funds will enable Danakali to complete the Definitive Feasibility Study (DFS) for the Colluli Potash Project, progress funding discussions, advance the project in the areas of marketing, processing and operational readiness and provide working capital. Many of our long-standing shareholders participated in the rights issue, which demonstrates their confidence in Danakali and Colluli.

Danakali is in the middle of a defining period of activity as we, along with our joint venture partners, progress the Colluli Potash Project towards development. We have a challenging yet ultimately rewarding journey ahead of us.



The six month period to June 2015 has demonstrated the capability of the Danakali management team to deliver against plan. Highlighting this capability was the release of the highly favourable economic prefeasibility study (PFS) and globally significant Maiden Ore Reserve, coupled with the rebranding of South Boulder Mines to Danakali.

The team are now focussed on the delivery of the definitive feasibility study (DFS) for the phased development of a Sulphate of Potash (SOP) project. The DFS outcomes will balance risk, fundability, economic return and market penetration in a pragmatic and fact based manner. Our consultants and management have worked very hard to ensure that all DFS outcomes and conclusions are based on facts, evidence and clearly demonstrable engineering and scientific information. We look forward to delivering these outcomes later this calendar year. Shareholders should keep in mind that while the DFS will focus on SOP, the Colluli resource is capable of producing a suite of potash and agrichemical products. Once the DFS has been delivered we will continue work on post-DFS optimisation while we progress funding and development discussions.

SOP prices remain strong despite the dramatic softening in bulk commodity prices over the last 6 to 12 months. SOP demand is underpinned by global population growth and reducing levels of arable land. Economically feasible resources for primary production of SOP are geologically scarce and there are few new greenfield developments planned. Colluli is one of only three projects in the world with a completed PFS for the production of SOP.

Although we have increased activities at Colluli over the last six months, I am pleased to report no lost time injuries have been reported and we have not had a reportable environmental incident at Colluli since exploration commenced in 2010. This level of performance on safety and environmental measures bodes well for us as we move into the construction and production phase at Colluli. Our strong culture around safety and environmental awareness will be maintained and developed to ensure that we continue our safety and environmental performance.

In Eritrea, we note the increasing willingness from European Union countries to visit and assess conditions on the ground, rather than rely merely on desktop reports. Eritrea is one of the few countries likely to meet its Millennium Declaration targets in relation to healthcare and spending. We continue to see the Eritrean Government as a valuable and progressive partner in this venture.

Finally, I would like to thank my fellow Board members, the management team, the employees of Danakali and our consultants for their professional contributions over the past six months.

I look forward to your ongoing support throughout the remainder of 2015 and beyond.

Yours faithfully

Seamus Cornelius  
**Non-Executive Chairman**









## INTERIM FINANCIAL REPORT

for the half year ended 30 June 2015

Your directors submit their report together with the 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 2015.

### Directors

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

Seamus Ian Cornelius (Non-Executive Chairman)  
Paul Michael Donaldson (Managing Director)  
Anthony William Kiernan (Non-Executive Director)  
Liam Raymond Cornelius (Non-Executive Director)  
John Daniel Fitzgerald (Non-Executive Director) – Appointed 19 February 2015

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

### PRINCIPAL ACTIVITIES

The principal activity of the Group during the period was to advance the development of the Colluli Potash Project in Eritrea, East Africa. There was no significant change in the nature of the Group's activities during the six months to 30 June 2015.

### REVIEW AND RESULTS OF OPERATIONS

The Group recorded a net loss after tax of \$4,120,908 for the six months to 30 June 2015 compared to a net profit of \$3,355,983 in the six months to 30 June 2014 (Restated).

Total consolidated cash on hand at the end of the period was \$8,643,603 (31 December 2014 - Restated: \$7,113,394).

### Colluli Potash Project – Eritrea, East Africa

#### Project Overview

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

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

The exploration tenements cover over 200km<sup>2</sup> and comprise almost 1.3 billion tonnes of potassium-bearing salts suitable for the production of potash fertilisers. Over 1.1 billion tonnes of the Resource is included in the Ore Reserve, with the massive expected resource recovery a direct result of the shallow mineralisation of the potassium bearing salts. With mineralisation commencing at just 16m below surface, Colluli is the shallowest known evaporite deposit in the world and is amenable to open cut mining. Open cut mining is generally a safer, more productive and economical mining method in contrast with underground mining.

The variety of potassium bearing salts contained within the Colluli Resource provide it with an unrivalled capacity to produce a range of potash fertilisers, which will allow the project to grow in both scale and product suite over time. The project also has substantial upside potential due to the large contained volumes of rock salt, magnesium chloride and gypsum.

A two phase modular development approach underpins a highly favourable prefeasibility study (PFS) for the production of potassium sulphate (Sulphate of Potash or SOP). SOP has limited primary production centres globally as a result of geological scarcity. Only three primary production centres exist in the world.

The first phase of the development as a standalone project has an IRR of over 22%. The economics of Phases I and II combined result in an attractive estimated internal rate of return (IRR) of over 24% (Refer company's ASX announcement dated 4 March 2015). The Definitive Feasibility Study (DFS) is expected to be completed by the end of 2015.

#### Favourable Pre-Feasibility Study (PFS) Project Economics

Phase I is expected to be commissioned in late 2018 and forecast to produce 425,000 tonnes per annum of SOP. Phase II commissioning is expected five years subsequent to Phase I and will take annual production to 850,000 tonnes of SOP. The following table provides an economic snapshot of the PFS project outcomes.



## INTERIM FINANCIAL REPORT

for the half year ended 30 June 2015

**Table: Summary of Pre-feasibility study economic outcomes**  
(Refer company's ASX announcement dated 4 March 2015).

Outcome	Unit	Phase I	Phase II <sup>1</sup>
Annualised SOP Production	Kt	425	850
Development Capital (including 15% contingency)	US\$m	442	282 <sup>2</sup>
Average SOP Price (FOB Anfile Bay)	US\$/t SOP	588	588
Average Mine Gate Cash Costs	US\$/t SOP	162	141
Average Total Cash Costs <sup>3</sup>	US\$/t SOP	210	189
Post tax NPV (10%) – Project	US\$m	462	846
After tax Internal Rate of Return - Project	%	22.3	24.7
Post tax NPV (10%) – DNK <sup>4</sup>	US\$m	206	397
Post tax Internal Rate of Return - DNK	%	22.3	25.9
Undiscounted cash flow (cumulative)	US\$m	2,645	5,134

<sup>1</sup> Based on an additional 425ktpa Phase II commencing production in year 5

<sup>2</sup> Additional capital required for second production module

<sup>3</sup> Includes mine gate costs, logistics and royalties

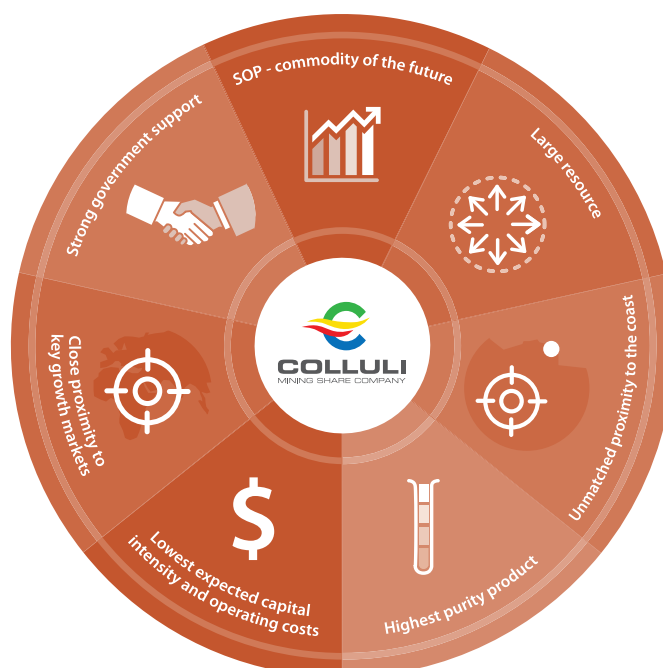
<sup>4</sup> In accordance with the CMSC Shareholders Agreement

### Colluli: Positively Unique

The Danakil region of East Africa is an emerging potash province of significance. Over 10 billion tonnes of potassium bearing salts have been identified to date, and the region has attracted a number of major fertiliser players including ICL and Yara International.

Unlike the current major potash producing basins of the world, the Danakil region contains a variety of potassium bearing salts, providing the opportunity to generate a range of potash fertilisers. The Danakil basin contains the only potash resource in the world that allows such product diversity.

A number of attributes combine to make Colluli an outstanding opportunity. These differentiating factors, shown below, position Colluli as probably the most attractive SOP and potash development project in the world.





## INTERIM FINANCIAL REPORT

for the half year ended 30 June 2015

### SUBSEQUENT EVENTS

On 22 July 2015, the company announced the results of optimisation testwork which reduced Colluli DFS water consumption requirements by over 60%.

On 5 August 2015, the company announced the detection of potassium rich brines at Colluli which have the potential to supplement process water and provide an additional source of potassium.

### 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 7.

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

Seamus Ian Cornelius

**CHAIRMAN**

Perth, 11 September 2015





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

In relation to our review of the financial report of Danakali Limited for the half-year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Gavin Buckingham  
Partner  
11 September 2015









# Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE HALF YEAR ENDED 30 JUNE 2015

		Consolidated Half Year Ended	
		30 June 2015	Restated 30 June 2014
	Notes	\$	\$
<b>REVENUE AND OTHER INCOME</b>			
Interest income		88,558	181,557
Accretion relating to the unwinding of discount		707,549	-
Gain on establishment of CMSC joint venture	5	-	6,147,345
Foreign exchange gain		368,191	-
Other income		178,374	4,870
<b>EXPENSES</b>			
Depreciation expense		(6,912)	(21,213)
Administration expenses		(1,158,488)	(627,320)
Other expense		-	(727,719)
Exploration and evaluation expenditure		-	(539,331)
Share based payment expense		(373,135)	(503,129)
Share of net loss of equity accounted investment	5	(3,925,045)	(559,077)
<b>(LOSS)/PROFIT BEFORE INCOME TAX</b>		<b>(4,120,908)</b>	<b>3,355,983</b>
Income tax		-	-
<b>NET (LOSS)/PROFIT FOR THE PERIOD</b>		<b>(4,120,908)</b>	<b>3,355,983</b>
<b>OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD, NET OF TAX</b>			
Share of foreign currency translation reserve relating to equity accounted investment		724,217	(280,487)
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>		<b>724,217</b>	<b>(280,487)</b>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD</b>		<b>(3,396,691)</b>	<b>3,075,496</b>
<b>(Loss)/Earnings per share attributable to the ordinary equity holders of the Company:</b>			
Basic loss per share (cents per share)		(2.72)	2.39
Diluted loss per share (cents per share)		(2.72)	2.39



## Consolidated Statement of Financial Position

AS AT 30 JUNE 2015

		Consolidated	
		30 June 2015	Restated 31 December 2014
	Notes	\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		8,643,603	7,113,394
Trade and other receivables	4	297,626	128,995
Prepayments		13,190	26,379
<b>TOTAL CURRENT ASSETS</b>		<b>8,954,419</b>	<b>7,268,768</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	4	7,870,845	5,625,755
Investment accounted for using the equity method	5	10,977,293	8,674,357
Plant and equipment		31,113	38,026
<b>TOTAL NON-CURRENT ASSETS</b>		<b>18,879,251</b>	<b>14,338,138</b>
<b>TOTAL ASSETS</b>		<b>27,833,670</b>	<b>21,606,906</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	6	1,781,746	462,968
Provisions		83,865	63,601
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,865,611</b>	<b>526,569</b>
<b>TOTAL LIABILITIES</b>		<b>1,865,611</b>	<b>526,569</b>
<b>NET ASSETS</b>		<b>25,968,059</b>	<b>21,080,337</b>
<b>EQUITY</b>			
Issued capital	7	49,039,523	41,026,165
Reserves	8	9,890,612	8,895,340
Accumulated losses	9	(32,962,076)	(28,841,168)
<b>TOTAL EQUITY</b>		<b>25,968,059</b>	<b>21,080,337</b>



# Consolidated Statement of Changes in Equity (Cont'd)

FOR THE HALF YEAR ENDED 30 JUNE 2015

	Notes	Reserves					Sub-Total	Non-Controlling Interest	Total Equity
		Issued Capital	Share Based Payments	Foreign Currency Translation	Accumulated Losses				
		\$	\$	\$	\$		\$	\$	\$
<b>BALANCE AT 1 JANUARY 2014 – as previously stated</b>		<b>38,956,990</b>	<b>7,241,918</b>	-	<b>(35,197,123)</b>		<b>11,001,785</b>	-	<b>11,001,785</b>
Loss for the period – as previously stated		-	-	-	(1,733,404)		(1,733,404)	(873,811)	(2,607,215)
Other comprehensive loss – as previously stated		-	-	(4,491)	-		(4,491)	(4,684)	(9,175)
Restatement	2(c)	-	-	(275,996)	5,089,387		4,813,391	878,495	5,691,886
<b>Total comprehensive income for the period - restated</b>		-	-	<b>(280,487)</b>	<b>3,355,983</b>		<b>3,075,496</b>	-	<b>3,075,496</b>
<b>Transactions with owners in their capacity as owners:</b>									
Shares issued during the period	7	178,800	-	-	-		178,800	-	178,800
Options issued during the period		-	503,126	-	-		503,126	-	503,126
Transfer on vesting of performance rights		40,375	(40,375)	-	-		-	-	-
<b>RESTATED BALANCE AT 30 JUNE 2014</b>		<b>39,176,165</b>	<b>7,704,669</b>	<b>(280,487)</b>	<b>(31,841,140)</b>		<b>14,759,207</b>	-	<b>14,759,207</b>
<b>BALANCE AT 1 JANUARY 2015 – as previously stated</b>		<b>41,026,165</b>	<b>8,438,722</b>	<b>(28,737)</b>	<b>(40,550,720)</b>		<b>8,885,430</b>	<b>(1,640,080)</b>	<b>7,245,350</b>
Restatement	2(c)			485,355	11,709,552		12,194,907	1,640,080	13,834,987
<b>BALANCE AT 1 JANUARY 2015 - restated</b>		<b>41,026,165</b>	<b>8,438,722</b>	<b>456,618</b>	<b>(28,841,168)</b>		<b>21,080,337</b>	-	<b>21,080,337</b>
Loss for the period		-	-	-	(4,120,908)		(4,120,908)	-	(4,120,908)
Other comprehensive income		-	-	724,217	-		724,217	-	724,217
<b>Total comprehensive income/(loss) for the period</b>		-	-	<b>724,217</b>	<b>(4,120,908)</b>		<b>(3,396,691)</b>	-	<b>(3,396,691)</b>
<b>Transactions with owners in their capacity as owners:</b>									
Shares issued during the period	7	8,143,591	-	-	-		8,143,591	-	8,143,591
Costs of capital raised	7	(232,313)	-	-	-		(232,313)	-	(232,313)
Options & performance rights issued during the period		-	373,135	-	-		373,135	-	373,135
Transfer on vesting of performance rights		102,080	(102,080)	-	-		-	-	-
<b>BALANCE AT 30 JUNE 2015</b>		<b>49,039,523</b>	<b>8,709,777</b>	<b>1,180,835</b>	<b>(32,962,076)</b>		<b>25,968,059</b>	-	<b>25,968,059</b>



## Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 30 JUNE 2015

	Notes	Consolidated Half Year Ended 30 June 2015 \$	30 June 2014 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		99,532	201,948
Payments to suppliers and employees		(1,337,981)	(602,760)
Expenditure on mining interests		-	(910,834)
Sundry income		933	162
Research & Development tax rebate		177,441	-
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(1,060,075)	(1,311,484)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Funding of joint venture		(5,320,994)	(1,078,278)
Proceeds from sale of plant and equipment		-	4,708
NET CASH OUTFLOW/ INFLOW FROM INVESTING ACTIVITIES		(5,320,994)	(1,073,570)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of ordinary shares	7	8,143,591	178,800
Costs of capital raised	7	(232,313)	-
NET CASH INFLOW FROM FINANCING ACTIVITIES		7,911,278	178,800
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,530,209	(2,206,254)
Cash and cash equivalents at the beginning of the financial period		7,113,394	11,412,267
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>8,643,603</b>	<b>9,206,013</b>





## Notes to the Consolidated Financial Statements

### 1. REPORTING ENTITY

Danakali Ltd ('Danakali or the 'Company') is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange (ASX). The consolidated half year financial report of the Group as at, and for the six months ended 30 June 2015 comprises the Company and its subsidiaries (together referred to as the 'Group').

The financial report of Danakali for the half year ended 30 June 2015 was authorised for issue by the Directors on 11 September 2015.

Danakali Ltd, previously named South Boulder Mines Ltd, changed its name at the annual general meeting held on 29 May 2015.

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 2015 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 transitional financial year ended 31 December 2014 and considered together with any public announcements made by the Company during the half year ended 30 June 2015 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.

Apart from the changes in accounting policy in note 2(b), and the prior period restatements set out in note 2(c), the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

#### Going concern

The consolidated entity recorded a loss of \$4,120,908 for the half year ended 30 June 2015 (30 June 2014 - restated: \$3,355,983 profit) and had net cash outflows from operating and investing activities of \$6,381,069 for the half year ended 30 June 2015 (30 June 2014 - restated: \$2,385,054). The consolidated entity had cash and cash equivalents at 30 June 2015 of \$8,643,603 (31 December 2014 - restated: \$7,113,394) and has working capital of \$7,088,808 (31 December 2014 - restated: \$6,742,199).

The Group's cashflow forecast for the period ended 31 December 2016 reflects that the Group will require additional working capital over that period to enable the group to continue to meet its project development and ongoing administrative expenditure to advance the Colluli Potash Project.

The Directors are satisfied they will be able to raise additional working capital as required and thus it is appropriate to prepare the financial statements on a going concern basis. In arriving at this position the Directors have considered the following pertinent matters:

- Strong take up of entitlements during the recent rights issue (May 2015).
- Participation of underwriters supporting the rights issue above.
- Execution of three (3) private placements over the preceding 12 month period.
- Positive PFS for the Colluli Potash Project

In the event that the Group is unable to raise additional funds to meet the Group's ongoing working capital requirements when required, there is a material uncertainty as to whether the Group will be able to meet its debts as and when they fall due and thus continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.



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

### 2. BASIS OF PREPARATION (Cont'd)

#### (b) Accounting policies

The Group has reviewed and adopted all new and revised Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective from 1 January 2015. As a result of this review the directors have determined that no change to the Group's accounting policies is necessary.

Following a reassessment of the accounting for its interest in the Colluli Mining Share Company (CMSC) (see Note 2c), the Group has adopted the following accounting policy in relation to its interest in the joint venture.

##### (i) Investment in joint ventures

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

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

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

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

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

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

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

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

#### (c) Restatement of Prior Period Accounts

Detailed below is an explanation of a prior period restatement identified during the current period.

In line with applicable accounting standards, periodic reviews are undertaken to assess whether the Company controls Colluli Mining Share Company (CMSC). The Group has a 50% interest in CMSC. In the previous reporting periods, the assessment of control resulted in the consolidation of CMSC on the basis that 3 of 5 CMSC Board seats were held by the Company.

The 30 June 2015 reassessment acknowledged that certain material decisions are reserved for Majority Shareholder approval. Furthermore, these shareholder voting rights are considered to be substantive rights particularly in the early stages of the project development.

Having further regard to these reserved matters it was determined that it is not appropriate for CMSC to be consolidated within the Group where the CMSC Board does not have complete decision making control of CMSC. In reference to these matters, the interest in CMSC is more appropriately classified as an interest in a joint venture and should have been accounted for using the equity method.

There have been no changes to the Shareholders Agreement or CMSC Board composition since CMSC incorporation and the expected flows of cash to and from CMSC, as defined in the Shareholder Agreement remain unchanged.

The accounting treatment has been corrected by restating prior periods (30 June 2014 & 31 December 2014). The impact of the restatement on the financial statements is as follows:





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

### 2. BASIS OF PREPARATION (Cont'd)

#### i) Cumulative impact on the Consolidated Statement of Financial Position:

	As at 31 December 2014 \$	As at 30 June 2014 \$
<b>Current assets</b>		
Decrease in cash and cash equivalents	(412,056)	(69,238)
Decrease in trade and other receivables	(44,713)	(38,636)
Total current assets	(456,769)	(107,874)
<b>Non-current assets</b>		
Increase in receivable	5,625,755	-
Increase in investment in equity accounted investment	8,674,357	5,846,922
Decrease in property, plant and equipment	(8,356)	(47,162)
Total non-current assets	14,291,756	5,799,760
Total Assets – Net increase	13,834,987	5,691,886
<b>Liabilities</b>		
Total Liabilities	-	-
<b>Equity</b>		
Decrease / (increase) foreign exchange reserve	485,355	(275,996)
Decrease accumulated losses	11,709,552	5,089,387
Decrease amounts attributable to non-controlling interests	1,640,080	878,495
Total Equity – Net increase	13,834,987	5,691,886



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

### 2. BASIS OF PREPARATION (Cont'd)

#### ii) Impact on the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	Half Year to 31 December 2014 \$	Half Year to 30 June 2014 \$
<b>Income/(Expenses)</b>		
Gain on establishment of CMSC joint venture	-	6,147,345
Gain on recognition of receivable from CMSC relating to reimbursable costs	5,625,755	-
Depreciation expense	50,169	125,045
Administration expense	103,715	198,335
Other Income	(24,246)	(4,491)
Other expense	-	(727,719)
Exploration and evaluation expenditure	3,265,014	779,269
Share of net loss of equity accounted investment	(1,687,153)	(559,077)
Net increase in profit for the period	7,333,254	5,958,707
<b>Other comprehensive income</b>		
Gain on translation of foreign operations	48,492	9,175
Share of foreign currency translation reserve relating to equity accounted investment	761,355	(275,996)
Net impact on total comprehensive profit for the period	8,143,101	5,691,886
<b>Attributable to</b>		
Equity holders of the parent	6,503,021	4,813,391
Non-controlling interest	1,640,080	878,495
	8,143,101	5,691,886
<b>Impact on basic and diluted earnings per share (increase in EPS)</b>		
Basic loss per share (cents per share)	5.51	4.42
Diluted loss per share (cents per share)	5.51	4.42





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

### 2. BASIS OF PREPARATION (Cont'd)

#### iii) Impact on the Consolidated Statement of Cashflows:

	Half Year to 31 December 2014 \$	Half Year to 30 June 2014 \$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	114,800	173,617
Expenditure on mining interests	3,311,528	835,841
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>3,426,328</b>	<b>1,009,458</b>
<b>Cashflows from investing activities</b>		
Payments for plant and equipment	8,334	(418)
Funding of joint venture	(3,777,480)	(1,078,278)
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>(3,769,146)</b>	<b>(1,078,696)</b>
Net impact on cash and cash equivalents	(342,818)	(69,238)

### 3. SEGMENT INFORMATION

The Group operates in the mineral exploration industry in Eritrea. For management purposes, the Group is organised into one main operating segment which involves the exploration of minerals in Eritrea and reported on a cash basis. 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.

Previous segment reporting disclosure has been assessed for appropriateness and the current disclosures are considered a more accurate reflection of group reporting.

### 4. TRADE AND OTHER RECEIVABLES

	30 June 2015 \$	31 December 2014 \$
<b>Current</b>		
Net GST receivable	205,965	98,891
Accrued interest	17,230	28,204
Trade debtors	13,598	1,462
Other receivables	60,833	438
	<b>297,626</b>	<b>128,995</b>
<b>Non-Current</b>		
Loan to Colluli Mining Share Company	7,870,845	5,625,755
	<b>7,870,845</b>	<b>5,625,755</b>

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 from future operating cashflows. The shareholder loan is denominated in USD, non-interest bearing, unsecured and subordinate to third party secured lenders, under which CMSC may enter into in order to fund the Project Development Capital. For accounting purposes, the value of the loan has been discounted to \$7,870,845 by applying an effective interest rate of 25% over an estimated repayment period of approximately 5 years.

The undiscounted underlying loan balance at 30 June 2015 is \$20,539,905 (31 December 2014: \$16,110,566).



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

### 5. INTERESTS IN JOINT ARRANGEMENTS

The Group has an interest in the following joint arrangement:

Project	Activities	Equity Interest		Carrying Value	
		30 June 2015 %	31 December 2014 %	30 June 2015 \$	31 December 2014 \$
Colluli Potash	Mineral Exploration	50	50	10,977,293	8,674,357

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

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

The initial cost of investment of \$6,147,345 represents the fair value of the non-monetary asset contribution to CMSC adjusted for the value of the unrealised gain.

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 2015:

	30 June 2015 \$	31 December 2014 \$
Investment in joint venture – Colluli Mining Share Company	10,977,293	8,674,357

	Half Year to 30 June 2015 \$	Financial Year to 31 December 2014 \$
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#### Reconciliation of movement in investments accounted for using the equity method:

Carrying amount at the beginning of the period / 1 January 2014	8,674,357	-
Acquisition at cost	-	6,147,345
Additional investment during the period	5,503,764	4,316,620
Share of net losses for the period	(3,925,045)	(2,246,230)
Other comprehensive income for the period	724,217	456,622
Carrying amount at the end of the period	10,977,293	8,674,357

During the half year to 30 June 2014 (included in the financial year to 31 December 2014 above), the share of net losses were \$559,077.

#### Summarised financial information of joint venture:

	30 June 2015 \$	31 December 2014 \$
<b>Financial position (Aligned to Danakali accounting policies)</b>		
Cash and cash equivalents	369,699	286,774
Other current assets	121,023	128,233
Current assets	490,722	415,007
Non-current assets	28,711,714	27,241,278
Current liabilities	(286,999)	(344,762)
Non-current liabilities	(7,870,845)	(5,625,755)
NET ASSETS	21,044,592	21,685,768
Group's share of net assets	10,522,296	10,842,884





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

### 5. INTERESTS IN JOINT ARRANGEMENTS (Cont'd)

	Half Year to 30 June 2015 \$	Financial Year to 31 December 2014 \$
<b>Reconciliation of Equity Investment:</b>		
Group's share of net assets	10,522,296	10,842,884
Share of initial equity contribution on establishment of the Joint Venture not recognised by DNK	(4,305,106)	(4,305,107)
Outside shareholder interest in equity contributions by Danakali	4,760,103	2,136,580
Carrying amount at the end of the period	10,977,293	8,674,357

	Half Year to 30 June 2015 \$	Financial Year to 31 December 2014 \$
<b>Financial performance</b>		
Interest expense relating to the unwinding of discount	(707,549)	-
Exploration and evaluation expenditure	(7,142,541)	(4,492,460)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(7,850,090)	(4,492,460)
Group's share of total loss for the period	(3,925,045)	(2,246,230)

### 6. TRADE AND OTHER PAYABLES

	30 June 2015 \$	31 December 2014 \$
Trade payables	275,991	331,850
Accrued expenses	1,476,059	105,223
Other payables	29,696	25,895
	1,781,746	462,968

### 7. ISSUED CAPITAL

	Half Year to 30 June 2015		Financial Year to 31 December 2014	
	Number of shares	\$	Number of shares	\$
<b>(a) Share capital</b>				
Ordinary shares fully paid	174,202,167	49,039,523	139,427,826	41,026,165
Total issued capital	174,202,167	49,039,523	139,427,826	41,026,165
<b>(b) Movements in ordinary share capital</b>				
Beginning of the period	139,427,826	41,026,165	128,177,826	38,956,990
<i>Issued during the period:</i>				
• Issued at \$0.205 per share	10,000,000	2,050,000	-	-
• Issued at \$0.250 per share	10,974,174	2,743,544	-	-
• Issued at \$0.250 per share	13,400,167	3,350,047	-	-
• Costs of capital raised	-	(232,313)	-	-
• Issued on vesting of performance rights	400,000	102,080	-	30,375
• Issued at \$0.185 per share	-	-	10,000,000	1,850,000
• Issued on exercise of \$0.149 options	-	-	1,200,000	178,800
• Issued as performance incentive shares	-	-	50,000	10,000
End of the period	174,202,167	49,039,523	139,427,826	41,026,165



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

### 8. RESERVES

	Half Year to 30 June 2015 \$	Financial Year to 31 December 2014 \$
<b>(a) Reserves</b>		
<b>Share-based payments reserve</b>		
Balance at beginning of the period	8,438,722	7,241,918
Employee and contractor share options & performance rights	373,135	1,237,179
Transfer to issued capital on conversion of performance rights	(102,080)	(40,375)
Balance at end of the period	8,709,777	8,438,722
<b>Foreign currency translation reserve</b>		
Balance at beginning of the period	456,618	-
Currency translation differences arising during the period / year	724,217	456,618
Balance at end of the period	1,180,835	456,618
Total Reserves	9,890,612	8,895,340

#### (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 exchange differences arising on translation of foreign joint arrangement.





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

### 9. ACCUMULATED LOSSES

	Half Year to 30 June 2015	Financial Year to 31 December 2014
	\$	\$
Balance at beginning of the period	(28,841,168)	(35,197,123)
(Loss)/profit for the period	(4,120,908)	6,355,955
Balance at end of the period	(32,962,076)	(28,841,168)

### 10. SHARE BASED PAYMENTS

#### (a) Options

During the half year 750,000 unlisted options exercisable at \$0.527 per share with an expiry date of 29 May 2018 were issued to a Director, Mr John Fitzgerald. The options vested immediately on issue. The options were issued as an incentive in line with the options issued to other directors.

On 31 March 2015, 1,250,000 unlisted options exercisable at \$1.949 expired unexercised.

A total of 27,550,000 options were outstanding at the end of the half year.

#### (b) Performance Rights

The Company has a Performance Rights Plan which was implemented following shareholder approval at the 2011 Annual General Meeting. The Plan continues in effect pursuant to Shareholder received at the November 2014 Annual General Meeting. The purpose of the Plan is to provide recognition to employees of the Company and its subsidiaries for their continued and ongoing support of the Company.

As 30 June 2015 a total of 3,127,000 Performance Rights were on issue as follows:

Class 1: 377,000 Performance Rights  
Class 2: 150,000 Performance Rights  
Class 3: 450,000 Performance Rights  
Class 4: 2,150,000 Performance Rights

The 3,127,000 Performance Rights on issue at 30 June 2015 relate to Performance Rights issued to employees pursuant to the Performance Rights Plan and Performance Rights granted to other advisors of the Company in prior reporting periods. There were no performance rights issued during the half year.

During the half year, 400,000 Performance Rights vested upon the completion of the pre-feasibility study for the Colluli Potash Project.



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

### 11. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 30 June 2015:

	Loans and receivables \$	Fair value through profit and loss \$	Fair value through other comprehensive income \$
<b>Financial Assets:</b>			
Trade and other receivables	310,816	-	-
Total current	310,816	-	-
Other receivable	7,870,845	-	-
Total non-current	7,870,845	-	-
Total Assets	8,181,661	-	-
<b>Financial liabilities:</b>			
Trade and other payables	1,781,746	-	-
Total current	1,781,746	-	-
Other payables	-	-	-
Total non-current	-	-	-
Total Liabilities	1,781,746	-	-

#### Fair values:

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 30 June 2015:

	Carrying amount \$	Fair value \$
<b>Financial Assets:</b>		
Trade and other receivables	310,816	310,816
Total current	310,816	310,816
Other assets	7,870,845	7,870,845
Total non-current	7,870,845	7,870,845
Total Assets	8,181,661	8,181,661
<b>Financial liabilities:</b>		
Trade and other payables	1,781,746	1,781,746
Total current	1,781,746	1,781,746
Other payables	-	-
Total non-current	-	-
Total Liabilities	1,781,746	1,781,746





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

### 12. CONTINGENCIES

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

### 13. COMMITMENTS

	Consolidated	
	30 June 2015	31 December 2014
	\$	\$
<b>Lease commitments: Group as lessee</b>		
<i>Operating leases (non-cancellable):</i>		
Minimum lease payments		
within one year	114,922	114,922
later than one year but not later than five years	108,857	166,637
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	223,779	281,559

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

### 14. SUBSIDIARY

#### Interest in subsidiary

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

Name	Principal Activities	Country of Incorporation	Class of Shares	Equity Holding	
				30 June 2015	31 December 2014
				%	%
STB Eritrea Pty Ltd	Investment in Potash Exploration	Australia	Ordinary	100	100

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

### 15. RELATED PARTY TRANSACTIONS

During the half year to 30 June 2015 the following transactions with related parties took place:

- On 18 March 2015, 300,000 Performance Rights held by related party, Mr Paul Donaldson, vested and resulted in the issue of 300,000 ordinary shares to the related party.
- On 29 May 2015, 750,000 unlisted options were issued to related party, Mr John Fitzgerald, subsequent to approval by shareholders at the annual general meeting held on 29 May 2015. The options are exercisable at \$0.527 each on or before 29 May 2018.

### 16. DIVIDENDS

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

### 17. SUBSEQUENT EVENTS

There have been no events subsequent to the end of the reporting date and the date of the financial report that have not been recognised in the financial report.



## Directors' Declaration

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In the directors' opinion:

1. the financial statements and notes set out on pages 9 to 23 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 2015 and of its performance for the half year ended on that date; and
2. subject to achieving the matters set out in note 2a to the financial report, there are reasonable grounds to believe that Danakali Ltd will be able to pay its debts as and when they become due and payable.

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

Seamus Ian Cornelius

**CHAIRMAN**

Perth, 11 September 2015





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

To the members of Danakali Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Danakali Limited, which comprises the consolidated statement of financial position as at 30 June 2015, 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 description of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Danakali Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### Independence

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



## Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

## Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 2(a) in the financial report. The matters as set forth in Note 2(a) 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.

*Ernst & Young*

Ernst & Young

*Gavin Buckingham*

Gavin Buckingham  
Partner  
Perth  
11 September 2015





## Additional Information

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### Resource Statement

Colluli has a JORC 2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 1,289Mt @11% K2O. The resource contains 303Mt @ 10.98% K2O of Measured Resources, 951Mt @ 10.89% K2O of Indicated Resources and 35Mt @ 10.28% K2O of Inferred Resources.

The information relating to the Colluli Mineral Resource was compiled by Mr. John Tyrell, 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. Tyrell is a member of the Australian Institute of Mining and Metallurgy and a full time employee of AMC Consultants Pty Ltd. Mr. Tyrell 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. Tyrell & Mr. Halabura consent to the inclusion of information relating to the Resource Statement in the form and context in which it appears.

### Reserve Statement

The JORC 2012 compliant Ore Reserve estimate for Colluli is 1,107 Mt @10% K2O comprising 287Mt Proved and 820Mt Probable Ore Reserve.

Mark Chesher is the Competent Person for the 2015 Colluli Ore Reserve estimate, and supervised preparation of the Ore Reserve estimate with assistance from specialists in each area of the study. Mr. Chesher is a Fellow of the Australasian Institute of Mining and Metallurgy, a Chartered Professional, and is a full-time employee of AMC Consultants Pty Ltd.

He 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 2012. Mr Chesher consents to the inclusion of information relating to the Ore Reserve in the form and context in which it appears.

In undertaking the assignments referred to in this investment pack, 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 Person believe that there is no conflict of interest in undertaking the assignments which are the subject of this statement.

DANAKALI LTD  
Ground Floor  
31 Ventnor Avenue  
West Perth WA 6005

Telephone: +61 8 6315 1444  
Facsimile: +61 8 9486 7093  
Email: [info@danakali.com](mailto:info@danakali.com)  
Web: [www.danakali.com](http://www.danakali.com)



**DANAKALI**