



# 2015 ANNUAL REPORT

**DANAKALI LTD**

ABN 56 097 904 302

(Formerly known as South Boulder Mines Ltd)

FOR THE YEAR ENDED 31 DECEMBER 2015



**DANAKALI**

create. nurture. grow.

# Colluli at a Glance

**COLLULI**  
IS THE PREMIER,  
**PREMIUM**  
POTASH AND  
MULTI-AGRI  
COMMODITY  
OPPORTUNITY

Investment  
Opportunity



**3.5**  
**YEARS**

Phase I payback

**850**  
**THOUSAND**

Product tonnes<sup>1</sup>

**29%**  
**IRR**

29% Internal Rate  
of Return<sup>1</sup>



**200**  
**YEARS**

Reserve mine life<sup>1</sup>



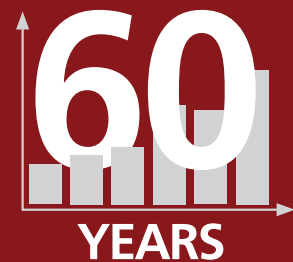
**OPERATING COSTS**  
**IN THE BOTTOM**  
**QUARTILE OF**  
**THE CASH CURVE**

Opex FOB  
Massawa<sup>1</sup>

**↑ NPV**

**\$860**  
**MILLION**

\$860 Million NPV<sup>1</sup>



**60**  
**YEARS**

Economic modelling  
period<sup>1</sup>



**INDUSTRY**  
**LEADING**  
**CAPITAL INTENSITY**

Initial Development  
Capital

<sup>1</sup> DFS assumes a 2 phased development: Phase I producing 425ktpa and Phase II doubling output 5 years later.

# Colluli Fundamentals



## Large, shallow deposit in solid form

Colluli's large reserve of 1.1 Billion tonnes containing over 200 million tonnes of SOP equivalent is uniquely favourable for the production of potassium sulphate through the combination of kainite with sylvite and carnallite. Occurring in solid form and close to the surface with mineralisation beginning at just 16m, the deposit is perfectly suited to conventional open cut mining. Due to the variety of salts in the deposit the project has the ability to simply diversify its product suite to include, among others, potassium magnesium sulphate (SOP-M) and potassium chloride (MOP).



## Simple access to key markets

The established export facility at the port of Massawa is 230km from Colluli. This proximity to the coast and established port infrastructure gives Colluli unrivalled access to the global export market via one of the busiest trade routes in the world. Demand for fertiliser is driven by population growth which directly translates to food demand. Almost 95% of the population growth over the next three decades will occur in Africa, India and South East Asia. The relative location of the Colluli resource to these key markets gives it a significant logistics advantage and unrivalled access to the potash markets.



## Highest purity product

Over 300kg of Colluli SOP has been produced by our pilot plant run by the Saskatchewan Research Council (SRC) in Canada. The tests included a full range of variations to ensure the robustness and stability of the process. The resulting SOP was at a purity over 98%, placing it high on the purity spectrum, achievable due to the unique combination of salts available in the deposit. Samples of the SOP product, produced exclusively from Colluli ore, are available on request in Granular, Standard and Soluble form.



## Strong Government support

The Colluli Potash Project is a nationally important, and highly desired, strategic development for Eritrea's growth. Since the formation of the Joint Venture company the Colluli Mining Share Company (CMSC), Danakali directors and the Government of the State of Eritrea have maintained an effective and enabling relationship. The CMSC board meet quarterly in Asmara and determine the strategies and initiatives needed to successfully develop Colluli.



## Lowest capital intensity

Driven by the key positive differentiators of the Colluli Potash Project the DFS economics demonstrate that Colluli is the lowest cost SOP development in the world today. At a development capital of US\$298m for 425,000 tonnes of SOP per annum or US\$473m for 850,000 tonnes of SOP per annum, the Colluli development represents the most efficient capital investment in the SOP market. Phase I tonnes will be brought in at an efficient capital intensity of \$702 per tonne of capacity with Phase II providing even greater efficiencies at an impressively low capital intensity of \$412 per tonne of capacity.



## Sulphate Of Potash - Commodity of the future

Potassium chloride (MOP) has been commonly used as a fertiliser due to favourable market conditions partly driven by the lack of low cost alternates. Overuse, especially in low rainfall areas, has led to a build-up of chlorine levels in the soils making them less desirable to the moderately chlorine tolerant bulk crops. With higher yields required and with a global demand trend towards chlorine intolerant, healthier, crops, the fertiliser of choice will be low chlorine potash; primarily potassium sulphate. Colluli's potash products are ideally suited to meet this trend.

# Corporate Information

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## Directors

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)

## Executive Management

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

## Company Secretary

Christiaan Philippus Els

## Registered Office & Principal Place of Business

Ground Floor, 31 Ventnor Avenue  
WEST PERTH WA 6005  
Telephone: +61 (0)8 6315 1444  
Facsimile: +61 (0)8 9486 7093

## Bank

ANZ  
1275 Hay Street  
WEST PERTH WA 6005

## Share Register

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

## Auditors

Ernst & Young  
11 Mounts Bay Road  
PERTH WA 6000

## Website

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

## Stock Exchange Listing

Danakali Ltd Shares (Code: DNK) are listed on the Australian Stock Exchange.

## American Depository Receipts

The Bank of New York Mellon sponsors DNK's Level 1 American Depository Receipts Program (ADR) in the United States of America. DNK's ADRs are traded on the over-the-counter (OTC) securities market in the US under the symbol DNKLY and CUSIP: 836709105. One ADR represents one ordinary share in DNK.

US OTC Market information is available here: <http://www.otcm Markets.com/stock/DNKLY/quote>

DNK's ADR information can also be viewed here: [http://www.adrbnymellon.com/dr\\_profile.jsp?cusip=836709105](http://www.adrbnymellon.com/dr_profile.jsp?cusip=836709105)

ADR Holders seeking information on their shareholding should contact:

LONDON  
Mark Lewis  
[mark.lewis@bnymellon.com](mailto:mark.lewis@bnymellon.com)  
Telephone +44 207 163 7407

NEW YORK  
Kristen Resch  
[kristen.resch@bnymellon.com](mailto:kristen.resch@bnymellon.com)  
Telephone +1 212 815 2213

HONG KONG  
Herston Powers  
[herston.powers@bnymellon.com](mailto:herston.powers@bnymellon.com)  
Telephone +852 2840 9868

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## Chairman's Letter

Dear fellow shareholders,

I am sure those of you with the time to read letters of this type over the past few years have become accustomed to seeing an expression of appreciation for your support and comments about how difficult the public capital markets have been for smaller cap companies in the broader commodity space. There is no doubt that once again over the last year the markets have been difficult and there is little more that can usefully be said on this topic.

Danakali is fortunate to have a very supportive shareholder base and the board and management of DNK is very aware of our duties to shareholders and the need for shareholder support. The fact that these expressions of appreciation for shareholder support have become routine does not in any way make them less genuine.

During 2015 Danakali completed both a PFS and DFS on the Colluli resource. The studies clearly demonstrate that Colluli is a unique and unrivalled potash asset that will support the development of a long-term highly profitable multi Agri-commodity business. Shareholders and others should not be confused about Colluli's potential or misunderstand what Colluli is simply because the DFS is focused on a phased development initially starting with two 425,000tpa modules producing SOP (sulphate of potash or K<sub>2</sub>SO<sub>4</sub>).

An initial module of 425,000tpa was selected after extensive studies during the PFS/DFS phase to balance the important factors underpinning the success of every start-up which include initial capex, IRR, capital intensity, operating cost, local workforce skills, market penetration, etc. The initial module in no way represents Colluli's potential but it ensures that Colluli will reach its multi-million tonne per annum market dominating potential as quickly, profitably and safely as possible.

Colluli is that rare strategic asset which will grow to dominate the market as the largest, longest life, lowest cost and best located SOP project in the World. Colluli will also be a dominant player in the SOP-M market and the salt market. The higher cost secondary producers (also known as Mannheim producers) simply will not be able to compete with Colluli and Colluli's size, longevity, quality product, low cost base, location and unrivalled scalability mean it will also take market share from the current MOP producers.

Owning a piece of Colluli today is like owning a piece of the very best part of the Pilbara 50 years ago. It may even be better than that because people need to eat and more people means more food is needed. Eating isn't discretionary, or at least it isn't discretionary for long, whereas you can always decide to delay steel consumption. I know this is a very big call but I look forward to being proven right.

We have a very strong and cooperative relationship with our 50/50 joint venture partner the Eritrean National Mining Company ("ENAMCO") and I thank them for their support over the past year. I made 4 trips to Eritrea in 2016 for



joint venture board meetings and during the course of the PFS/DFS work we had many international consultants and advisors along with Danakali staff travelling to and from Eritrea all without incident.

In my experience Eritrea is a stable, safe and progressive jurisdiction. Naturally I am aware of some the negative press on Eritrea but the facts on the ground in country tell a very different and much more positive story. The Canadian listed mining company Nevsun continues to operate and expand the very successful Bisha mine in Eritrea. There is also considerable and growing investment in Eritrea from China, South Africa, the Middle East and the EU countries all of which is evident on the ground and encouraged by the many international diplomatic missions present in Eritrea.

Finally, I will take this opportunity to thank my fellow directors, ENAMCO, Danakali management and staff in Perth and Eritrea, the Government of Eritrea and the various consultants and service providers that supported us through the year. In particular I thank the key consultants on our DFS being Lycopodium, Global Potash Solutions, AMC consultants, Knight Piesold, Ausenco, the Saskatchewan Research Council, CRU, MBS Environmental and Sustainability for their excellent work.

**Yours sincerely**

A handwritten signature in black ink, appearing to read 'S. Cornelius', written in a cursive style.

**Seamus Cornelius  
Non-executive Chairman  
Danakali Limited.**



**PROJECTS OF  
COLLULI'S  
QUALITY  
ARE RARE**

## Managing Director's Letter

2015 was a year of significant milestone achievements for the company and the Colluli potash project. The results demonstrate that Colluli is the world's premier premium potash and multi agri-commodity opportunity.

Resources of the quality and scale of Colluli are rare, and while the terms "world class", and "tier 1" are almost cliché in the junior mining sector, I can confidently say that this project has all of the attributes that reflect them. Resource size, project scalability, access to global markets, product diversification potential, bottom quartile operating costs and industry leading capital intensity are the differentiating factors that make the Colluli project unique.

The Danakil region, East Africa, is arguably the largest unexploited potash basin in the world. To date over 6 billion tonnes of potassium bearing salts have been identified in the region, and 1.3 billion of those sit within the Colluli resource. Colluli remains open to the North, South and East. The Danakil's unique composition provides unrivalled potash product diversification, and the quality, size, geographically favourable location, and highly favourable cost structures associated with the extraction of fertiliser products has attracted experienced industry heavyweights such as ICL and Yara International to the region to develop projects.

With mineralisation starting at just 16m, and only 230km separating Colluli and the port of Massawa, the Colluli project has distinct mineral extraction and logistics advantages relative to other projects in the region. It truly represents the gateway to the Danakil.

Colluli is currently one of only four sulphate of potash (SOP) projects in the world at definitive feasibility study level. It is no coincidence that three of the four SOP projects at DFS level are situated in the Danakil region, which is a reflection of the highly favourable combination of potassium salts of the Danakil resource for low cost SOP production. Colluli's unique positive features make it one of the most fundable, long term potash projects in the world.

SOP is a high quality, chloride free, multi-nutrient fertiliser which is ideal for high value, chloride intolerant crops and for use in arid operating environments. It achieves a substantial price premium over the more common potash type, potassium chloride, and has limited primary production centres globally. Economically exploitable primary resources are geologically scarce. The SOP market has been extremely resilient throughout the commodity cycle - a direct consequence of the lack of new primary production facilities in the development pipeline. The price premium above potassium chloride continues at over 50%.



The overarching fundamentals for fertiliser demand growth remain robust. According to the United Nations, the world's population will increase by over 30% to almost 10 billion by 2050. Quite simply – people need to eat, and agricultural yields need to increase by 70% to meet the food challenge of the future. This will fuel continued demand growth for SOP, which is already constrained by primary production supply.

Few junior developers can boast the list of accomplishments that Danakali has achieved over the past 12 months. These include the completion of both prefeasibility (PFS) and definitive feasibility studies (DFS) for the production of SOP, a technical review of the processing plant design, successful production of premium quality SOP from the Colluli salts, successful production of potassium magnesium sulphate (SOP-M) from Colluli salts, release of product specifications for SOP and SOP-M, completion of the CMSC exploration license renewal, release of a JORC-2012 compliant rock salt resource, completion and submission of social and environmental baseline assessments, and delivery of the maiden ore reserve.

The highly favourable DFS demonstrates an outstanding set of economic outputs, underpinned by a massive 1.1 billion tonne ore reserve. Post PFS optimisation testwork achieved a capital reduction of over 30%, resulting in industry leading capital intensity, low incremental growth capital and bottom quartile operating cost curve position.

The upcoming year will focus on completion of the mining approvals process, funding and offtake arrangements to support the project development.



## Managing Director's Letter *(Cont'd)*

As we look to 2016, one of our key challenges is dealing with the perception issues of Eritrea and our joint venture partnership.

Danakali has been operating in Eritrea since for the past seven years. We enjoy working in Eritrea. Over the time we have been in country we have developed many relationships with project stakeholders including the local communities, the Ministry of Energy and Mines, the Ministry of Environment and our joint venture partner Enamco. In addition, we have successfully established a country office in Asmara, drilled a 1.3 billion tonne resource, hosted numerous site visits for various service providers supporting the feasibility studies and associated testwork, and completed comprehensive social and environmental baseline assessments and management plans.

In the three years that I have been with Danakali, I have travelled to Eritrea on at least 10 occasions. It is safe, people are friendly and engaging, and there is a high level of focus on health, education, agriculture and infrastructure development. The country has also made excellent progress in its pursuit of the millennium goals (now superseded by sustainable development goals) set by the United Nations.

The 2015 Fraser Institute Mining Survey saw Eritrea jump up to 5<sup>th</sup> place out of twenty countries in Africa for Mining Investment Attractiveness, and at a global level it ranked higher than more familiar jurisdictions such as Indonesia, Philippines, Malaysia, Brazil and Spain. This is an excellent result for the country and demonstrates the commitment to the ongoing development of the mining sector.

Our joint venture with Enamco is a key enabler for success. While many people find it difficult to come to grips with the terms of the shareholders agreement we have with Enamco, the simple fact is that the favourable depreciation, loss carrying rules, low import tariffs and distribution of cashflows back to the joint venture

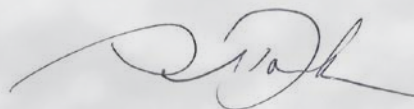
partners results in a highly favourable return for the Danakali shareholders. This is reflected in our published DFS results.

I personally believe that 50% ownership of a world class, diversified, long term, strategic asset with huge upside potential, and highly attractive economic returns (despite the ownership structure), coupled with a joint venture partner who is fully aligned to its development and supportive in navigating through infrastructure, logistics and regulatory issues, is a much better proposition than 100% ownership of a marginal or short term single commodity project. Smart investors will take the strategic view - this is a rare high, high quality investment opportunity.

Over the time that I have been travelling into Eritrea, I have seen many positive changes and am sure I will see many more in the years to come. In 2016 Eritrea will celebrate 25 years of independence. Congratulations to all Eritreans on this significant milestone.

My closing comments on Eritrea are - don't judge it by what you "google". The best way is to engage with people who do business there, have lived there, or travel there regularly, and if you have the capacity, opportunity and would like to see a beautiful part of Africa, go there. I guarantee you will be pleasantly surprised.

Yours sincerely



Paul Donaldson  
CEO and Managing Director

# Directors' Report

The directors present their report together with the financial statements of the consolidated entity being, Danakali Ltd (**Danakali** or **the Company**) and its controlled entities (**the Group**) for the financial year ended 31 December 2015.

Subsequent to the reporting period ended on 30 June 2014, the Company changed its financial year end to 31 December. The comparatives contained in this report are a six-month transitional report for the period 1 July 2014 to 31 December 2014.

## DIRECTORS

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

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



#### **Seamus Ian Cornelius**

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

Mr Cornelius is a corporate lawyer and former partner of one of Australia's leading international law firms. He specialised in cross-border transactions, particularly in the resources sector.

Mr Cornelius has been based in Shanghai and Beijing since 1993 and brings more than 20 years of corporate experience in legal and commercial negotiations. He has also advised global companies on their investments in China and in recent years advised Chinese State-owned entities on their investments in overseas resource projects.

Mr Cornelius is currently the Non-Executive Chairman of Buxton Resources Ltd since 29 November 2010, Non-Executive Chairman of Montezuma Mining Company Ltd since 30 June 2011, and Non-Executive Chairman of Duketon Mining Ltd since 8 February 2013. There have been no other directorships in the past 3 years.

#### *Special Responsibilities:*

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



#### **Paul Michael Donaldson**

*Managing Director and Chief Executive Officer, MBT, BEng, initially appointed Chief Operating Officer 29 November 2012, transitioned to Chief Executive Officer 1 February 2013 and additionally appointed Managing Director 29 April 2014*

Mr Donaldson joined Danakali from a series of senior management roles spanning more than 20 years with BHP Billiton ("BHP"). Mr Donaldson holds a Masters Degree in Business and Technology from the University of NSW and a degree in Chemical Engineering from the University of Newcastle and a Masters Degree in Mining Engineering from the University of NSW. At BHP Mr Donaldson managed large scale, open cut mining operations, headed the BHP Carbon Steel Materials Technical Marketing Team, managed the Port Hedland iron ore facility as well as key roles in product and infrastructure planning across large scale supply chains.

Mr Donaldson also brings extensive experience in high-level business improvement and logistics from base metal operations and a high degree of integrated supply chain management, technical operational management and frontline leadership experience in the steel industry. Mr Donaldson has not held any former directorships in the last 3 years.

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

### DIRECTORS (Cont.)



#### **Anthony William Kiernan**

*Independent Non-Executive Director, LLB, appointed 15 October 2012*

Mr Kiernan has over 25 years of experience in the mining industry and was previously a commercial lawyer. He is currently a corporate advisor and has extensive experience in the administration and operation of public listed companies. He brings particular skills in the areas of Government relations and approvals, corporate strategy and corporate governance, all of which are key areas for the Company as it progresses the development of its key asset, the Colluli Potash Project in Eritrea, East Africa.

Mr Kiernan is currently the Non-Executive Chairman of BC Iron Ltd since 11 October 2006, Non-Executive Chairman of Venturex Resources Limited since 14 July 2010, and a Non-Executive Chairman of Chalice Gold Mines Ltd since 15 February 2007.

In addition, Mr Kiernan was a Non-Executive Director of Liontown Resources Limited from 2 February 2006 until 11 November 2013, and a Non-Executive Director of Uranium Equities Limited from 3 June 2003 until 28 November 2013.

#### *Special Responsibilities:*

Mr Kiernan is currently a member of the Audit & Risk Committee and Chairman of the Remuneration & Nomination Committee since 28 August 2013.



#### **Liam Raymond Cornelius**

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

Mr Cornelius graduated from Curtin University of Technology with a BApp.Sc in Geology. Mr Cornelius has been involved in the exploration industry within Australia, Asia and Africa for nearly 23 years. Whilst originally specializing in gold he has experience with a wide range of commodities including nickel, copper, platinum, uranium and potash.

As a founding member of Danakali Ltd, Mr Cornelius has played a key role in outlining areas of interest for the Company. Mr Cornelius has not held any former directorships in the last 3 years.

#### *Special Responsibilities:*

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



#### **John Daniel Fitzgerald**

*Independent Non-Executive Director, BApp.Sc, appointed 19 February 2015*

Mr Fitzgerald joined the board in February 2015, and has previously held positions at NM Rothschild and Sons, Investec Bank Australia, Commonwealth Bank and HSBC Precious Metals. He is the Managing Director of Optimum Capital Pty Ltd, a debt and corporate advisory business focussed on the mining sector.

Mr Fitzgerald is currently a Non-Executive Director of Northern Star Resources Limited since 30 November 2012 and Non-Executive Chairman of Dakota Minerals Limited since 23 December 2015.

In addition, Mr Fitzgerald was a non-Executive Director of Atherton Resources Limited (previously known as Mungana Goldmines Limited) from 14 December 2009 to 9 November 2015.

Mr Fitzgerald is a Chartered Accountant, a Fellow of FINSIA and a member of the Australian Institute of Company Directors.

#### *Special Responsibilities:*

Mr Fitzgerald is currently Chairman of the Audit & Risk Committee since 9 September 2015.

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

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### COMPANY SECRETARY



#### **Christiaan Philippus Els**

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

Mr Els is a finance executive with over 22 years' industry experience spanning mining, manufacturing, agribusiness, business services and fast moving consumer goods sectors in Australia, South Africa and Brazil. His area of expertise includes, amongst others equity, project and debt funding, M&A, business and financial strategy development, investor relations and corporate governance.

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

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



#### **Amy Dawn Just**

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

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

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

## Directors' Report (Cont'd)

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

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

Director	Ordinary Shares	Options over Ordinary Shares	Performance Rights
S I Cornelius	6,663,046	3,500,000	-
P M Donaldson	1,418,334	2,000,000	1,500,000
A W Kiernan	603,128	2,500,000	150,000
L R Cornelius	13,482,041	2,000,000	50,000
J D Fitzgerald	108,334	750,000	-

### PRINCIPAL ACTIVITIES

The principal activity of the Group during the period was the exploration and evaluation of mineral resources including 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 financial year ended 31 December 2015.

### CORPORATE STRUCTURE

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

### REVIEW OF OPERATIONS

#### Project Overview

The Colluli Potash Project (**Colluli** or **the Project**), is located in the Danakil region of Eritrea, East Africa. By road it is approximately 350km south-east of the capital, Asmara and 230km by road from the port of Massawa, which is Eritrea's key import / export facility.

The project 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 Company (**ENAMCO**).

Figure: Location of Eritrea



The Project's resource comprises almost 1.3 billion tonnes of potassium-bearing salts suitable for the production of potash fertilisers and over 350 million tonnes of high quality rock salt, which overlays the potash mineralisation. Over 1.1 billion tonnes of the potassium bearing salts is included in the Ore Reserve, the high resource to reserve conversion is a direct result of the shallow mineralisation of potassium bearing salts, which occur in solid form. This uniquely shallow mineralisation is perfectly amenable to safe and productive open cut mining.

The proven large resource, with low development capital intensity, project scalability, bottom quartile operating costs, product diversification potential and ease of access to global markets, supports a Tier 1 asset definition. An estimated mine life of over 200 years, at a production rate increasing to 850ktpa demonstrates project growth potential over decades.

A modular development approach, over an economic modelling period of 60 years, is underpinned by a highly favourable Definitive Feasibility Study (DFS) for the production of potassium sulphate (SOP) fertiliser. DFS project economics of the two-phase development resulted in a highly attractive estimated internal rate of return (IRR) of 29%. The first phase of the development requires initial development capital of US\$298m and as a standalone project has an IRR of over 25%.

The process design is commercially proven. The combination of decomposed kainite and KCl is used by the three key brine producers globally (Compass Minerals, SQM and Xing Jiang Luo Bupo). Pilot tests completed at the Saskatchewan Research Council (SRC) demonstrate product quality at the highest end of the quality spectrum.

In addition to the production of sulphate of potash, which is a high quality, chloride free potash fertiliser, the Colluli resource has the capability of producing potassium magnesium sulphate (SOP-M) and potassium chloride (MOP), allowing production of three of the four key potash types traded globally.

The process for obtaining mining approvals has commenced with formal submission of DFS documents to the Eritrean Ministry of Energy and Mines during Quarter 1 of 2016.

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



Photo: Danakali management present the DFS and project submission letter for the Colluli project to the Ministry of Energy and Mines (MoEM) in Q1 2016.

*(L to R): CMSC General Manager, Zeray Leake; Colluli Study Manager, James Durrant; Danakali Managing Director, Paul Donaldson; Director General MoEM, Alem Kibreab, Director Mineral Resources Management MoEM, Mebrahtu Ekubazghi*

### ACTIVITIES UNDERTAKEN DURING 2015

#### Project Studies

During the year, the Company delivered both the Pre-Feasibility Study (**PFS**) and the Definitive Feasibility Study for the Project. The DFS incorporated a number of optimisation opportunities identified as part of the PFS, which have materially enhanced Colluli's economics and technical feasibility (**PFS and DFS**, refer to the ASX announcements released on 4 March 2015 and 30 November 2015 respectively).

The highlights from the DFS are:

- DFS confirms **low capex, high margin, long life** project;
- Phase 1 **development capital reduced by over 30%** to US\$298M compared to the PFS;
- Capital **payback of 3.5 years**;
- Project post tax **NPV of US\$860M and IRR of 29%**;
- Colluli in the **bottom quartile of mine gate cost curve**;
- 1.1 billion tonnes of ore reserve, with **expected 200+ year mine life**;
- DFS demonstrates Colluli is one of the most attractive potash project in the world.

## Directors' Report (Cont'd)

### Resources and Reserves

During the year, the company delivered a revised Mineral Resource Estimate for potassium bearing salts, a maiden ore reserve and a Rock Salt Mineral Resource Estimate.

The revised JORC-2012 compliant Mineral Resource estimate increased from 1.080 billion tonnes to 1.289 billion tonnes, and comprises an Ore Reserve Estimate of 1.1 billion tonnes. 287 million tonnes sit within Proved and 820 million tonnes with Probable categories. The ore reserve gives an expected mine life of over 200 years based on DFS level production rates.

In addition to the potassium resource a JORC-2012 compliant Rock Salt Mineral Resource Estimate of over 300 million tonnes has been completed for the area considered for mining in the DFS. Extraction rates are approximately 2 million tonnes per year, and represent the opportunity for commercialisation to offset a proportion of the mining costs as well as other potential benefits.

#### (i) Resource

As at the 31 December 2015, the Colluli JORC-2012 Compliant Mineral Resource Estimate by potash mineral is as follows:

Area	Rock unit	Measured		Indicated		Inferred		Total	
		Mt	K <sub>2</sub> O Equiv %	Mt	K <sub>2</sub> O Equiv %	Mt	K <sub>2</sub> O Equiv %	Mt	K <sub>2</sub> O Equiv %
Area A	Sylvinite	66	12	38	11	10	8	115	11
	Carnallite	55	7	190	9	6	16	251	9
	Kainite	86	12	199	11	1	10	285	11
Area B	Sylvinite	24	15	122	13	5	12	150	13
	Carnallite	25	6	114	7	8	7	147	7
	Kainite	48	13	289	13	4	13	341	13
Total	Sylvinite	90	13	160	13	15	9	265	12
	Carnallite	80	7	303	8	15	11	398	8
	Kainite	133	12	488	12	5	11	626	12
<b>Overall</b>		<b>303</b>	<b>11</b>	<b>951</b>	<b>11</b>	<b>35</b>	<b>10</b>	<b>1,289</b>	<b>11</b>

Table: JORC-2012 Colluli mineral resource estimate and interpretation at 25 February 2015

At 31 December 2014 the Minerals Resource Estimate by potash mineral was as follows:

Occurrence	Tonnes Mt	Equivalent KCl %	Contained KCl Mt
Sylvinite (KCl.NaCl)	110	28.4	31
Polysulphate (K <sub>2</sub> SO <sub>4</sub> .NaCl.MgSO <sub>4</sub> .H <sub>2</sub> O)	65	10.8	7
Carnallite (KCl.MgCl <sub>2</sub> .H <sub>2</sub> O)	309	12.3	38
Kainite (KCl.MgSO <sub>4</sub> .H <sub>2</sub> O)	597	19.8	118
<b>Total</b>	<b>1,080</b>	<b>18.0</b>	<b>194</b>

#### Change in Presentation:

This Mineral Resource estimate was reported for Colluli in April 2012 which was completed by German potash expert company Ercosplan. This was classified and reported under Canadian National Instrument 43-101 (NI 43-101) Guidelines but would not be reportable under JORC-2012. The estimate used a polygonal-type estimation process, the "Radius of Influence" method, which uses cylinders of equal grade and thickness influence to arrive at a weighted average derived tonnage in each resource and uses a cylindrical classification surrounding each drillhole.

The 2015 Mineral Resource estimate is JORC 2012 compliant and a completely new block model, using interpreted wireframes to define a volume and grade estimated by kriging based on variographic studies.

Classification takes into account grade and geological continuity between drillholes rather than within a set radius and/or volume surrounding them.

Between the previous and current resource estimates, the bases of potassium content have changed from KCl to K<sub>2</sub>O. This is due to the change in development path for Colluli from Muriate of Phosphate (MOP) which is represented in KCl to Sulphate of Phosphate (SOP) which is represented by K<sub>2</sub>O.

## Directors' Report (Cont'd)

### (ii) Reserve

The Colluli JORC-2012 Compliant Mineral Reserve by potash mineral as at 31 December 2015 is as follows:

Occurrence <sup>(2)</sup>	Proved		Probable		Total			
	Mt	K <sub>2</sub> O Equiv %	Mt	K <sub>2</sub> O Equiv %	Mt	K <sub>2</sub> O Equiv %	K <sub>2</sub> SO <sub>4</sub> Equiv %	K <sub>2</sub> SO <sub>4</sub> Equiv Mt <sup>(1)</sup>
Sylvinite (KCl.NaCl)	78	15	175	12	253	13		
Carnallite (KCl.MgCl <sub>2</sub> .H <sub>2</sub> O)	79	7	284	8	363	8		
Kainitite (KCl.MgSO <sub>4</sub> .H <sub>2</sub> O)	130	12	368	11	497	11		
<b>Total</b>	<b>286</b>	<b>11</b>	<b>827</b>	<b>10</b>	<b>1,113</b>	<b>10</b>	<b>19</b>	<b>216</b>

Table: JORC-2012 Colluli ore reserve at 30 November 2015

Note:

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

(2) The Ore Reserve estimate contains dilutant material. Only sylvite, carnallite and kainite mineral species from Sylvinitite, Carnallitite and Kainitite rock types contribute to recovered product.

### (iii) Rock Salt Resource

As at 31 December 2015, the Colluli JORC-2012 Compliant Rock Salt Mineral Resource is as follows:

Classification	Mt	NaCl	K	Mg	CaSO <sub>4</sub>	Insolubles
Measured	28	97.2	0.05	0.05	2.2	0.23
Indicated	180	96.6	0.07	0.06	2.3	0.24
Inferred	139	97.2	0.05	0.05	1.8	0.25
<b>Total</b>	<b>347</b>	<b>96.9</b>	<b>0.06</b>	<b>0.05</b>	<b>2.1</b>	<b>0.24</b>

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

### (iv) Mineral Resources and Ore Reserves Governance

Danakali's Mineral Resources and Ore Reserves as at the date of this report are reported in accordance with JORC-2012. The Quality Control and Quality Assurance protocols and Competent Persons and Responsibility Statements can be found on page 23 of this report.

#### Safety

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

Although the Group has increased activities at Colluli over the last year, it is pleased to report that no injuries have been reported at Colluli since exploration commenced in 2010. This safety performance, along with a strong safety culture, bodes well for the company as it moves into the construction and production phase at Colluli.



# Directors' Report (Cont'd)



Photo: CMSC General Manager, Zeray Leake engages local community members following a stakeholder engagement meeting.



Photo: Community engagement at local town hall

## Community

Danakali is committed to the development and preservation of mutually beneficial community relationships where host communities are influenced by its operations.

Danakali believes that beneficial community relationships not only facilitate business success but also provide optimal local outcomes from its activities.

Over the last year, the Group has maintained its stakeholder engagement, consulting with local communities in matters relating to the project to better understand the potential impacts from its activities on the community.

Community engagement continues to ensure positive relationships and support for the development of Colluli.

## Social and Environmental Impact Assessment

A comprehensive Social and Environmental Impact Assessment (SEIA), and associated management plans completed to Equator Principles, is near conclusion, undertaken by a group of specialist consultants working with in-country experts and regulators.

During the year environmental baselines were compiled and submitted to the Eritrean Ministry of Energy and Mines and the Ministry of Environment. Subsequent to this, feedback was received from the Ministry of Energy and Mines with no material issues identified.

SEIA related engagement with local communities and project stakeholders occurred in the year and continues into 2016. The SEIA, along with the respective management plans, are due for submission in Q2 2016.

## Marketing

During the year 300kg of Colluli SOP product was generated in Soluble, Standard and Granular form. These products complement the marketing process with product being showcased to potential SOP buyers along with the recently compiled product specification and material safety data sheets.

Discussions advanced with both potential SOP and Rock Salt buyers. India has the potential to become a key target market and the approval of membership by the Fertiliser Association of India (FAI), will facilitate opportunities in the region.

## Funding

In addition to marketing activities, a funding strategy has been developed, supported by the debt funding options study conducted by Endeavour Financial.

The Company is advancing to the appointment of Advisors to support both Debt and Equity funding.

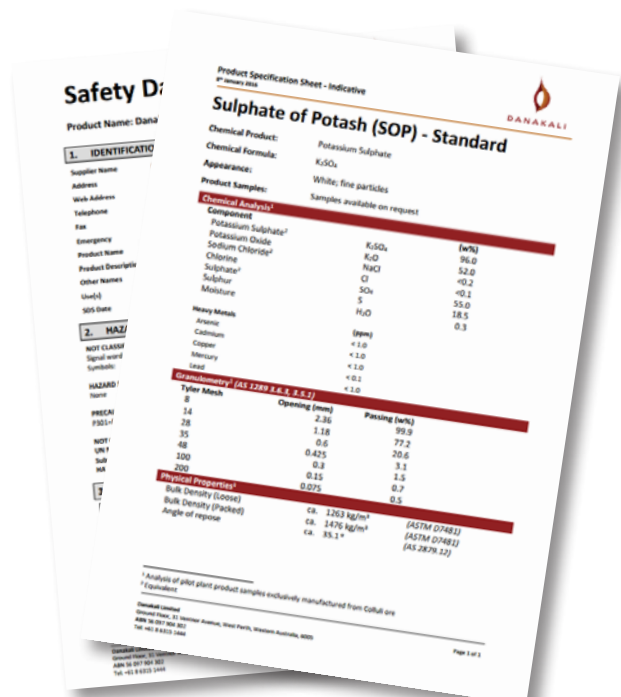


Image: SOP Specification Sheets

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

### Corporate

The appointment of an additional Non-Executive Director, Chief Financial Officer and Head of Market Development prepares the Company to advance both funding and offtake to support the development of Colluli.

The company raised in excess of \$8M through placements and pro-rata 1 for 12 rights issue, maintaining strong support from long term shareholders and illustrating the attractiveness of the Company to new investors.

During the year, the company name changed from South Boulder Mines (ASX:STB) Limited to Danakali Limited (**ASX:DNK**) to provide an appropriate name against which to define itself as the Company make the transition from explorer to developer and subsequently producer.

### ACTIVITIES PLANNED FOR 2016

The following key activities are scheduled over the coming year:

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



Capital city of Eritrea: Asmara

# Directors' Report (Cont'd)

## POTASH OVERVIEW

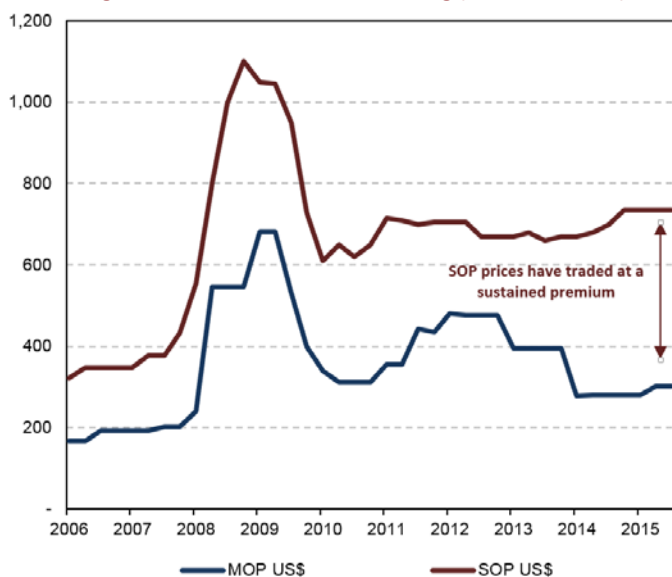
Potash is the common term for fertiliser forms of the element potassium (K). Potassium is one of three key fertiliser 'macro-nutrients' essential for healthy soil and plant growth. It is generally used in combination with the other two macro-nutrients, nitrogen and phosphorus, to produce a range of fertilisers, the type used being dependent on the soil to which it will be applied.

Potash growth is underpinned by strong demand drivers including growing population, reduction in arable land and changing dietary preferences. The overall equation for ongoing potash demand growth is simple:



Potash is available in various forms, and is differentiated by chemistry. The most common type is MOP or KCl. SOP is the second most common type and has historically sold at a premium to MOP (Figure below).

**Figure: Historical SOP vs MOP Pricing (FOB Vancouver)**



Source: Greenmarkets, DNK Analysis, Compass Minerals 2015 quarterly report

SOP is produced in three types: Standard, Granular and Soluble. Granular trades at a premium to Standard and Soluble trades at a premium to Granular.

SOP is generally sold in three key markets; China, Europe and North America. Pricing is determined individually for these regions. Demand for SOP, however, is global and presents itself where there are high value crops, an accumulation of chlorine in the soils occurs or where the addition of sulphur is valued.

Colluli is located proximate to the key potash markets of the future. Demand for fertiliser is driven by population growth, which directly translates to food demand. Almost 95% of the population growth over the next three decades will occur in Africa, India and South East Asia. The relative location of the Colluli resource to these key markets gives it a significant logistics advantage and unrivalled access to the potash markets of the future.

## Product Diversification

The salt composition in the Danakil region, where Colluli resides, also provides the ability to produce a suite of potash products that not only includes potassium sulphate (SOP), but also potassium magnesium sulphate (SOPM), kieserite, and potassium chloride (MOP). Such potash product diversification cannot be achieved by any other region in the world.

Further to the potash types, gypsum and rock salt are accessible and have the potential to become commercially viable.

Rock salt extraction is required to access the potassium bearing salts and therefore commercialisation of rock salt would offset a portion of the potash production mining costs. A JORC-2012 compliant Rock Salt Mineral Resource Estimate of over 300 million tonnes has been completed for the area considered for mining in the DFS.

Gypsum extraction would be independent to the potash extraction. The Company is currently in the process of assigning an exploration target to determine volumes.

# Directors' Report (Cont'd)

## COLLULI DEFINITIVE FEASIBILITY STUDY RESULTS

### Summary Economic Outcomes

The Colluli DFS incorporated a number of optimisation opportunities identified as part of the PFS, which have significantly enhanced Colluli's economics and technical feasibility (**PFS and DFS, refer to the ASX announcements released on 4 March 2015 and 30 November 2015 respectively**). The following table provides a selection of the key DFS metrics with reference to the PFS results.

**Table: Key metrics and variance between PFS and DFS**

Metric	Unit	PFS outcomes		DFS outcomes		Change from PFS	
		Phase I	Phase I + II <sup>(1)</sup>	Phase I	Phase I + II <sup>(1)</sup>		
Annualised SOP production	kt	425	850	<b>425</b>	<b>850</b>	-	-
Strip ratio	Waste:Ore	2.36	2.19	<b>1.91</b>	<b>1.93</b>	↓ 19%	↓ 12%
Phase I development capital <sup>(2)</sup>	US\$m	428 <sup>(3)</sup>		<b>298</b>		↓ 30%	
Incremental Phase II development capital <sup>(3)</sup>	US\$m		282		<b>175</b>		↓ 38%
Average forecast SOP price (FOB Massawa) <sup>(4,5)</sup>	US\$/t SOP	588	588	<b>572</b>	<b>572</b>	↓ 3%	↓ 3%
Average mine gate cash costs <sup>(4)</sup>	US\$/t SOP	162	141	<b>168</b>	<b>141</b>	↑ 4%	0%
Average total cash costs <sup>(4,6)</sup>	US\$/t SOP	210	189	<b>255</b>	<b>227</b>	↑ 21%	↑ 20%
<b>100% of Project:</b>							
Post tax NPV (10% real) <sup>(7)</sup>	US\$m	462	846	<b>439</b>	<b>860</b>	↓ 5%	↑ 2%
Post tax IRR <sup>(7)</sup>	%	22.3	24.7	<b>25.4</b>	<b>29.0</b>	↑ 14%	↑ 17%
Phase I payback period <sup>(7)</sup>	Years	4.25		<b>3.50</b>		↓ 18%	
<b>Danakali share of Project:</b>							
Post finance NPV (10% real) <sup>(8,9)</sup>	US\$m	206	397	<b>206</b>	<b>415</b>	0%	↑ 4%
Post finance IRR <sup>(8,9)</sup>	%	22.3	25.9	<b>25.2</b>	<b>29.3</b>	↑ 13%	↑ 13%

Notes:

<sup>1</sup> Additional 425ktpa Phase II commencing production in year 6

<sup>2</sup> Including contingency, excluding working capital

<sup>3</sup> Previously US\$442m (working capital removed to ensure comparability)

<sup>4</sup> Average for first 60 years of production

<sup>5</sup> Composite price for Standard and Granular SO

<sup>6</sup> Includes mine gate costs, product logistics and royalties

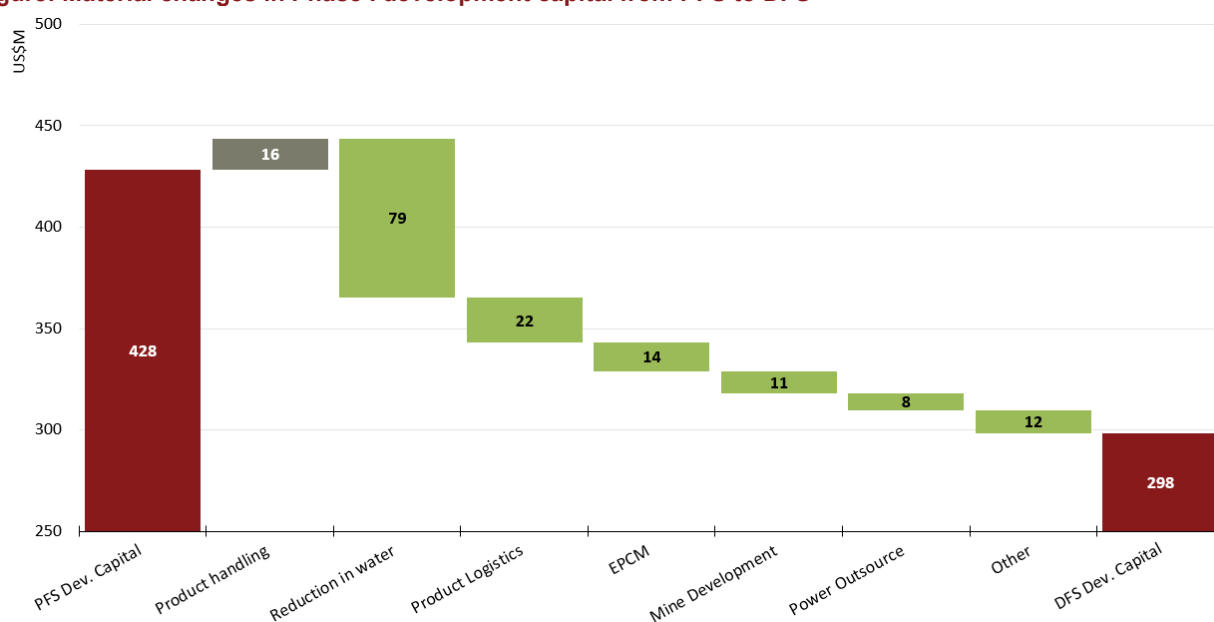
<sup>7</sup> 100% Project level basis (Danakali holds a 50% interest)

<sup>8</sup> In accordance with the CMSC Shareholders' Agreement

<sup>9</sup> Third party debt estimated at 60% of Project funding (PFS estimated 70%)

The decrease in Phase I development capital is largely attributed to a reduction in water requirements, a change in product logistics methodology and a simplified mine development. A summary of the changes is represented in the figure below.

**Figure: Material changes in Phase I development capital from PFS to DFS**



Phase II development capital has decreased by 38% to US\$175m with the majority expected to be funded by operating cash flows. Third party debt is expected to fund the balance.

# Directors' Report (Cont'd)

## Development Approach

Colluli will be developed to its full potential using the principles of risk management, resource utilisation and modularity, using the starting module (Phase I) as a platform for growth.

The phases of the Colluli development demonstrated in the DFS are:

- Phase I – 425ktpa SOP
- Phase II – additional 425ktpa SOP commencing production 5 years after Phase I

The magnitude of the Colluli ore reserve can accommodate further expansions of SOP production beyond Phase I and II. In addition further potash products can be produced including potassium magnesium sulphate (SOPM), kieserite, and potassium chloride (MOP).

In addition to Potash, Colluli has the potential to diversify into other products. A +300Mt JORC 2012 compliant rock salt mineral resource at Colluli which provides further production upside beyond the DFS (*refer to the ASX announcement released 23 September 2015*).

The proposed Project will consist of the following components:

- An open pit potash mine located within the Danakil Depression
- Ore processing facilities located at the mine site
- Evaporation ponds located at the mine site
- An upgraded 50km product haulage road connecting the mine site to the main road to the Port of Massawa
- A 85km desalinated water pipeline from the coast to the mine site
- An accommodation camp and administration facility at the mine site

The figure below illustrates the potential mine layout and main Project components.

**Figure: Potential site layout**



## Geology & Mining Method

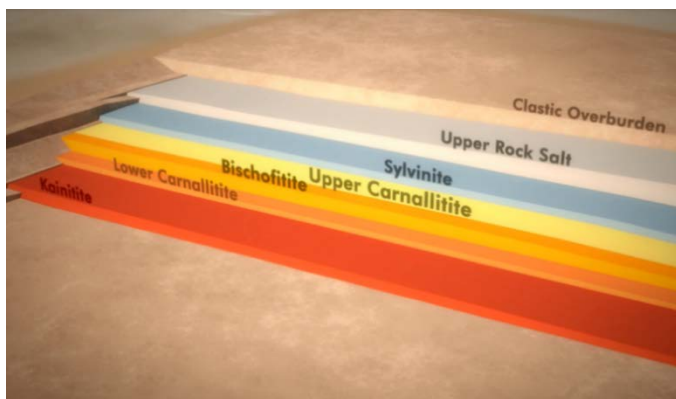
Geology is dominated by an evaporite sequence where the potash bearing mineralisation is overlain by, typically, 10-70m of clastic sediments and, typically, 10-20m of Upper Rock Salt. Under this rock salt lies the potassium bearing minerals, capped by Marker Beds below the Upper Rock Salt.

These potash bearing minerals begin with the Sylvinite Member hosting the sylvite (KCl) mineral, which is up to 10m thick. Below the Sylvinite lies the Intermediate Member comprising of carnallitites and bischofite which vary from 3 to 25m thick with the Bischofite mineralisation horizons constrained above and below by Upper and Lower Carnallitite Members.

Below the Intermediate Member in the sequence is the Kainitite Member composed of kainite approximately 5-15m thick and overlying the Lower Rock Salt which marks the lower extent of the mineralisation.

Refer to the figure below for the stratification of the Colluli resource.

## Directors' Report (Cont'd)



**Figure: Upper rock salt caps the potash salts**

Exploitation of the resource will be carried out by open pit mining using conventional truck and shovel techniques along with surface miners. A single pit will be developed.

No blasting activities are planned for the construction or operation of the Project. Mined ore will be transported by truck to a ROM pad adjacent to the processing plant.

Mining will allow 425ktpa of SOP to be produced during Phase I (first 5 years of production) and then 850ktpa during Phase II. Approximately 9Mtpa of combined ore and waste movement is required during Phase I and then approximately 16Mtpa thereon.

Overburden and other waste materials (i.e. clastics, rock salt and bischofite) will be removed and stockpiled on site. Clean rock salt will be stockpiled separately in anticipation of future sales. Other mine waste materials will be used as backfill in the progressing pit void. Material that cannot be used as backfill will be transported from the pit and placed to form waste rock landforms. Some mine waste material will also be used during construction to form embankments and foundations

### Water Logistics

Processing plant and site water requirements will initially be supplied via mine dewatering and ground water for the saline requirements and via a single pipeline from Anfile Bay, located on the Eritrean coast, for desalinated supply. Phase I requires a total of approximately 200m<sup>3</sup> per hour of water at the site. Phase II requires a total of approximately 400m<sup>3</sup> per hour of water at the site requiring the installation of additional water pipelines.

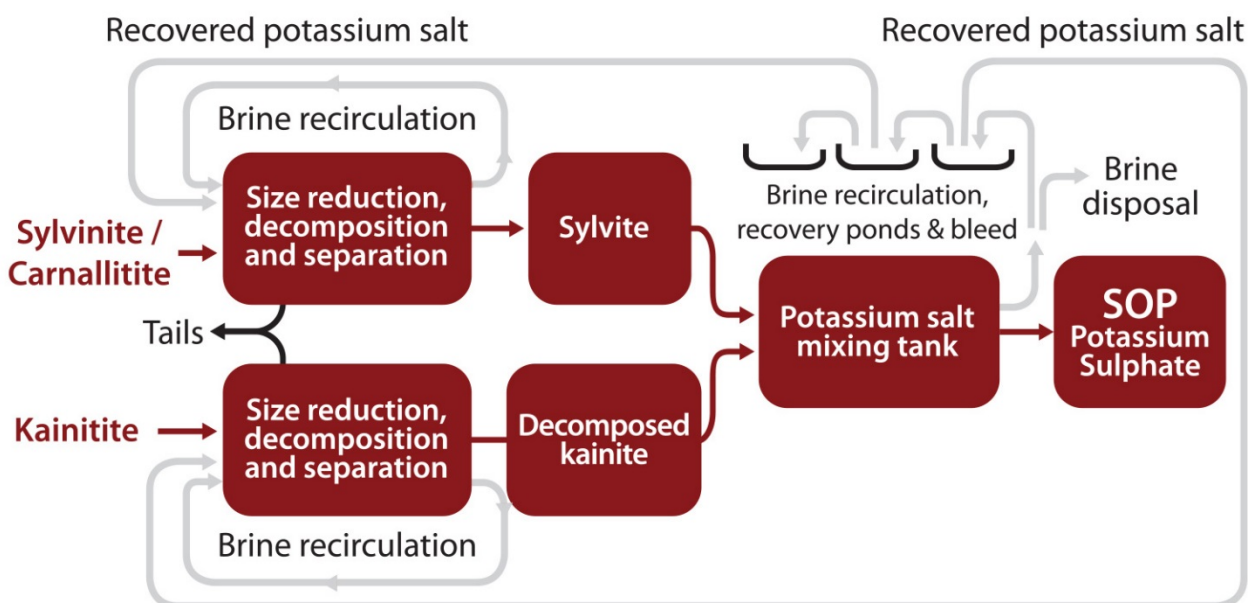
A potentially large sub-surface aquifer has been identified at Colluli. Further definition on this aquifer may completely eliminate the need for the installation of any water delivery system from the coast to the Colluli mine-site.

### Processing

The processing method is the most commonly used, low cost process for the production of SOP via the addition of potassium chloride (sylvite) with kainite (from the salt kainitite). Kainitite represents approximately 50% of the Colluli resource with the remaining salts comprising sylvinite and carnallite, which are commonly used for the production of potassium chloride (MOP). Using well understood and proven processing principles, the ore containing sylvite and carnallite can be decomposed, and then recombined with decomposed kainite. The reaction occurs spontaneously under ambient conditions and provides a high potassium yield relative to alternate potassium sulphate production processes.

Potassium yields are further improved using a series of ponds to collect excess brines exiting the processing plant. With the Project being located in an area with highly favourable ambient conditions for solar evaporation, additional potassium salts will precipitate from the collection ponds. These will be collected and recirculated back through the processing plant.

**Figure: Process circuit design**



# Directors' Report *(Cont'd)*

## Product Logistics

Dried SOP product from the processing plant will be stored in shipping containers at the processing plant before being loaded onto road haulage vehicles for transport to Eritrea's primary import / export facility, the Port of Massawa. Loading of product onto road haulage vehicles will take place continuously. The majority of the product storage is proposed to be at the Port of Massawa.

The Port of Massawa, which is located approximately 230km from the Colluli site, has the capability to export both containerised and bulk materials. Massawa has been exporting product from the Bisha mine, which has been operating since 2010.

**Photo: Port of Massawa, Eritrea**



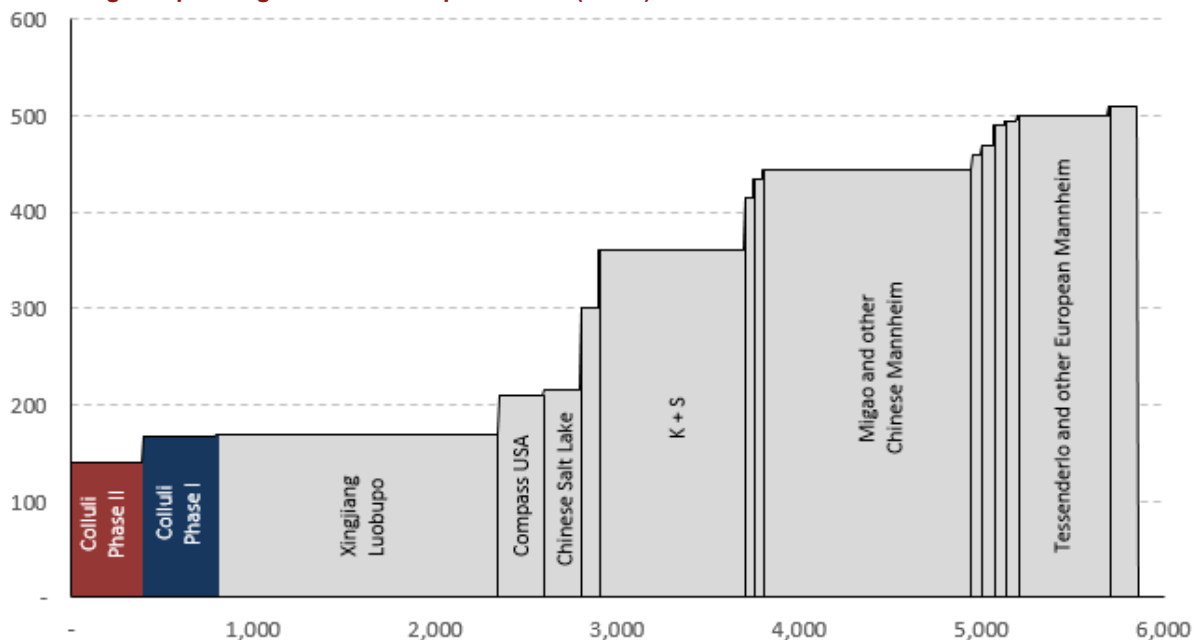
## Cost Estimates

Capital and operating costs are presented in real US dollars (September quarter 2015) to an accuracy of  $\pm 15\%$ . Estimates have been compiled for the economic period of review (first 60 years of production).

Operating costs have been prepared on an owner operated basis except for mining production (first 60 years), product logistics (first 60 years) and power (first 5 years). Operating costs represent those necessary to deliver product to the point of sale (FOB at Massawa).

Colluli development capital optimisation has resulted in industry leading capital intensity which enhances both the Project's returns and fundability. This coupled with bottom quartile mine gate cash costs delivers favourable economic returns.

**Figure: Mine gate operating costs for SOP production (US\$/t)**



Source: CRU Research, EPM Mining presentation 2014, Company websites, Integer Research, DNK Analysis

## Directors' Report (Cont'd)

Capital and operating cost estimates are summarised in the tables below.

**Table: Development capital estimates**

Estimated development capital expenditure by type	Unit	DFS outcomes	
		Phase I	Phase II
Plant and ponds	US\$m	79.2	75.9
Mine development	US\$m	54.2	-
Earthworks	US\$m	17.0	12.7
Water services	US\$m	17.0	14.7
Site infrastructure and camp	US\$m	21.6	7.2
Power	US\$m	8.2	18.3
Product logistics	US\$m	12.5	-
Owners costs	US\$m	26.7	9.9
EPCM	US\$m	24.4	16.2
Contingency	US\$m	37.4	20.2
<b>Total development capital</b>	<b>US\$m</b>	<b>298.2</b>	<b>175.1</b>
<b>Development capital intensity</b>	<b>US\$/t SOP</b>	<b>702</b>	<b>412</b>

**Table: Working capital estimates**

Estimated working capital expenditure by period	Unit	DFS outcomes	
		Phase I	Phase II
<b>Total working capital</b>	<b>US\$m</b>	<b>38</b>	<b>-</b>

**Table: Sustaining capital estimates**

Estimated sustaining capital expenditure by period	Unit	DFS outcomes	
		Phase I	Phase II <sup>1</sup>
Years 1-5	US\$m	36	36
Years 5-30	US\$m	201	322
Years 31-60	US\$m	244	385
Years 31-60	US\$m	244	385
<b>Total sustaining capital</b>	<b>US\$m</b>	<b>481</b>	<b>743</b>
<b>Sustaining cost unit rate</b>	<b>US\$/t SOP</b>	<b>18.91</b>	<b>15.24</b>

Note: <sup>1</sup> Phase I and II combined

**Table: Development capital estimates**

Estimated operating expenditure by activity	Unit	DFS outcomes	
		Phase I	Phase II <sup>1</sup>
Mining	US\$/t SOP	85.50	70.29
Processing	US\$/t SOP	58.40	53.23
Water logistics	US\$/t SOP	3.09	2.93
G&A	US\$/t SOP	21.12	14.51
Mine gate costs	US\$/t SOP	168.11	140.96
Product logistics	US\$/t SOP	66.94	66.29
Operating costs	US\$/t SOP	235.05	207.25
Royalties	US\$/t SOP	20.03	20.03
<b>Total cash cost</b>	<b>US\$/t SOP</b>	<b>255.08</b>	<b>227.28</b>

Note: <sup>1</sup> Phase I and II combined



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

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### Ownership and Funding Structures

Financing of the initial development capital (Phase I) is expected to be a combination of third party debt (up to 70%) raised by CMSC and a shareholder contribution from Danakali (30%).

Shareholder contributions relating to expansions after Phase I follow Joint Venture holding, however, these expansions are expected to be funded through the combination of operating cash flows and third party debt. No contribution from Danakali has been assumed after the initial development capital (Phase I).

Danakali's 30% shareholder contribution for Phase I comprises two components:

- 50% via an interest-free loan to CMSC, repayable from Project cash flows
- 50% via equity contribution to the Project

If 70% third party debt funding is not achieved by CMSC, Danakali is required to fund the shortfall through an interest-bearing loan where the terms of this loan align to the third party debt raised by CMSC.

The DFS assumes this shortfall to be 10%, taking the estimated sole contribution by Danakali to 40% for Phase I.

### Key assumptions and fiscal regime underpinning economic outcomes

The DFS economic evaluation was completed using a discounted cash flow model. All figures stated in the DFS are real as of September 2015.

Further key assumptions for the model are:

- A real average composite SOP price of US\$572/t FOB at Massawa was determined through a study undertaken by a leading Commodity Industry Market and Pricing Analyst
- The fiscal regime assumptions align to the relevant current Eritrean tax proclamations; the key assumptions are as follows:
  - Income tax (Proclamation 69/1995) is calculated at a rate of 38% of taxable profit
  - A mining royalty of 3.5% on gross revenue
  - Straight line tax depreciation over four consecutive years
  - Tax losses can be carried forward for ten years for all plant and equipment
  - A real discount rate of 10% was used for the economic evaluation

### DFS Conclusion

The DFS has further demonstrated the economic robustness of Colluli as a Tier 1, globally significant, potash development. By applying a modular approach to development, Colluli can be brought into production with low upfront development costs and a high degree of expandability.

Furthermore, the market leading capital intensity makes Colluli highly attractive and competitive relative to many potash operations and to the other undeveloped deposits. Colluli will apply a simple, safe, open pit mining technique and have a proven process design.

Danakali and CMSC continue to progress the development of Colluli through the activities planned in 2016:

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

# Directors' Report (Cont'd)

## FINANCE REVIEW

The Group recorded a net loss after tax of \$6,792,685 for the financial year to 31 December 2015 compared to a net profit of \$2,999,972 in the six-month transitional period to 31 December 2014 (Restated). As the Group is still in the exploration and development stage, revenue streams mainly relate to interest earned on investing of surplus funds from capital raisings. The net losses after tax reflect the Groups' exploration and development expenditure on the Colluli Potash Project and ongoing administration costs.

The Groups' net assets increased by 15%, compared with the restated result as at 31 December 2014, which is consistent with the increase in the investment in and loan to the Colluli Mining Share Company.

Total consolidated cash on hand at the end of the financial year was \$2,756,341 (31 December 2014 - Restated: \$7,113,394).

Operating activities utilised \$2,197,330 (six-month transitional period to 31 December 2014 (Restated): \$165,105 utilised) of net cash flows. Net cash outflow from investing activities of \$10,089,471 (six-month transitional period to 31 December 2014 (Restated): \$3,777,514) was due to the exploration and development spent on the Colluli Project primarily in relation to the DFS which was released in November 2015.

Net cash flow from financing activities of \$7,929,748 (six-month transitional period to 31 December 2014 (Restated): \$1,850,000) was due to a share placement and rights issue during the financial year to fund the ongoing exploration and development work on the project.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the financial year ended 31 December 2015, Danakali completed the DFS for the Colluli Project and raised \$2,050,000 through a private placement of 10,000,000 shares at a \$0.205 per share to Well Efficient Ltd, a Hong Kong based Special Purpose Vehicle and \$6,093,591 through a share placement (10,974,174 shares) and a 1 for 12 non-renounceable rights issue (13,400,167 shares) at \$0.25 per share. The net proceeds were used to complete the DFS and to build in-house capability to support the development of the Project, advance funding discussions and working capital.

There were no other significant changes in the Company's state of affairs other than that referred to in the financial statements or notes thereto.

## DEVELOPMENTS AND EXPECTED RESULTS

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

## DIVIDENDS

No dividends were paid or declared during the financial year to 31 December 2015. No recommendation for payment of dividends has been made.

## DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the financial year ended 31 December 2015 and the number of meetings attended by each Director were:

Director	Total Directors Meetings Available	Total Directors Meetings Attended	Total Audit & Risk Committee Meetings Available	Total Audit & Risk Committee Meetings Attended	Total Remuneration & Nomination Committee Meetings Available	Total Remuneration & Nomination Committee Meetings Attended
S I Cornelius	13	13	5	4	1	1
A W Kiernan	13	11	5	3	1	1
L R Cornelius	13	13	1	-	1	-
J D Fitzgerald	12	12	4	4	-	-
P M Donaldson	13	13	-	-	-	-

## Directors' Report (Cont'd)

### OPTIONS

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

	Number of options
Balance at the beginning of the period	28,050,000
<i>Movements of share options during the financial year ended 31 December 2015:</i>	
Expired, exercisable at \$1.949, on or before 31 March 2015	(1,250,000)
Issued, exercisable at \$0.527, on or before 29 May 2018	750,000
Issued, exercisable at \$0.550, on or before 31 May 2018	600,000
Expired, exercisable at \$0.699, on or before 30 June 2015	(3,800,000)
Expired, exercisable at \$0.350, on or before 4 September 2015	(8,000,000)
Issued, exercisable at \$0.408, on or before 4 November 2018	1,000,000
Expired, exercisable at \$1.449, on or before 30 November 2015	(500,000)
Expired, exercisable at \$1.949, on or before 30 November 2015	(500,000)
<i>Sub-Total of options outstanding at 31 December 2015</i>	<u>16,350,000</u>
<i>Movements of share options during period since the financial year ended 31 December 2015:</i>	
Expired, exercisable at \$0.599, on or before 31 January 2016	(700,000)
Expired, exercisable at \$0.649, on or before 31 January 2016	(1,000,000)
Expired, exercisable at \$0.949, on or before 31 January 2016	(1,300,000)
<b>Total number of options outstanding as at the date of this report</b>	<b><u>13,350,000</u></b>

Expiry date	Exercise price	Number of options
29 November 2016	\$0.340	6,000,000
17 November 2017	\$0.278	5,000,000
29 May 2018	\$0.527	750,000
31 May 2018	\$0.550	600,000
4 November 2018	\$0.408	1,000,000
<b>Total number of options outstanding at the date of this report</b>		<b><u>13,350,000</u></b>

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

### PERFORMANCE RIGHTS

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

	Number of rights
Balance at the beginning of the period	3,527,000
<i>Movements of performance rights during the period:</i>	
Issued	255,000
Exercised	(1,808,000)
Cancelled	(16,000)
<b>Total number of performance rights as at the date of this report</b>	<b><u>1,958,000</u></b>

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

### PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

#### Indemnification

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

## Directors' Report (Cont'd)

### Insurance

During the period, the Company paid an insurance premium in respect of Directors' and Executive Officers' insurance. The premiums relate to costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome, and other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage. Premiums totalling \$8,000 (2014: \$8,000) were paid in respect of directors' and officers' liability cover. The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

### INDEMNIFICATION OF AUDITORS

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

### AUDIT AND RISK COMMITTEE

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

The members of the Audit Committee during the period were:

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

The Audit & Risk Committee met 5 times during the year and the committee members' attendance record is disclosed in the table of Directors' meetings in section of the Directors' Report.

### NON-AUDIT SERVICES

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

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

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

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

	Financial Year to December 2015 \$	Six Month Transitional Period to 31 December 2014 \$
<b>(a) Audit services</b>		
Rothsay Chartered Accountants	11,500	6,000
Ernst & Young	30,300	-
	<u>41,800</u>	<u>6,000</u>
<b>(b) Non-audit services</b>		
Ernst & Young – since appointment as auditor	31,750	-
Ernst & Young – prior to appointment as auditor	51,293	47,152
	<u>83,043</u>	<u>47,152</u>

# Directors' Report *(Cont'd)*

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## CORPORATE GOVERNANCE

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

Corporate governance disclosures not included in the Company's corporate governance statement or elsewhere in this report are as follows:

### Directors' Independence

The Board assesses the independence of a director prior to appointment and of all appointed directors as appropriate according to the ASX Recommendation 2.1. When assessing the independence of a director, materiality is considered from the perspective of the Group. The materiality thresholds considered by the Board are set out in the Board Charter. If the Board's assessment of a director's independence changes then the change is disclosed to the market.

Mr Liam Cornelius is a substantial holder of the company's securities and does not satisfy the definition of an independent director as prescribed by the ASX Principles. However, the Board believes Mr Cornelius brings quality and independent judgement to relevant issues falling within the scope of his role as director and to the benefit of shareholders.

Mr Paul Donaldson is not an independent director as he is an executive of the Company in the role of Managing Director.

During the financial year three of the five directors of the Board were independent non-executive directors. The Board composition has not changed since year end. Accordingly, during 2015 the Company was in compliance with ASX Recommendation 2.1.

### Diversity

While the company is committed to diversity and recognises the benefits arising from employee and board diversity, there are currently no women employed by the Company and no women on the Company's Board. The Board noted that priority will be given to the appointment of a female director when the next director is appointed, other than on the normal rotation of directors. The Board is currently not considering an increase in directorships.

The Company has adopted a diversity policy which can be viewed on its website. Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The Diversity Policy outlines the requirements for the Board to develop objectives for achieving diversity, and annually assess both the objectives and the progress in achieving those objectives. To assist in fostering diversity, the Company takes diversity of background into account (in addition to candidates' skills and experience in a variety of the specified fields) when selecting new directors, senior management and employees.

### Performance Evaluations

Board members regularly provide feedback to one another on the functioning of the Board and its committees. The Board has determined that this informal performance evaluation process is working effectively and achieving the desired outcomes and as such it is not considered necessary to undertake more formal performance evaluations during the period. The Board was satisfied that it fulfilled its role effectively during 2015.

The Remuneration and Nomination Committee did not have a separate meeting during this period to formally assess the performance of the Managing Director. Feedback is provided through board meetings and individually by the non-executive directors. The Managing Director is the only executive director. Incentives to achieve - KPI's are Performance Rights and Options, which vest concurrently with KPI achievement. KPI achievement is disclosed in the Remuneration report.

Non-executive directors regularly provide feedback to one another regarding individual performance. The Board has determined that this informal feedback process has been operating effectively and facilitating open and honest communication and as such it was determined that formal non-executive director performance evaluations were not necessary during the period.

The Managing Director meets with senior management on a quarterly basis to discuss their performance.

### Environmental Regulation and Performance

The Group is subject to environmental regulation in respect to its exploration activities. The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with relevant environmental legislation. The directors of the Company are not aware of any breach of environmental legislation for the period under review.

# Directors' Report *(Cont'd)*

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 21 March 2016, Danakali announced that it had received commitments from professional and sophisticated investors to raise up to A\$5.5 million through the issue of up to 25 million fully paid ordinary shares (**Placement Shares**) at A\$0.22 each. The placement includes one (1) free attaching unlisted option exercisable at A\$0.35 with an expiry date 2 years from issue, for every two (2) Placement Shares (the **Placement**).

Funds raised from the Placement will be used for the commencement of front end engineering design (FEED) work; initiating the mine contract tendering process; completion of mining approvals process; securing offtake agreements and further strategic relationships, securing project funding (debt/equity), transaction costs and working capital.

The allotment of the first tranche of the Placement for up to approximately 23.3 million fully paid ordinary shares and 11.7 million options is not subject to shareholder approval and will fall within the Company's 15% placement capacity under ASX LR 7.1 and additional 10% placement capacity under ASX LR 7.1A.

The second tranche of the Placement for up to 1.6 million fully paid ordinary shares and 0.8 million options, are to be issued subject to shareholder approval at the Company's Annual General Meeting scheduled to take place in May 2016.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out separately in this report.

## REMUNERATION REPORT (AUDITED)

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

The Key Management Personnel of Danakali Ltd and the Group during the financial year to 31 December 2015 were:

### Directors

S I Cornelius	Non-Executive Chairman
P M Donaldson	Managing Director and Chief Executive Officer
A W Kiernan	Non-Executive Director
L R Cornelius	Non-Executive Director
J D Fitzgerald	Non-Executive Director (Appointed 19 February 2015)

### Named Executives

C P Els	Chief Financial Officer (Appointed 3 December 2015; Company Secretary Appointed 1 February 2016)
A D Just	Company Secretary (Resigned 1 February 2016)
S Tarrant	Head of Finance

All of the above persons were key management personnel during the financial year to 31 December 2015 unless otherwise stated. The information provided in this remuneration report has been audited as required by section 308 (3C) of the Corporations Act 2001.

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

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

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

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

## Directors' Report (Cont'd)

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

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

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

- a) Decision Making Authority for Remuneration
- b) Principles Used to Determine the Nature and Amount of Remuneration
- c) Voting and Comments Made at the Last Annual General Meeting
- d) Details of Remuneration
- e) Service Agreements
- f) Details of Share Based Compensation
- g) Equity Instruments Held by Key Management Personnel
- h) Loans to Key Management Personnel
- i) Other Transactions with Key Management Personnel
- j) Additional Information

### a) Decision Making Authority for Remuneration

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

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

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

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

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

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

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

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

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

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may receive advice from independent remuneration consultants to ensure non-executive directors fees and payments are appropriate and in line with the market. No advice was received during the period. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any of the discussions relating to the determination of his own remuneration. In order to maintain their independence and impartiality, the fees paid to non-executive directors are not linked to Company performance.

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

### **Remuneration of Key Management Personnel**

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

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

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

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

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

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

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

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

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

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

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

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

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

Although no cash bonus was paid during the financial year, the Board approved the issue of 100,000 ordinary shares to the Head of Finance in recognition of his contribution to the completion of the definitive feasibility study during the year. Accordingly, there were no performance conditions attached to the issue which was at the discretion of the Board.

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

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

The Danakali Ltd Performance Rights Plan (PRP) was re-approved by shareholders at the general meeting held 17



## Directors' Report (Cont'd)

November 2014. The PRP provides incentives, which promote the long term performance, growth and support of the Company.

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

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

Class 1:

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

Class 2:

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

Class 3:(Non-KMP)

- 100,000 upon completion of the prefeasibility study for the Colluli Project by submission of the written study to the Study Manager (vested March 2015);
- 150,000 upon completion of a DFS pilot study for the processing plant by submission of a completed metallurgical report outlining the results to the Study Manager (vested September 2015); and
- 300,000 upon completion of the DFS by the submission of the DFS report to the Study Manager (vested November 2015).

Class 4:

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

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

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

Further performance rights details can be found in Note 24.

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

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

The Company received approximately 99% of 'yes' votes on its Remuneration Report for the six-month transitional financial year ending 31 December 2014 and received no specific feedback on its Remuneration Report at the Annual General Meeting or throughout the period.

### d) Details of Remuneration

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

## Directors' Report (Cont'd)

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

Financial Year to 31 December 2015	Short-Term	Post- Employment	LTI (e) Share Based Payments			Total \$	Options percentage of total remuneration %
	Salary & Fees \$	Super- annuation \$	Shares \$	Options \$	Performance Rights \$		
<b>Non-Executive Directors</b>							
S I Cornelius	72,000	-	-	-	-	72,000	-
A W Kiernan	60,000	5,700	-	-	8,310	74,010	-
L R Cornelius	45,000	4,275	-	-	4,358	53,633	-
J D Fitzgerald (a)	51,607	4,903	-	127,764	-	184,274	69
<b>Executive Directors</b>							
P M Donaldson	350,006	33,251	-	-	380,561	763,818	-
<b>Other Key Management Personnel</b>							
C P Els (b)	17,981	1,635	-	15,311	-	34,927	44
A D Just (c)	63,000	-	-	-	-	63,000	-
S Tarrant (d)	339,207	-	28,000	-	-	367,207	-
<b>TOTAL</b>	<b>998,801</b>	<b>49,764</b>	<b>28,000</b>	<b>143,075</b>	<b>393,229</b>	<b>1,612,869</b>	<b>9</b>

Note:

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

### Key management personnel of the Company for the six-month transitional period to 31 December 2014:

Six Months to 31 December 2014	Short-Term	Post- Employment	LTI (c) Share Based Payments			Total \$	Options percentage of total remuneration %
	Salary & Fees \$	Super- annuation \$	Shares \$	Options \$	Performance Rights \$		
<b>Non-Executive Directors</b>							
S I Cornelius	36,000	-	-	212,145	-	248,145	85
A W Kiernan	30,000	2,850	-	166,936	5,536	205,322	81
L R Cornelius	25,985	2,469	-	126,360	17,547	172,361	73
<b>Executive Directors</b>							
P M Donaldson	175,009	16,626	-	126,360	53,659	371,654	34
<b>Other Key Management Personnel</b>							
A D Just (a)	63,229	-	-	-	-	63,229	-
S Tarrant (b)	94,862	-	-	-	-	94,862	-
<b>TOTAL</b>	<b>425,085</b>	<b>21,945</b>	<b>-</b>	<b>631,801</b>	<b>76,742</b>	<b>1,155,573</b>	<b>55</b>

Note:

- Ms Just provides her services through Grange Consulting Pty Ltd and resigned 1 February 2016. During this period company secretarial and financial services were provided. Fees charged by Grange are on an arms-length basis.
- Mr Tarrant commenced on 18 August 2014 and provides his services through Mars Consulting Pty Ltd. Fees charged by Mars are on an arms-length basis.
- The recorded values of options will only be realised by the KMP's in the event the Company's share price exceeds the option exercise price.  
The recorded values of performance rights will only be realised by the KMP's in the event the Company achieves its stated objectives, which is expected to create further value for shareholders.

## Directors' Report (Cont'd)

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

Name	Financial Year to 31 December 2015		
	Fixed Remuneration	At risk – STI	At risk - LTI
<b>Non-Executive Directors</b>			
S I Cornelius	100%	-	-
A W Kiernan	91%	-	9%
L R Cornelius	92%	-	8%
J D Fitzgerald	31%	-	69%
<b>Executive Directors</b>			
P M Donaldson	50%	-	50%
<b>Other Key Management Personnel</b>			
C P Els	56%	-	44%
A D Just	100%	-	-
S Tarrant	100%	-	-

### e) Service Agreements

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

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

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

*C P Els, Chief Financial Officer:*

- No set term of agreement.
- Base salary, for the financial year ended 31 December 2015 of \$17,981 (\$275,000 per annum).
- Notice period of six months during the initial twelve months of the term, reverting to three months' notice thereafter, required to be given by the Employee for termination.

### f) Details of Share Based Compensation

#### (i) Options

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

Grant date	Vesting and first exercise date	Expiry date	Number of Options	Exercise price	Value per option at grant date	Vested %
17 November 2014	1 January 2015 <sup>(a)</sup>	17 November 2017	5,000,000	\$0.278	\$0.081	100%
29 May 2015	1 July 2015 <sup>(b)</sup>	29 May 2018	750,000	\$0.527	\$0.170	100%
3 November 2015	30 June 2016 <sup>(c)</sup>	4 November 2018	200,000	\$0.408	\$0.126	-
3 November 2015	31 December 2016 <sup>(d)</sup>	4 November 2018	200,000	\$0.408	\$0.126	-
3 November 2015	31 December 2016 <sup>(e)</sup>	4 November 2018	300,000	\$0.408	\$0.126	-
3 November 2015	31 March 2017 <sup>(f)</sup>	4 November 2018	300,000	\$0.408	\$0.126	-
<b>Total Options</b>			<b>6,750,000</b>			

Note:

- The options were approved by shareholders at the Annual General meeting held on 17 November 2014. The options were issued in recognition of skill and expertise brought to the Company. There were no conditions attached to the options.
  - The options were approved by shareholders at the Annual General meeting held on 29 May 2015. The options were issued to the in recognition of skill and expertise brought to the Company. There were no conditions attached to the options.
  - 200,000 options on the completion of equity raising during the first half of the 2016 financial year.
  - 200,000 options on the securing of a debt funding term sheet.
  - 300,000 options on completion of project financing.
  - 300,000 options on the commencement of construction.
- The performance conditions for items (c) – (f) were chosen as they are closely aligned to the Group's objectives.

Details of options over ordinary shares in the Company, provided as remuneration to key management personnel are set out in the following table. Options will automatically expire on the earlier of the expiry date or the date the holder ceases to be an employee of the Company, unless the Board determines to vary the expiry date in the event the holder ceased to be an employee because of retirement, redundancy, death or total and permanent disability and such other cases the Board may determine.

When exercisable, each option is convertible into one ordinary share. Further information on the options is set out in note 24.

## Directors' Report (Cont'd)

Name	Year of grant	Year in which options vest	Number of options granted	Value of options at grant date	Number of options vested during the period	Vested %	Number of options forfeited during the period
S I Cornelius	2014	2015	1,500,000	\$121,728	1,500,000	100%	-
A W Kiernan	2014	2015	1,500,000	\$121,728	1,500,000	100%	-
L R Cornelius	2014	2015	1,000,000	\$81,152	1,000,000	100%	-
P M Donaldson	2014	2015	1,000,000	\$81,152	1,000,000	100%	-
J D Fitzgerald	2015	2015	750,000	\$127,764	750,000	100%	-
C P Els	2015	2016	200,000	\$25,270	-	-	-
C P Els	2015	2016	200,000	\$25,270	-	-	-
C P Els	2015	2016	300,000	\$37,800	-	-	-
C P Els	2015	2017	300,000	\$37,800	-	-	-
<b>Total Options</b>			<b>6,750,000</b>		<b>5,750,000</b>		

No options held by key management personnel were exercised during the period.

### (ii) Performance Rights

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

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

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

The performance rights vest, subject to the following vesting conditions:

#### Class 1:

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

#### Class 2:

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

#### Class 3 (Non-KMP):

- 100,000 upon completion of the prefeasibility study for the Colluli Project by submission of the written study to the Managing Director (vested March 2015);
- 150,000 upon completion of a DFS pilot study for the processing plant by submission of a completed metallurgical report outlining the results to the Managing Director (vested September 2015); and
- 300,000 upon completion of the DFS by the submission of the DFS report to the Managing Director (vested November 2015).

#### Class 4:

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

There were no performance rights, held by key management personnel, forfeited during the financial year ended 31 December 2015.

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

#### (i) Shares

During the year ended 31 December 2015, the Board granted 100,000 fully paid ordinary shares to Mr S Tarrant, Head of Finance, as recognition of his contribution to the completion of the Company's Definitive Feasibility Study for the Colluli Project.

## Directors' Report (Cont'd)

In addition, 1,000,000 shares were issued for nil consideration on the vesting of the following performance rights:

- 950,000 Class 4 performance rights held by Mr P Donaldson.
- 50,000 Class 1 performance rights held by Mr L Cornelius.

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

Financial Year to 31 December 2015 Shares	Balance at start of the period	Granted as compensation	Received on exercise of options	Received on vesting & conversion of performance rights	On market purchases/ (sales)	Balance at end of the period
<b>Directors</b>						
S I Cornelius	5,442,799	-	-	-	925,736	6,368,535
A W Kiernan	505,000	-	-	-	98,128	603,128
L R Cornelius	12,398,806	-	-	50,000	1,033,235	13,482,041
J D Fitzgerald <sup>(a)</sup>	n/a	-	-	-	108,334	108,334
P M Donaldson	300,000	-	-	950,000	168,334	1,418,334
<b>Other Key Management Personnel</b>						
C P Els <sup>(b)</sup>	n/a	-	-	-	-	-
A D Just	-	-	-	-	-	-
S Tarrant	-	100,000	-	-	-	100,000
<b>TOTAL</b>	<b>18,646,605</b>	<b>100,000</b>	<b>-</b>	<b>1,000,000</b>	<b>2,333,767</b>	<b>22,080,372</b>

Note:

(a) Appointed 19 February 2015

(b) Appointed 3 December 2015

### (ii) Options

During the financial year to 31 December 2015, the Company issued 1,750,000 options over unissued ordinary shares in the Company to Key Management Personnel.

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

Financial Year to 31 December 2015 Options	Balance at start of the period	Granted as compensation	Exercised	Expired	Balance at end of the period	Vested and exercisable	Unvested
<b>Directors</b>							
S I Cornelius	3,500,000	-	-	-	3,500,000	3,500,000	-
A W Kiernan	3,500,000	-	-	(1,000,000)	2,500,000	2,500,000	-
L R Cornelius	2,000,000	-	-	-	2,000,000	2,000,000	-
J D Fitzgerald <sup>(a)</sup>	-	750,000	-	-	750,000	750,000	-
P M Donaldson	5,000,000	-	-	-	5,000,000	5,000,000	-
<b>Other Key Management Personnel</b>							
C P Els <sup>(b)</sup>	-	1,000,000	-	-	1,000,000	-	1,000,000
A D Just	-	-	-	-	-	-	-
S Tarrant	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>14,000,000</b>	<b>1,750,000</b>	<b>-</b>	<b>(1,000,000)</b>	<b>14,750,000</b>	<b>13,750,000</b>	<b>1,000,000</b>

Note:

(a) Options granted to Mr Fitzgerald were approved at the Annual General Meeting of the Company held 29 May 2015. The options were issued to the in recognition of skill and expertise brought to the Company. There were no conditions attached to the options.

(b) The expected vesting dates of these options are as follows:

- 200,000 options on the completion of equity raising during the first half of the 2016 financial year.
- 200,000 options on the securing of a debt funding term sheet.
- 300,000 options on completion of project financing.
- 300,000 options on the commencement of construction.

## Directors' Report (Cont'd)

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

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

Financial Year to 31 December 2015 Performance Rights	Balance at start of the period	Granted as Remuneration	Vested during the period (a)	Balance at end of the period
<b>Directors</b>				
S I Cornelius	-	-	-	-
A W Kiernan	150,000	-	-	150,000
L R Cornelius	100,000	-	50,000	50,000
J D Fitzgerald	-	-	-	-
P M Donaldson	2,450,000	-	950,000	1,500,000
<b>Other Key Management Personnel</b>				
C P Els	-	-	-	-
A D Just	-	-	-	-
S Tarrant	-	-	-	-
<b>TOTAL</b>	<b>2,700,000</b>	<b>-</b>	<b>1,000,000</b>	<b>1,700,000</b>

Note:

(a) Performance rights vested during the period as follows:

- 300,000 performance rights vested on 18 March 2015 at the completion and release to the ASX of the Prefeasibility Study.
- 700,000 performance rights vested on 30 November 2015 at the completion and release to the ASX of the Definitive Feasibility Study.

### h) Loans to Key Management Personnel

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

### i) Other Transactions with Key Management Personnel

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

### j) Additional Information

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

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

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

	31 Dec 2015	31 Dec 2014	30 Jun 2014	30 Jun 2013	30 June 2012
Basic EPS (Cents)	(4.01)	2.18	0.16	(4.20)	(11.6)
Share Price	\$0.29	\$0.19	\$0.15	\$0.20	\$1.00

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

Signed in accordance with a resolution of the directors.



Seamus Cornelius

**CHAIRMAN**

**Perth, 30 March 2016**

# Directors' Report *(Cont'd)*

## Competent Persons and Responsibility Statement

### Mineral Resource Statements

The 2015 Colluli Potash Mineral Resource is reported according to the JORC Code and estimated at 1,289Mt @11% K<sub>2</sub>O Equiv. The Mineral Resource is classed as 303Mt @ 11% K<sub>2</sub>O Equiv Measured, 951Mt @ 11% K<sub>2</sub>O Equiv Indicated and 35Mt @ 10% K<sub>2</sub>O Equiv Inferred. The Competent Person for this estimate is Mr. Stephen Halabura, M. Sc., P. Geo., Fellow of Engineers Canada (Hon), Fellow of Geoscientists Canada, and a geologist with over 25 years' experience in the potash mining industry. 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 JORC Code.

The 2015 Colluli Rock Salt Mineral Resource is reported according to the JORC Code and estimated at 347Mt @96.9% NaCl. The Mineral Resource is classed as 28Mt @ 97.2% NaCl Measured, 180Mt @ 96.6% NaCl Indicated and 139Mt @ 97.2% NaCl Inferred. The Competent Person for this estimate is Mr. John Tyrrell, a geologist with more than 25 years' experience in the field of Mineral Resource estimation. Mr Tyrrell is a member of the AusIMM, is a full time employee of AMC Consultants Pty Ltd 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 JORC Code.

Mr. Tyrrell & Mr. Halabura consent to the inclusion of information relating to the Mineral Resource Statements in the form and context in which they appear.

### Ore Reserve Statement

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

In reporting the Mineral Resources and Ore Reserves referred to in this public release, AMC Consultants Pty Ltd acted as an independent party, has no interest in the outcome of the Colluli Project and has no business relationship with Danakali Ltd other than undertaking those individual technical consulting assignments as engaged, and being paid according to standard per diem rates with reimbursement for out-of-pocket expenses. Therefore, AMC Consultants Pty Ltd and the Competent Persons believe that there is no conflict of interest in undertaking the assignments which are the subject of the statements.

### Quality Control and Quality Assurance

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

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

Halite blanks and duplicate samples are submitted with each hole. Chemical analyses were conducted by Kali-UmwelttechnikGmbH Sondershausen, Germany utilising flame emission spectrometry, atomic absorption spectroscopy and ionchromatography. Kali- Umwelttechnik (KUTEC) Sondershausen1 have extensive experience in analysis of salt rock and brine samples and is certified according to DIN EN ISO/IEC 17025 by the Deutsche AkkreditierungssystemPrüfwesen GmbH (DAR). The laboratory follow standard procedures for the analysis of potash salt rocks chemical analysis (K<sup>+</sup>, Na<sup>+</sup>, Mg<sup>2+</sup>, Ca<sup>2+</sup>, Cl<sup>-</sup>, SO<sub>4</sub><sup>2-</sup>, H<sub>2</sub>O) and X-ray diffraction (XRD) analysis of the same samples as for chemical analysis to determine a qualitative mineral composition, which combined with the chemical analysis gives a quantitative mineral composition.



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

As lead auditor for the audit of Danakali Limited for the financial year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Gavin Buckingham  
Partner  
30 March 2016



DANAKALI LTD

# FINANCIAL RESULTS

FOR THE YEAR ENDED  
31 DECEMBER 2015

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2015

Consolidated	Notes	Financial Year to 31 December 2015 \$	Restated Six Month Transitional Period to 31 December 2014 \$
<b>REVENUE</b>			
Interest income	4	149,149	149,863
Accretion relating to the unwinding of discount on joint venture loan		1,571,789	-
<b>OTHER INCOME</b>			
Gain on recognition of loan to joint venture		-	5,625,755
Research and Development tax rebate	6	177,441	385,357
Foreign exchange gain		661,400	-
Sundry		933	-
<b>EXPENSES</b>			
Depreciation expense		(13,344)	(8,079)
Administration expenses	5	(2,527,940)	(731,721)
Loss on disposal of fixed asset		(12,548)	-
Share based payment expense	24	(726,467)	(734,050)
Share of net loss of equity accounted investment	10	(6,073,098)	(1,687,153)
<b>LOSS BEFORE INCOME TAX</b>		<b>(6,792,685)</b>	<b>2,999,972</b>
Income tax expense	6	-	-
<b>LOSS FOR THE PERIOD / YEAR</b>		<b>(6,792,685)</b>	<b>2,999,972</b>
<b>OTHER COMPREHENSIVE (LOSS)/ INCOME</b>			
<i>Items that may be reclassified to profit or loss</i>			
Share of foreign currency translation reserve relating to equity accounted investment	14	1,312,700	737,109
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/ PERIOD, NET OF TAX</b>		<b>1,312,700</b>	<b>737,109</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR/ PERIOD</b>		<b>(5,479,985)</b>	<b>3,737,081</b>
<b>Earnings per share for loss attributable to the ordinary equity holders of the Company:</b>			
Basic (loss)/earnings per share (cents per share)	17	(4.01)	2.18
Diluted (loss)/earnings per share (cents per share)	17	(4.01)	2.18

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

# Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2015

Consolidated	Notes	Restated		Restated
		31 December 2015	31 December 2014	30 June 2014
		\$	\$	\$
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	7	2,756,341	7,113,394	9,206,013
Trade and other receivables	8	180,582	128,995	79,892
Prepayments		27,034	26,379	12,443
<b>TOTAL CURRENT ASSETS</b>		<b>2,963,957</b>	<b>7,268,768</b>	<b>9,298,348</b>
<b>NON-CURRENT ASSETS</b>				
Receivables	8	9,878,007	5,625,755	-
Investment accounted for using the equity method	10	12,064,742	8,674,357	5,846,922
Plant and equipment	9	16,412	38,026	46,071
<b>TOTAL NON-CURRENT ASSETS</b>		<b>21,959,161</b>	<b>14,338,138</b>	<b>5,892,993</b>
<b>TOTAL ASSETS</b>		<b>24,923,118</b>	<b>21,606,906</b>	<b>15,191,341</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	11	552,085	462,968	384,458
Provisions	12	114,466	63,601	47,676
<b>TOTAL CURRENT LIABILITIES</b>		<b>666,551</b>	<b>526,569</b>	<b>432,134</b>
<b>TOTAL LIABILITIES</b>		<b>666,551</b>	<b>526,569</b>	<b>432,134</b>
<b>NET ASSETS</b>		<b>24,256,567</b>	<b>21,080,337</b>	<b>14,759,207</b>
<b>EQUITY</b>				
Issued capital	13	48,983,913	41,026,165	39,176,165
Reserves	14	10,906,507	8,895,340	7,424,185
Accumulated losses	15	(35,633,853)	(28,841,168)	(31,841,143)
<b>TOTAL EQUITY</b>		<b>24,256,567</b>	<b>21,080,337</b>	<b>14,759,207</b>

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

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2015

Consolidated	Notes	Issued Capital	Share Based Payments	Reserves		Accumulated Losses	Sub-Total	Non-Controlling Interest	Total Equity
				Foreign Currency Translation	Foreign Currency Translation				
		\$	\$	\$	\$	\$	\$	\$	\$
<b>BALANCE AT 1 JANUARY 2015 – as previously stated</b>		41,026,165	8,438,722	(28,737)	(40,550,720)	8,885,430	(1,640,080)	7,245,350	
Restatement	18	-	-	485,355	11,709,552	12,194,907	1,640,080	13,834,987	
<b>BALANCE AT 1 JANUARY 2015 – restated</b>		41,026,165	8,438,722	456,618	(28,841,168)	21,080,337	-	21,080,337	
Loss for the period		-	-	-	(6,792,685)	(6,792,685)	-	(6,792,685)	
Other comprehensive income	14	-	-	1,312,700	-	1,312,700	-	1,312,700	
<b>Total comprehensive income for the period</b>		-	-	1,312,700	(6,792,685)	(5,479,985)	-	(5,479,985)	
<b>Transactions with owners in their capacity as owners:</b>									
Shares issued	13	8,190,061	-	-	-	8,190,061	-	8,190,061	
Costs of capital raised	13	(232,313)	-	-	-	(232,313)	-	(232,313)	
Options & performance rights issued	14	-	698,467	-	-	698,467	-	698,467	
<b>BALANCE AT 31 DECEMBER 2015</b>		48,983,913	9,137,189	1,769,318	(35,633,853)	24,256,567	-	24,256,567	
<b>BALANCE AT 1 JULY 2014 – as previously stated</b>		39,176,165	7,704,672	(4,491)	(36,930,527)	9,945,819	(878,495)	9,067,324	
Restatement	18	-	-	(276,000)	5,089,387	4,813,387	878,495	5,691,882	
<b>BALANCE AT 1 JULY 2014 – restated</b>		39,176,165	7,704,672	(280,491)	(31,841,140)	14,759,206	-	14,759,206	
Profit for the period		-	-	-	2,999,972	2,999,972	-	2,999,972	
Other comprehensive loss		-	-	737,109	-	737,109	-	737,109	
<b>Total comprehensive income for the period – restated</b>		-	-	737,109	2,999,972	3,737,081	-	3,737,081	
<b>Transactions with owners in their capacity as owners:</b>									
Shares issued	13	1,850,000	-	-	-	1,850,000	-	1,850,000	
Options & performance rights issued	14	-	734,050	-	-	734,050	-	734,050	
<b>RESTATEMENT BALANCE AT 31 DECEMBER 2014</b>		41,026,165	8,438,722	456,618	(28,841,168)	21,080,337	-	21,080,337	

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

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2015

Consolidated	Notes	Financial Year to 31 December 2015 \$	Restated Six Month Transitional Period to 31 December 2014 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		171,422	183,193
Payments to suppliers and employees		(2,547,126)	(733,655)
Sundry income		933	-
Research & Development tax rebate		177,441	385,357
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	16	<u>(2,197,330)</u>	<u>(165,105)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Funding of joint venture		(10,085,193)	(3,777,480)
Payments for plant and equipment		(4,278)	(456)
Proceeds from sale of plant and equipment		-	422
NET CASH OUTFLOW/ INFLOW FROM INVESTING ACTIVITIES		<u>(10,089,471)</u>	<u>(3,777,514)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of ordinary shares		8,162,061	1,850,000
Costs of capital raised		(232,313)	-
NET CASH INFLOW FROM FINANCING ACTIVITIES		<u>7,929,748</u>	<u>1,850,000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(4,357,053)</u>	<u>(2,092,619)</u>
Cash and cash equivalents at the beginning of the financial year/ period		<u>7,113,394</u>	<u>9,206,013</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/ PERIOD</b>	7	<u><u>2,756,341</u></u>	<u><u>7,113,394</u></u>

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

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2015

## 1. GENERAL INFORMATION

Danakali Ltd ('Danakali or the 'Company') is a for profit company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange (ASX). The consolidated financial Report of the Group as at, and for the year ended 31 December 2015 comprises the Company and its subsidiaries (together referred to as the 'Group'). The address of the registered office is Ground Floor, 31 Ventnor Avenue, West Perth, WA, 6005.

The financial statements are presented in the Australian currency.

Subsequent to the reporting period, ending on 30 June 2014, the Company changed its financial year end to 31 December. The change was made in accordance with section 323D(2A) of the *Corporations Act 2001 (Cth)*. The comparatives contained in this report are a six-month transitional report for the period 1 July 2014 to 31 December 2014. Future reports will revert to a twelve-month financial year, commencing on 1 January and ending on 31 December.

The financial report of Danakali for the year ended 31 December 2015 was authorised for issue by the Directors on 30 March 2016. The directors have the power to amend and reissue the financial statements.

Danakali Ltd, previously 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

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

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

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

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

### (a) Going concern

The consolidated entity recorded a loss of \$6,792,685 for the year ended 31 December 2015 (six-month transitional period to 31 December 2014 - restated: \$2,999,972 profit) and had net cash outflows from operating and investing activities of \$12,286,801 for the year ended 31 December 2015 (six-month transitional period to 31 December 2014 - restated: \$3,942,619). The consolidated entity had cash and cash equivalents at 31 December 2015 of \$2,756,341 (31 December 2014 - restated: \$7,113,394) and has working capital of \$2,297,406 (31 December 2014 - restated: \$6,742,199).

The Group's cashflow forecast for the period ended 31 March 2017 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:

- On 21 March 2016, Danakali announced that it had received commitments from professional and sophisticated investors to raise up to A\$5.5 million through the issue of up to 25 million fully paid ordinary shares (**Placement Shares**) at A\$0.22 each. The placement includes one (1) free attaching unlisted option exercisable at A\$0.35 with an expiry date 2 years from issue, for every two (2) Placement Shares (the **Placement**).

Detail of the Placement is disclosed in Note 30 – Events occurring after the Statement of Financial Position date.

- Historical success of obtaining funding through the equity markets:
  - Strong support from major shareholder in March 2016 placement.
  - Completion of private placement (May 2015).
  - Strong take up of entitlements during the rights issue (May 2015).
  - Participation of underwriters supporting the rights issue above.
- Positive DFS for Colluli Project completed November 2015:
  - Danakali and CMSC Boards support recommendation for appointment of debt advisor.
  - Mining approvals processes have commenced.

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.

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

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.

### (b) Principles of consolidation

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

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

### (c) Segment reporting

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

### (d) Foreign currency translation

#### (i) Functional and presentation currency

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

#### (ii) Transactions and balances

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

#### (iii) Foreign operations

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

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

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

### (e) Revenue recognition

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

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

### (f) Income tax

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

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

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

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

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

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

### (g) Leases

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

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

### (h) Impairment of assets

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

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

### (i) Cash and cash equivalents

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

### (j) Trade and other receivables

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



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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

### (k) Investments and other financial assets

#### Classification

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

#### (i) Loans and receivables

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

#### (l) Investment in joint ventures

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

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

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

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

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

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

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

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

#### (m) Plant and equipment

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

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

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

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

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

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

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

### (n) Exploration and evaluation costs

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

### (o) Trade and other payables

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

### (p) Employee benefits

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

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

#### (ii) Share-based payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions') refer to note 24.

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

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

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

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

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

### (q) Issued capital

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

### (r) Earnings per share

#### (i) Basic earnings per share

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

#### (ii) Diluted earnings per share

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

### (s) Critical accounting judgements, estimates and assumptions

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

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

### **(i) Impairment**

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. Where an impairment trigger exists, the recoverable amount of the asset is determined. As at 31 December 2015 the Group assessed that, no indication of impairment existed (31 December 2014: Nil).

### **(ii) Interests in Joint Arrangements**

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

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

Further context is detailed in note 10.

### **(iii) Share based payment transactions**

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 24.

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

### **(t) Goods and Services Tax (GST)**

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

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

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

### **(u) Government grants**

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

### **(v) Application of new accounting standards**

All new accounting standards or amendments applicable to the Group and effective from 1 January 2015 have been adopted. The adoption of these new and amended standards and interpretations did not result in any significant changes to the Group's accounting policies.

The accounting policies and methods of computation adopted in the preparation of the financial report are consistent with those adopted and disclosed in the Group's 2014 annual financial report for the six-month transitional period ended 31 December 2014.

### **(w) New accounting standards and interpretations not yet effective**

Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting year ended 31 December 2015 are outlined in the table below. The potential effect of these Standards is yet to be fully determined.

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.</p> <p>Classification and measurement</p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.</p> <p>The main changes are described below.</p> <p><i>Financial assets</i></p> <ol style="list-style-type: none"> <li>Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</li> <li>Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</li> <li>Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</li> </ol> <p><i>Financial liabilities</i></p> <p>Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option.</p> <p>Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> <li>▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>▶ The remaining change is presented in profit or loss</li> </ul> <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.</p> <p>Impairment</p> <p>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p>Hedge accounting</p> <p>Amendments to AASB 9 (December 2009 &amp; 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge</p>	1 January 2018	1 January 2018

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

		<p>effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.</p>		
AASB 2014-3	<p>Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 &amp; AASB 11]</p>	<p>AASB 2014-3 amends AASB 11 <i>Joint Arrangements</i> to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:</p> <p>(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 <i>Business Combinations</i>, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11</p> <p>(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations</p> <p>This Standard also makes an editorial correction to AASB 11.</p>	1 January 2016	1 January 2016
AASB 2014-4	<p>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)</p>	<p>AASB 116 <i>Property Plant and Equipment</i> and AASB 138 <i>Intangible Assets</i> both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	1 January 2016	1 January 2016
AASB 15	<p>Revenue from Contracts with Customers</p>	<p>AASB 15 <i>Revenue from Contracts with Customers</i> replaces the existing revenue recognition standards AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i> and related Interpretations (Interpretation 13 <i>Customer Loyalty Programmes</i>, Interpretation 15 <i>Agreements for the Construction of Real Estate</i>, Interpretation 18 <i>Transfers of Assets from Customers</i>, Interpretation 131 <i>Revenue—Barter Transactions Involving Advertising Services</i> and Interpretation 1042 <i>Subscriber Acquisition Costs in the Telecommunications Industry</i>). AASB 15 incorporates the requirements of IFRS 15 <i>Revenue from Contracts with Customers</i> issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).</p> <p>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <p>(a) Step 1: Identify the contract(s) with a customer</p> <p>(b) Step 2: Identify the performance obligations in the contract</p>	1 January 2018	1 January 2018

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

		<p>(c) Step 3: Determine the transaction price</p> <p>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</p> <p>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</p> <p>AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p>		
AASB 1057	Application of Australian Accounting Standards	<p>This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible.</p> <p>The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.</p>	1 January 2016	1 January 2016
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	<p>AASB 2014-9 amends AASB 127 <i>Separate Financial Statements</i>, and consequentially amends AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> and AASB 128 <i>Investments in Associates and Joint Ventures</i>, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.</p> <p>AASB 2014-9 also makes editorial corrections to AASB 127.</p> <p>AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.</p>	1 January 2016	1 January 2016
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>AASB 2014-10 amends AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:</p> <p>(a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not)</p> <p>(b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p> <p>AASB 2014-10 also makes an editorial correction to AASB 10</p> <p>AASB 2014-10 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.</p>	1 January 2018	1 January 2018
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p><b>AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>:</b></p> <ul style="list-style-type: none"> <li>Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or vice versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.</li> </ul> <p><b>AASB 7 <i>Financial Instruments: Disclosures</i>:</b></p> <ul style="list-style-type: none"> <li>Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.</li> <li>Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional</li> </ul>	1 January 2016	1 January 2016

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

		<p>disclosure required by the amendments to AASB 7 <i>Disclosure–Offsetting Financial Assets and Financial Liabilities</i> is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 <i>Interim Financial Reporting</i> when its inclusion would be required by the requirements of AASB 134.</p> <p>AASB 119 <i>Employee Benefits</i>:</p> <ul style="list-style-type: none"> <li>Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.</li> </ul> <p>AASB 134 <i>Interim Financial Reporting</i>:</p> <ul style="list-style-type: none"> <li>Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.</li> </ul>		
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.	1 January 2016	1 January 2016
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015	1 January 2016
AASB 2015-9	Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057]	This Standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015. There is no change to the requirements or the applicability of AASB 8 and AASB 133.	1 January 2016	1 January 2016
IFRS 16/AASB 16	Leases	<p>The key features of IFRS 16 are as follows:</p> <p>Lessee accounting</p> <ul style="list-style-type: none"> <li>Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</li> <li>A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.</li> <li>Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</li> <li>IFRS 16 contains disclosure requirements for lessees.</li> </ul> <p>Lessor accounting</p> <ul style="list-style-type: none"> <li>IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or</li> </ul>	1 January 2019	1 January 2019

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

	<p>finance leases, and to account for those two types of leases differently.</p> <ul style="list-style-type: none"> <li>IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</li> </ul> <p>IFRS 16 supersedes:</p> <p>(a) IAS 17 Leases;</p> <p>(b) IFRIC 4 Determining whether an Arrangement contains a Lease;</p> <p>(c) SIC-15 Operating Leases—Incentives; and</p> <p>(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.</p> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.</p>		
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## 3. SEGMENT INFORMATION

The Group operates in the mining industry in Eritrea. For management purposes, the Group is organised into one main operating segment which involves the exploration of minerals in Eritrea. All of the Group's activities are interrelated and discrete financial information is reported to the Board (Chief Operating Decision Maker) as a single segment.

Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

The Groups' non-current assets are geographically located in Eritrea.

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

## 4. REVENUE

	Financial Year to 31 December 2015 \$	Six Month Transitional Period to 31 December 2014 \$
<i>From continuing operations</i>		
Interest	<b>149,149</b>	149,863

## 5. EXPENSES

	Financial Year to 31 December 2015 \$	Six Month Transitional Period to 31 December 2014 \$
<i>Profit/(loss) before income tax includes the following specific expenses:</i>		
Minimum lease payments relating to operating leases	<b>111,396</b>	67,981
Share based payment expense	<b>726,467</b>	734,050
Depreciation	<b>13,344</b>	8,079
Employee Benefits	<b>807,600</b>	361,924



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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 6. INCOME TAX

	Financial Year to 31 December 2015 \$	Six Month Transitional Period to 31 December 2014 \$
<b>(a) Income tax recognised in profit or loss</b>		
Current tax	-	-
Deferred tax	-	-
Total tax benefit/(expense)	-	-
<b>(b) Reconciliation of income tax expense to prima facie tax payable</b>		
(Loss)/ Profit from continuing operations before income tax expense	<b>(6,792,685)</b>	2,999,972
Prima facie tax benefit at the Australian tax rate of 30% (2014: 30%)	<b>(2,037,806)</b>	899,992
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
<i>Share-based payments</i>	<b>217,940</b>	220,215
<i>Research &amp; Development tax refund</i>	<b>(53,232)</b>	(115,607)
<i>Gain on establishment of joint venture</i>	-	(1,687,727)
<i>Share of net loss of equity accounted associate</i>	<b>1,821,929</b>	506,146
<i>Accretion relating to the unwinding of discount on joint venture loan</i>	<b>(471,537)</b>	-
Movements in unrecognised temporary differences:	<b>522,706</b>	176,981
Income tax expense/(benefit)	-	-

### (c) Deferred Income Tax

Deferred income tax at 31 December relates to the following:

	Statement of Financial Position		Statement of Comprehensive Income Six Month Transitional Period	
	2015 \$	2014 \$	Financial Year to 31 December 2015 \$	to 31 December 2014 \$
<i>Deferred Tax Liabilities:</i>				
Interest receivable	<b>(1,779)</b>	(8,461)	<b>6,682</b>	9,999
<i>Deferred Tax Assets:</i>				
Provision for employee entitlements	<b>34,340</b>	19,080	<b>15,260</b>	4,778
Accrued expenditure	<b>6,000</b>	7,050	<b>(1,050)</b>	(4,990)
s.40-880 expenditure	<b>323</b>	743	<b>(420)</b>	368
Revenue tax losses	<b>3,960,812</b>	3,458,579	<b>502,234</b>	166,826
Deferred tax assets not brought to account as realisation is not probable	<b>(3,999,696)</b>	(3,476,991)		
	-	-		
Deferred tax assets not recognised			<b>(522,706)</b>	(176,981)
			-	-

### (d) Deferred Tax Assets

	31 December 2015 \$	31 December 2014 \$
<i>On Income Tax Account:</i>		
Tax losses	<b>13,202,707</b>	11,528,595
Deferred tax assets offset against deferred tax liabilities	-	-
Deferred tax assets not brought to account	<b>(13,202,707)</b>	(11,528,595)
	-	-

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

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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 7. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
	\$	\$
Cash at bank and in hand	2,756,341	27,308
Short-term deposits	-	7,086,086
Cash and cash equivalents as shown in the consolidated statement of financial position and the consolidated statement of cash flows.	<u>2,756,341</u>	<u>7,113,394</u>

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

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

## 8. TRADE AND OTHER RECEIVABLES

	31 December 2015	31 December 2014
	\$	\$
<b>Current</b>		
Net GST receivable	119,694	98,891
Accrued interest	5,931	28,204
Trade debtors	1,375	1,462
Other receivables	440	438
Security bonds	53,142	-
	<u>180,582</u>	<u>128,995</u>
<b>Non-Current</b>		
Loan to Colluli Mining Share Company	9,878,007	5,625,755
	<u>9,878,007</u>	<u>5,625,755</u>

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 cashflows. The shareholder loan is denominated in USD, non-interest bearing, unsecured and subordinate to any loans from third party secured lenders, under which CMSC may enter into in order to fund the Project Development Capital. For accounting purposes, the value of the loan has been discounted to \$9,878,007 by applying an effective interest rate of 25% over an estimated repayment period of approximately 5 years.

The undiscounted underlying loan balance at 31 December 2015 is \$23,266,475 (31 December 2014: \$16,110,566).

## 9. PLANT AND EQUIPMENT

	31 December 2015	31 December 2014
	\$	\$
<b>Plant and equipment</b>		
Cost	50,452	88,999
Accumulated depreciation	(34,040)	(50,973)
Net book amount	<u>16,412</u>	<u>38,026</u>
<b>Plant and equipment</b>		
Opening net book amount (1 January 2015 / 1 July 2014)	38,026	46,071
Additions	4,278	456
Disposals	(12,548)	(422)
Depreciation charge	(13,344)	(8,079)
Closing net book amount	<u>16,412</u>	<u>38,026</u>

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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 10. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

The Group has an interest in the following joint arrangement:

Project	Activities	Equity Interest		Carrying Value	
		31 December 2015 %	31 December 2014 %	31 December 2015 \$	31 December 2014 \$
Colluli Potash	Mineral Exploration	50	50	12,064,742	8,674,357

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

Under the terms of the Shareholders Agreement, at the date of incorporation of CMSC, consideration for the acquisition of shares in CMSC equates to half of the allowable historical exploration costs transferred to CMSC by STB Eritrea Pty Ltd, a wholly owned subsidiary of Danakali Limited. The balance of the allowable historic exploration costs transferred to CMSC are recoverable via a shareholder loan account (see note 8).

The 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 31 December 2015:

	31 December 2015 \$	31 December 2014 \$
Investment in joint venture – Colluli Mining Share Company	12,064,742	8,674,357

	Financial Year to 31 December 2015 \$	Six Month Transitional Period to 31 December 2014 \$
Reconciliation of movement in investments accounted for using the equity method:		

### Reconciliation of movement in investments accounted for using the equity method:

Carrying amount at the beginning of the period	8,674,357	5,846,922
Additional investment during the period	8,150,783	3,777,479
Share of net losses for the period	(6,073,098)	(1,687,153)
Other comprehensive income for the period	1,312,700	737,109
Carrying amount at the end of the period	12,064,742	8,674,357

### Summarised financial information of joint venture:

	31 December 2015 \$	31 December 2014 \$
<b>Financial position (Aligned to Danakali accounting policies)</b>		
Cash and cash equivalents	52,641	286,774
Other current assets	110,552	128,233
Current assets	163,193	415,007
Non-current assets	30,268,672	27,241,278
Current liabilities	(288,408)	(344,762)
Non-current liabilities	(9,878,007)	(5,625,755)
NET ASSETS	20,265,450	21,685,768
Group's share of net assets	10,132,725	10,842,884

### Reconciliation of Equity Investment:

Group's share of net assets	10,132,725	10,842,884
Share of initial contribution on establishment of the Joint Venture not recognised by DNK	(4,305,107)	(4,305,107)
Outside shareholder interest in equity contributions by Danakali	6,237,124	2,136,580
Carrying amount at the end of the period	12,064,742	8,674,357

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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 10. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD (Cont'd)

	Financial Year to 31 December 2015 \$	Six Month Transitional Period to 31 December 2014 \$
<b>Financial performance</b>		
Interest expense relating to the unwinding of discount	(1,571,789)	-
Exploration and evaluation expenditure	(10,574,408)	(3,374,306)
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(12,146,197)</b>	<b>(3,374,306)</b>
Group's share of total loss for the period	(6,073,098)	(1,687,153)

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

## 11. TRADE AND OTHER PAYABLES

	31 December 2015 \$	31 December 2014 \$
Trade payables	169,423	331,850
Accrued expenses	343,447	105,223
Other payables	39,215	25,895
	<b>552,085</b>	<b>462,968</b>

## 12. PROVISIONS

	31 December 2015 \$	31 December 2014 \$
<b>Current</b>		
Employee entitlements	114,466	63,601
	<b>114,466</b>	<b>63,601</b>

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

## 13. ISSUED CAPITAL

	Financial Year to 31 December 2015		Six Month Transitional Period to 31 December 2014	
	Number of shares	\$	Number of shares	\$
<b>(a) Share capital</b>				
Ordinary shares fully paid	175,772,167	48,983,913	139,427,826	41,026,165
Total issued capital	<b>175,772,167</b>	<b>48,983,913</b>	<b>139,427,826</b>	<b>41,026,165</b>
<b>(b) Movements in ordinary share capital</b>				
Beginning of the year/ period	139,427,826	41,026,165	129,427,826	39,176,165
<i>Issued during the year/ period:</i>				
- Issued at \$0.185 per share	-	-	10,000,000	1,850,000
- Issued at \$0.205 per share	10,000,000	2,050,000	-	-
- Issued at \$0.250 per share	24,374,341	6,093,591	-	-
- Issued at \$0.295 per share	50,000	14,750	-	-
- Issued at \$0.310 per share	12,000	3,720	-	-
- Issued at \$0.280 per share as performance shares	100,000	28,000	-	-
- Costs of capital raised	-	(232,313)	-	-
- Issued on vesting of performance rights	1,808,000	-	-	-
End of the year/ period	<b>175,772,167</b>	<b>48,983,913</b>	<b>139,427,826</b>	<b>41,026,165</b>

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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 13. ISSUED CAPITAL (Cont'd)

### (c) Ordinary shares

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

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

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

	Financial Year to 31 December 2015	Six Month Transitional Period to 31 December 2014
	\$	\$
<b>(d) Movements in options on issue</b>		
Balance at beginning of the year/ period	28,050,000	20,500,000
<i>Issued during the year/ period:</i>		
– Exercisable at \$0.278, on or before 17 November 2017	-	5,000,000
– Exercisable at \$0.350, on or before 14 September 2015	-	8,000,000
– Exercisable at \$0.527, on or before 29 May 2018	750,000	-
– Exercisable at \$0.550, on or before 31 May 2018	600,000	-
– Exercisable at \$0.408, on or before 4 November 2018	1,000,000	-
<i>Exercised, cancelled or expired during the year/ period:</i>		
– Exercisable at \$1.449, on or before 17 July 2014	-	(5,450,000)
– Exercisable at \$1.949, on or before 31 March 2015	(1,250,000)	-
– Exercisable at \$0.699, on or before 30 June 2015	(3,800,000)	-
– Exercisable at \$0.350, on or before 4 September 2015	(8,000,000)	-
– Exercisable at \$1.449, on or before 30 November 2015	(500,000)	-
– Exercisable at \$1.949, on or before 30 November 2015	(500,000)	-
Balance at end of the year/ period	<b>16,350,000</b>	28,050,000

## 14. RESERVES

	Financial Year to 31 December 2015	Six Month Transitional Period to 31 December 2014
	\$	\$
<b>(a) Reserves</b>		
<b>Share-based payments reserve</b>		
Balance at beginning of the year/ period	8,438,722	7,704,672
Employee and contractor share options & performance rights (note 24)	698,467	734,050
Balance at end of the period	<b>9,137,189</b>	8,438,722
<b>Foreign currency translation reserve</b>		
Balance at beginning of the year/ period	456,618	-
Currency translation differences arising during the year/ period	1,312,700	456,618
Balance at end of the year/ period	<b>1,769,318</b>	456,618
Total reserves	<b>10,906,507</b>	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 the exchange differences arising on translation of a foreign joint arrangement.

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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 15. ACCUMULATED LOSSES

	Financial Year to 31 December 2015	Six Month Transitional Period to 31 December 2014
	\$	\$
Balance at beginning of the year/ period	(28,841,168)	(31,841,140)
(Loss)/profit for the year/ period	(6,792,685)	2,999,972
Balance at end of the year/ period	(35,633,853)	(28,841,168)

## 16. STATEMENT OF CASH FLOWS

	Financial Year to 31 December 2015	Six Month Transitional Period to 31 December 2014
	\$	\$
<b>(a) Reconciliation of net loss after income tax to net cash outflow from operating activities</b>		
Net (loss)/ profit for the year/ period	(6,792,685)	2,999,972
<i>Non-Cash Items:</i>		
Depreciation of plant and equipment	13,344	8,079
Loss of disposal of plant and equipment	12,548	-
Share-based payment expense	726,467	734,050
Unrealised gain on receivable	(1,571,789)	(5,625,755)
Share of net loss of associate	6,073,098	1,687,153
Foreign exchange gain	(661,400)	-
<i>Change in operating assets and liabilities:</i>		
(Increase) in trade and other receivables	(57,962)	(41,902)
Increase/(decrease) in trade and other payables	10,184	57,372
Increase/(decrease) in provisions	50,865	15,926
Net cash outflow from operating activities	(2,197,330)	(165,105)
<b>(b) Funding of joint venture operations</b>		
Cash contribution to joint venture operations during the period	(10,085,193)	(3,777,480)

## 17. EARNINGS PER SHARE

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

	Financial Year to 31 December 2015	Six Month Transitional Period to 31 December 2014
	\$	\$
(Loss)/ profit attributable to the owners of the Company used in calculating basic and diluted loss per share	(6,792,685)	2,999,972

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

	31 December 2015 No. of Shares	31 December 2014 No. of Shares
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	165,132,675	137,458,880

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

Basic and diluted earnings per share for all periods prior to the Rights Issue of 13,400,167 have been restated by an adjustment factor of 1.03 to account for the bonus element. Details of the shares issued are outlined in note 13.

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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 18. 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 contained in this report is as follows:

### (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	<u>(456,769)</u>	<u>(107,874)</u>
<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	<u>14,291,756</u>	<u>5,799,760</u>
Total Assets – Net increase	<u>13,834,987</u>	<u>5,691,886</u>
<b>Liabilities</b>		
Total Liabilities	<u>-</u>	<u>-</u>
<b>Equity</b>		
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	<u>13,834,987</u>	<u>5,691,886</u>

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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 18. RESTATEMENT OF PRIOR PERIOD ACCOUNTS (Cont'd)

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

	Six Month Transitional Period to 31 December 2014 \$	Financial Year to 30 June 2014 \$
<b>Income/(Expenses)</b>		
Increase of Gain on establishment of CMSC joint venture	-	6,147,345
Increase of Gain on recognition of receivable from CMSC relating to reimbursable costs	5,625,755	-
Decrease Depreciation expense	50,169	125,045
Decrease Administration expense	103,715	198,335
Decrease Other Income	(24,246)	(4,491)
Decrease Other expense	-	(727,719)
Decrease Exploration and evaluation expenditure	3,265,014	779,269
Increase in 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>		
Increase of Gain on translation of foreign operations	48,492	9,175
Increase/ (Decrease) of Share of foreign currency translation reserve relating to equity accounted investment	761,355	(275,996)
Net increase 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 earnings per share (cents per share)	4.89	3.96
Diluted earnings per share (cents per share)	4.89	3.96

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

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



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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 19. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements. The international operations are at the start-up stage and there is limited exposure at the reporting date to assets and liabilities denominated in foreign currencies. The loan of \$9,878,007 (2014: \$5,625,755) to Colluli Mining Share Company is denominated in Eritrean Nakfa (**Nakfa**) which is pegged to the US Dollar.

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

	Change in Nakfa Rate	Effect on Loss before tax
	%	\$
Financial Year to 31 December 2015	+5%	(493,900)
	-5%	493,900
Six Month Transitional Period to 31 December 2014	+5%	(281,288)
	-5%	281,288

#### (ii) Interest rate risk

The Group is exposed to movements in market interest rates on cash and cash equivalents. The Group's policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group of \$2,756,341 (31 December 2014: \$7,113,394) is subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the period depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Group was 2.25% (31 December 2014: 2.83%).

#### Sensitivity analysis

At 31 December 2015, if interest rates had changed by +/- 80 basis points from the weighted average rate for the period with all other variables held constant, post-tax loss for the Group would have been \$22,051 lower/higher (31 December 2014: \$56,907 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

### (b) Liquidity risk

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

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

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

### (c) Credit risk

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk at balance date is the carrying amount of those assets as disclosed in the Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements.

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

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

## 20. FINANCIAL INSTRUMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 31 December 2015:

	Amortised cost \$	Fair value through profit and loss \$	Fair value through other comprehensive income \$
<b>Financial Assets:</b>			
Trade and other receivables	180,582	-	-
Total current	180,582	-	-
Other receivable	9,878,007	-	-
Total non-current	9,878,007	-	-
Total Assets	10,058,589	-	-
<b>Financial liabilities:</b>			
Trade and other payables	552,085	-	-
Total current	552,085	-	-
Total Liabilities	552,085	-	-

### Fair values:

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 31 December 2015:

	Carrying amount \$	Fair value \$
<b>Financial Assets:</b>		
Trade and other receivables	180,582	180,582
Total current	180,582	180,582
Other assets	9,878,007	9,878,007
Total non-current	9,878,007	9,878,007
Total Assets	10,058,589	10,058,589
<b>Financial liabilities:</b>		
Trade and other payables	552,085	552,085
Total current	552,085	552,085
Total Liabilities	552,085	552,085

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

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

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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 21. CAPITAL MANAGEMENT

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

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

The working capital position of the Group at 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015	31 December 2014
	\$	\$
Cash and cash equivalents	2,756,341	7,113,394
Trade and other receivables	180,582	128,995
Prepayments	27,034	26,379
Trade and other payables and provisions	(666,551)	(526,569)
Working capital position	2,297,406	6,742,199

## 22. CONTINGENCIES

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

## 23. COMMITMENTS

	31 December 2015	31 December 2014
	\$	\$
<b>Lease commitments: Group as lessee</b>		
<i>Operating leases (non-cancellable):</i>		
Minimum lease payments		
within one year	114,924	114,924
later than one year but not later than five years	50,120	166,640
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	165,044	281,564

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

## 24. SHARE-BASED PAYMENTS

### (a) Shares

On 27 November 2015, the Board granted 100,000 fully paid ordinary shares at \$0.28 per share to Mr S Tarrant, Head of Finance, as recognition of his contribution to the completion of the Company's Definitive Feasibility Study for the Colluli Project. The fair value of the shares is the bid price at the grant date.

No shares were granted as remuneration during the six-month transitional period to 31 December 2014.

### (b) Option Plans

The Group provides benefits to employees (including directors), contractors and consultants of the Group in the form of share-based payment transactions, whereby employees, contractors and consultants render services in exchange for options to acquire ordinary shares. All options issued have exercise prices ranging from \$0.278 each to \$0.949 each and expiry dates ranging from 31 January 2016 to 4 November 2018.

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

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

Set out below are summaries of the options granted:

	Financial Year to 31 December 2015		Six Month Transitional Period to 31 December 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year/ period	28,050,000	\$0.546	20,500,000	\$0.928
Granted <sup>(a/b)</sup>	2,350,000	\$0.482	13,000,000	\$0.322
Exercised	-	-	-	-
Expired	(14,050,000)	\$0.683	(5,450,000)	\$1.449
Outstanding at end of year/ period	16,350,000	\$0.420	28,050,000	\$0.546
Exercisable at end of year/ period	15,350,000	\$0.421	15,500,000	\$0.740

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

(b) Options granted during the period to 31 December 2014 includes 8,000,000 options granted to Kam Lung Investment Development Company as part of an equity raising completed during that period.

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.77 years (31 December 2014: 1.34 years), with exercise prices ranging from \$0.278 to \$0.949.

The weighted average fair value of the options granted during the period was \$0.172 (31 December 2014: \$0.0907). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

Options Granted during the period to 31 December 2015:

Number of Options	Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price at Grant Date	Risk Free Interest Rate	Estimated Volatility
750,000	29/05/2015	29/05/2018	\$0.170	\$0.527	\$0.380	1.875%	100%
600,000	02/10/2015	31/05/2018	\$0.136	\$0.550	\$0.295	1.805%	100%
1,000,000	03/11/2015	04/11/2018	\$0.126	\$0.408	\$0.285	1.865%	100%

Options Granted during the period to 31 December 2014:

Number of Options	Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price at Grant Date	Risk Free Interest Rate	Estimated Volatility
8,000,000	06/08/2014	04/09/2015	\$0.089	\$0.350	\$0.265	2.555%	100%
5,000,000	17/11/2014	17/11/2017	\$0.101	\$0.278	\$0.185	2.555%	100%

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

### (c) Performance Rights Plan

The Performance Rights Plan was re-approved at the annual general meeting of the Company held 17 November 2014.

Under the Performance Rights Plan, shares are issued in the future subject, to the performance based vesting conditions being met. The vesting conditions, include the following:

Class 1:

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

Class 2:

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

Class 3 (Non-KMP):

- 100,000 upon completion of the prefeasibility study for the Colluli Project by submission of the written study to the Study Manager (vested March 2015);

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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

- 150,000 upon completion of a DFS pilot study for the processing plant by submission of a completed metallurgical report outlining the results to the Study Manager (vested September 2015); and
- 300,000 upon completion of the DFS by the submission of the DFS report to the Study Manager (vested November 2015).

Class 4:

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

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

There were 255,000 performance rights issued during the year to 31 December 2015 and previously 3,000,000 performance rights were issued during the six-month transitional period to 31 December 2014.

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

1 July 2014 to 31 December 2014	Balance at start of the period	Granted during the period	Vested & converted to shares	Cancelled upon termination	Balance at end of the period
Grant Date					
25 January 2012 (Class 1)	100,000	-	-	-	100,000
15 May 2012 (Class 1)	542,000	-	-	(265,000) <sup>(a)</sup>	277,000
12 December 2012 (Class 2)	150,000	-	-	-	150,000
13 November 2014 (Class 3)	-	550,000	-	-	550,000
9 December 2014 (Class 4)	-	2,450,000	-	-	2,450,000
<b>TOTAL</b>	<b>792,000</b>	<b>3,000,000</b>	<b>-</b>	<b>(265,000)</b>	<b>3,527,000</b>

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

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

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

	Financial Year to 31 December 2015	Six Month Transitional Period to 31 December 2014
	\$	\$
Shares	28,000	-
Options & Performance Rights issued to directors, employees and contractors	698,467	734,050
	<b>726,467</b>	<b>734,050</b>

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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 25. RELATED PARTY TRANSACTIONS

### (a) Parent entity

The ultimate parent entity within the Group is Danakali Limited.

### (b) Subsidiary

Interests in the subsidiary is set out in note 27.

### (c) Investment in Joint Venture

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

### (d) Key management personnel compensation

	Financial Year to 31 December 2015	Six Month Transitional Period to 31 December 2014
	\$	\$
Short-term benefits	950,801	266,994
Post-employment benefits	51,189	21,944
Share-based payments	564,304	708,544
	<b>1,566,294</b>	<b>997,482</b>

Transactions with related parties are disclosed in the Remuneration report. There were no other related party transactions.

## 26. REMUNERATION OF AUDITORS

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

	Financial Year to 31 December 2015	Six Month Transitional Period to 31 December 2014
	\$	\$
<b>(a) Audit services</b>		
Rothsay Chartered Accountants	11,500	6,000
Ernst & Young	30,300	-
	<b>41,800</b>	<b>6,000</b>
<b>(b) Non-audit services</b>		
Ernst & Young – since appointment as auditor	31,750	-
Ernst & Young – prior to appointment as auditor	51,293	47,152
	<b>83,043</b>	<b>47,152</b>

## 27. 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	
				31 December 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.

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

FOR THE YEAR ENDED 31 DECEMBER 2015

## 28. PARENT ENTITY INFORMATION

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

	31 December 2015	31 December 2014
	\$	\$
Current assets	2,963,957	7,268,768
Non-current assets	21,959,161	27,302,807
<b>Total assets</b>	<b>24,923,118</b>	<b>34,571,575</b>
Current liabilities	666,551	526,569
<b>Total liabilities</b>	<b>666,551</b>	<b>526,569</b>
Issued capital	49,511,393	41,026,165
Share-based payments reserve	8,609,709	8,438,722
Accumulated losses	(33,864,535)	(15,419,881)
<b>Total equity</b>	<b>24,256,567</b>	<b>34,045,006</b>
(Loss) for the year/ period	(18,444,653)	(938,630)
<b>Total Comprehensive (loss) for the year/ period</b>	<b>(18,444,633)</b>	<b>(938,630)</b>

## 29. DIVIDENDS

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

## 30. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 21 March 2016, Danakali announced that it had received commitments from professional and sophisticated investors to raise up to A\$5.5 million through the issue of up to 25 million fully paid ordinary shares (Placement Shares) at A\$0.22 each. The placement includes one (1) free attaching unlisted option exercisable at A\$0.35 with an expiry date 2 years from issue, for every two (2) Placement Shares (the Placement).

Funds raised from the Placement will be used for the commencement of front end engineering design (FEED) work; initiating the mine contract tendering process; completion of mining approvals process; securing offtake agreements and further strategic relationships, securing project funding (debt/equity), transaction costs and working capital.

The allotment of the first tranche of the Placement for up to approximately 23.3 fully paid ordinary million shares and 11.7 million options is not subject to shareholder approval and will fall within the Company's 15% placement capacity under ASX LR 7.1 and additional 10% placement capacity under ASX LR 7.1A.

The second tranche of the Placement for up to 1.6 million fully paid ordinary shares and 0.8 million options, are to be issued subject to shareholder approval at the Company's Annual General Meeting scheduled to take place in May 2016.

## Directors' Declaration

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In the Directors' opinion:

- (a) the financial statements and notes set out on pages 37 to 66 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the financial period ended on that date;
- (b) subject to achieving the matters set out in note 2(a) to the financial report, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

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

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



Seamus Cornelius

**CHAIRMAN**

Perth, 30 March 2016





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To the members of Danakali Limited

## Independent auditor's report to the members of Danakali Limited

### Report on the financial report

We have audited the accompanying financial report of Danakali Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. The directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Independence

In conducting our audit 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.

## Opinion

In our opinion:

- a. the financial report of Danakali Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

## Emphasis of Matter


Without qualifying our opinion, 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.

## Report on the remuneration report


We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Danakali Limited for the year ended 31 December 2015 complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Gavin Buckingham  
Partner  
Perth  
30 March 2016

## ASX Additional Information

Additional information required by Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows.

The information is current as at 29 March 2016.

### (a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

		Holders	Securities	%
1	- 1,000	593	286,417	0.16%
1,001	- 5,000	1,001	2,528,660	1.44%
5,001	- 10,000	386	2,932,267	1.67%
10,001	- 100,000	684	20,883,336	11.88%
100,001	and over	155	149,141,487	84.85%
TOTAL		2,819	175,772,167	100.00%

The number of shareholders holding less than a marketable parcel was 1,095.

### (b) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Pershing Australia Nominees Pty Ltd (Well Efficient Ltd)	20,000,000	11.38%
2	JP Morgan Nominees Australia Ltd	13,138,853	7.47%
3	Cornelius, Liam Raymond	12,955,374	7.37%
4	HSBC Custody Nominees (Australia) Ltd	11,813,868	6.72%
5	Kam Lung Investment Development Company Ltd	10,000,000	5.69%
6	Alpha Boxer Ltd	4,760,849	2.71%
7	Zero Nominees Pty Ltd	3,500,000	1.99%
8	Ranguta Ltd	3,382,250	1.92%
9	Citicorp Nominees Pty Ltd	3,366,522	1.92%
10	Kongming Investments Ltd	3,319,550	1.89%
11	Montezuma Mining Company Ltd	2,981,914	1.70%
12	National Nominees Ltd	2,961,542	1.68%
13	RSR Premier Holdings Ltd	2,381,915	1.36%
14	Wallace, John Joseph	2,270,983	1.29%
15	Maslin Anthony + Norris Marite	2,162,500	1.23%
16	Grandor Pty Ltd	1,964,917	1.12%
17	ATOC Inc	1,889,398	1.07%
18	Cornelius, Seamus Ian	1,520,883	0.87%
19	Watts, Paul Hartley	1,500,000	0.85%
20	Donaldson, Paul Michael	1,418,334	0.81%
		107,289,652	61.04%

### (c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
Pershing Australia Nominees Pty Ltd (Well Efficient Ltd)	20,000,000
Kam Lung Investment Development Company Ltd	10,000,000
Sprott Asset Management LP (SAM)	9,108,250

### (d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction. Holders of unlisted options and performance rights do not have voting rights.

## ASX Additional Information *(Cont'd)*

### (e) Unquoted securities

At 29 March 2016 the Company has on issue 13,350,000 unlisted options over ordinary shares and 1,958,000 performance rights.

The names of security holders holding more than 20% of an unlisted class of security are listed below.

Holder	Unlisted Options \$0.340 29/11/2016	Unlisted Options \$0.278 17/11/2017	Unlisted Options \$0.527 29/05/2018	Unlisted Options \$0.550 31/05/2018	Unlisted Options \$0.408 04/11/2018
Mr Paul Donaldson	-	1,000,000	-	-	-
Mr Seamus Cornelius	2,000,000	1,500,000	-	-	-
Mr Anthony Kiernan	-	1,500,000	-	-	-
Mr Liam Cornelius	-	1,000,000	-	-	-
Mr John Fitzgerald	-	-	750,000	-	-
Arlington Group Asset Management Ltd	-	-	-	600,000	-
Mr Christiaan Els	-	-	-	-	1,000,000
Holders individually less than 20%	4,000,000	-	-	-	-
<b>Total</b>	<b>6,000,000</b>	<b>5,000,000</b>	<b>750,000</b>	<b>600,000</b>	<b>1,000,000</b>

Holder	Performance Rights Class 1	Performance Rights Class 2	Performance Rights Class 4
Mr Zeray Lake	75,000	-	-
Mascots International Ltd	85,000	-	-
Mr Paul Donaldson	-	-	1,500,000
Mr Anthony Kiernan	-	150,000	-
Holders individually less than 20%	148,000	-	-
<b>Total</b>	<b>308,000</b>	<b>150,000</b>	<b>1,500,000</b>

### (f) Schedule of Interests in Mining Tenements

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

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