

DANAKALI LIMITED

SOP POTASH GAME CHANGER

WORLD CLASS POTASH PROJECT

Danakali Limited is a mining company developing the Colluli Potash Project in Eritrea, East Africa, which it operates through a 50/50 JV with the Eritrean National Mining Corporation (“ENAMCO”). Colluli is a fully permitted, high grade Sulphate of Potash (SOP) project with a reserve of over one billion tonnes, sufficient for a mine life of over 200 years. The Company aims for first production in 2020 producing 425ktpa of premium SOP product from a single open pit, doubling production to 850ktpa in year six of the operation.

UNIQUE OREBODY PROVIDES ADVANTAGES

Colluli is a shallow resource, suitable for open pit mining via a single pit. The orebody contains the right combination of sylvinite, carnallite and kainite salts for simple and high yield conversion to SOP at ambient temperature conditions using a proven, conventional processing technology.

GOOD INFRASTRUCTURE

Key infrastructure for Colluli is already in place, namely an existing 230km road to the modern port of Massawa on the Red Sea coast. Colluli stands out from other development SOP projects in this regard, significantly reducing up front capital requirements.

LOW OPERATING AND CAPITAL COSTS

Shallow open pit mining, relatively simple processing and proximity to the coast result in operating costs in the lowest quartile of global SOP producers as well as the lowest capital intensity of SOP projects currently in development.

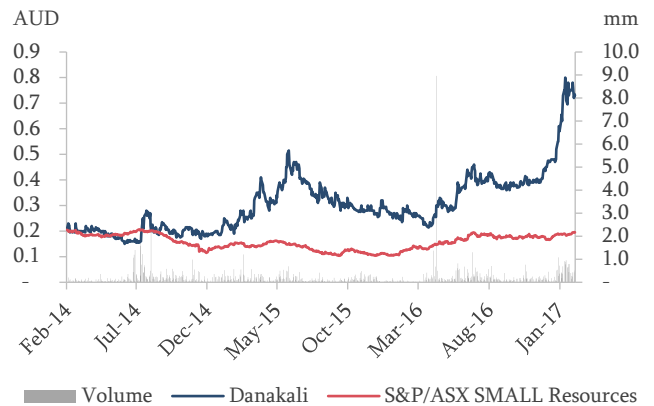
FAVOURABLE DFS ECONOMICS

Colluli’s many favourable characteristics result in excellent project economics as outlined in the feasibility study. Using a price forecast of US\$575/t, which compares to the current spot price of around US\$600/t, the DFS calculates a Phase II project NPV and IRR of US\$415m and 29.3% respectively.

ERITREA SUPPORTIVE OF MINING

Eritrea is widely perceived as a high risk investment destination, however its track record in the mining industry is good. The Eritrean government to date has been strongly supportive of all mining projects in the country. There have been no issues with permitting or license tenure. The country has also been ranked as the 6th most attractive mining investment destination in Africa out of 20 in the most recent Fraser Institute Survey.

GICS sector	Materials
Ticker	ASX:DNK
Price (as of 22 February 2017) (AUD)	0.72
Market capitalisation (AUDm)	161.7



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COMPANY DESCRIPTION

Danakali Limited is an ASX listed junior focused on the development of the large scale, long life Colluli Potash Project in Eritrea, East Africa. The project is located 177km south east of the capital Asmara and 180km (230km by road), from Eritrea's main port of Massawa. 100% of the project is held by Colluli Mining Share Company ("CMSC") which is a 50/50 joint venture between Danakali and ENAMCO, the Eritrean state mining company. The operating company CMSC has a Board of five consisting of three members from DNK and two from ENAMCO.

WORLD CLASS, SHALLOW, OPEN PIT POTASH PROJECT

Colluli plans to start producing 425ktpa of premium Sulphate of Potash (SOP) product from a single open pit, doubling production to 850ktpa in year six of the operation. Colluli is the highest grade SOP project in the world with a resource of over 1 billion tonnes, sufficient for a mine life of over 200 years. Following the completion of the Colluli Definitive Feasibility Study (DFS), Danakali is now undertaking detailed engineering of the project, with full financing planned for H2 2017 and first production expected two years after construction begins.

UNIQUE OREBODY ALLOWS SOLID SALT CONVERSION TO SOP

The Colluli resource comprises of three different potassium bearing salts.

Table 1 Colluli JORC Reserves

Occurrence	Proved		Probable		Total			
	Mt	K ₂ O Eq.	Mt	K ₂ O Eq.	Mt	K ₂ O Eq.	K ₂ SO ₄ Eq.	K ₂ SO ₄ Eq. (Mt)
Sylvinite	78.0	15.0%	175.0	12.0%	253.0	13.0%		
Carnallite	79.0	7.0%	284.0	8.0%	363.0	8.0%		
Kainite	129.0	12.0%	368.0	11.0%	497.0	11.0%		
Overall	286.0	11.0%	827.0	10.0%	1,113.0	10.0%	19.0%	216.0

Source: Danakali Limited

Table 2 Colluli JORC Resources

Area	Rock unit	Measured		Indicated		Inferred		Total	
		Mt	K ₂ O Eq.	Mt	K ₂ O Eq.	Mt	K ₂ O Eq.	Mt	K ₂ O Eq.
Area A	Sylvinite	66.0	12.0%	38.0	11.0%	10.0	8.0%	115.0	11.0%
	Carnallite	55.0	7.0%	190.0	9.0%	6.0	16.0%	251.0	9.0%
	Kainite	86.0	12.0%	199.0	11.0%	1.0	10.0%	285.0	11.0%
Area B	Sylvinite	24.0	15.0%	12.0	13.0%	5.0	12.0%	150.0	13.0%
	Carnallite	25.0	6.0%	114.0	7.0%	8.0	7.0%	147.0	7.0%
	Kainite	48.0	13.0%	289.0	13.0%	4.0	13.0%	341.0	13.0%
Area C	Sylvinite	90.0	13.0%	160.0	13.0%	15.0	9.0%	265.0	12.0%
	Carnallite	80.0	7.0%	303.0	8.0%	15.0	11.0%	398.0	8.0%
	Kainite	133.0	12.0%	488.0	12.0%	5.0	11.0%	626.0	12.0%
Overall		303.0	11.0%	951.0	11.0%	35.0	10.0%	1,289.0	11.0%

Source: Danakali Limited

The key advantage of the Colluli project is that it hosts right combination of chloridic (sylvinite and carnallite) and sulphatic (kainite) potassium salts for simple and high yield conversion to SOP at ambient temperature conditions. The process to allow this conversion is commercially proven and is currently

successfully used at the Luobupo operation in China and by Compass Minerals in North America. A key differentiator of Colluli is that the salts are already in solid form, thus eliminating the need to harvest salt from brines via evaporation ponds. This significantly reduces cost and production time. Solid salt mining and the conversion to SOP using the same process as Danakali was previously successfully undertaken in Italy by Itakali.

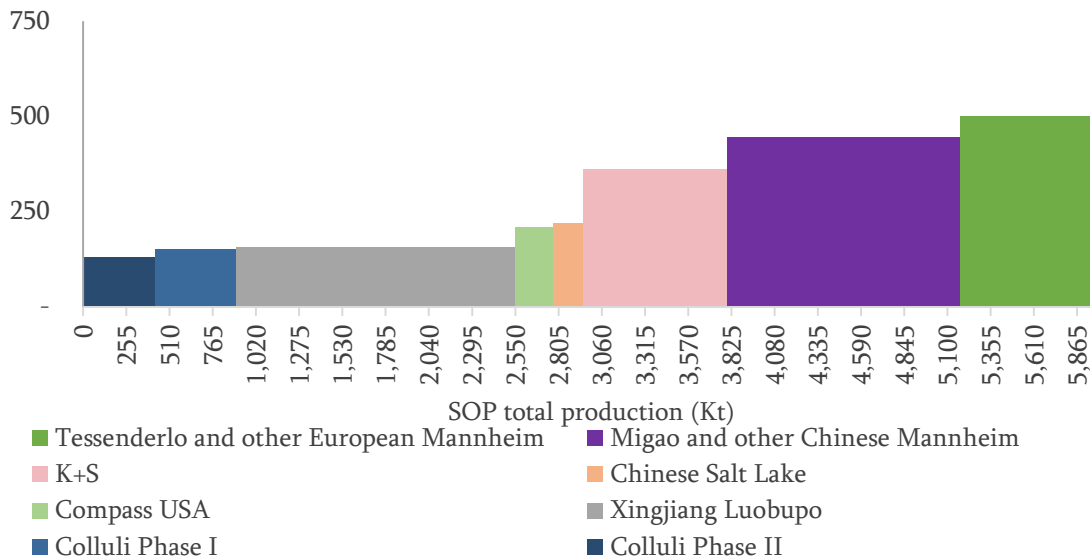
INFRASTRUCTURE IN PLACE

The main infrastructure for Colluli is already in place with a 230km road to the modern port of Massawa on the Red Sea coast. Colluli stands out from other development SOP projects in this regard, significantly reducing up front capital requirements. Whilst the haul road is already used for heavy loads, upgrades are needed along a 130km stretch of road in order to improve average speeds. The Eritrean government recently commenced this work. The DFS logistics costs take the current road condition into consideration. On the other hand, no upgrades are needed to the port of Massawa, which has sufficient capacity to handle the 850 ktpa of product from Colluli, as per Phase II requirements.

LOW OPERATING COSTS AND CAPITAL INTENSITY

The favourable characteristics of Colluli described above allow it to be cost competitive with comparable projects. Shallow open pit mining, relatively simple processing and proximity to the coast result in operating costs in the lowest quartile, comparable to the lowest cost SOP brine producers.

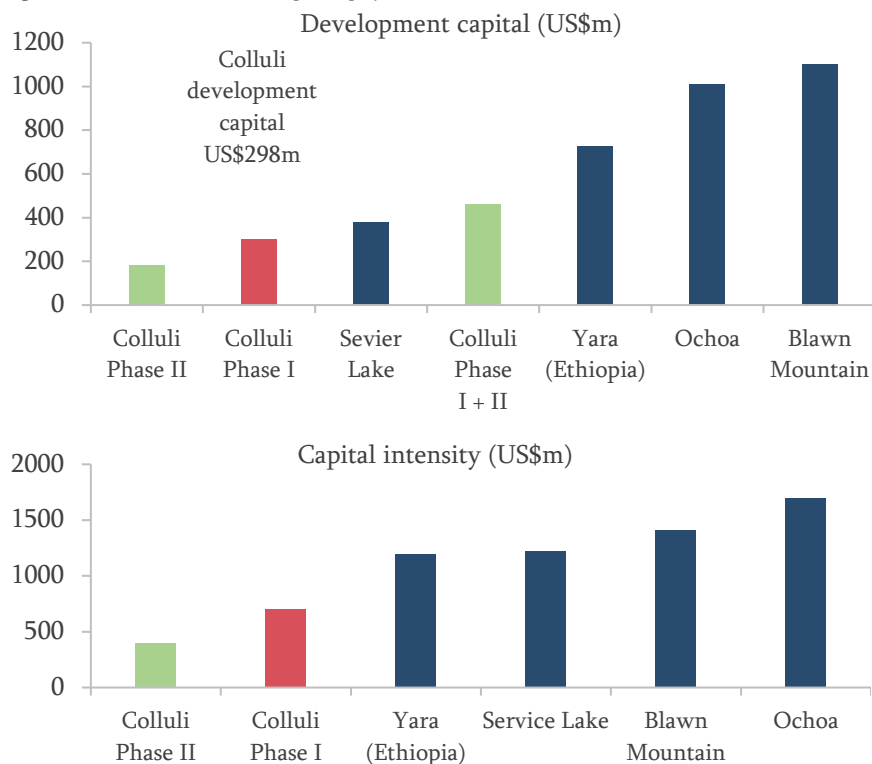
Figure 1: Cash costs for SOP production for selected projects



Source: SNL Financials

Colluli’s shallow mineralisation, extraction of salts in solid form, high grades, presence of existing infrastructure and relatively simple processing plant design make it the lowest capital intensity development project in the world.

Figure 2: Colluli vs other SOP development projects



Source: Danakali Limited

QUICK TO GENERATE REVENUE

A key advantage that Colluli has over the brine producers is the immediate generation of final product and revenue. Brine operations have a substantial lead time of up to 2 years between the time capital is invested and first product sales due to long evaporation times required to produce a harvest salt. Whilst there are a number of development SOP brine projects globally, this feature of Colluli makes it the most advanced SOP project in development and, we believe, the first of the development projects to generate cash flow. Colluli is currently the only fully licensed, construction ready SOP project in the world.

Table 3: SOP development projects

Project	Operator	Steady state production (ktpa)	Type	Stage	Status
Colluli (Eritrea)	Danakali Limited	850	solid salts	DFS	Detailed engineering and optimisation. Fully permitted.
Danakali (Ethiopia)	Yara International	600	solution mining	DFS	Project on hold
Danakil (Ethiopia)	CIRCUM Minerals	750	solution mining	DFS	Unclear – no progress on permitting
Allana Afar (Ethiopia)	ICL	1,000	solution mining	DFS	Abandoned – issues with government
Blawn Mountain (USA)	Potash Ridge	645	solid salts	DFS	On hold – high capital requirements
Ochoa (USA)	IC Minerals	650	polyhalite	DFS	Switching to polyhalite product
Sevier Lake (USA)	Crystal Peak Minerals	300	brine	PFS	BFS to be completed Q3 2017
Lake Wells (Australia)	Salt Lake Potash	400	brine	scoping	DFS underway

EXCELLENT DFS ECONOMICS

Colluli's many favourable characteristics result in excellent economics outlined in the project's feasibility study. Using a price forecast of US\$575/t, which compares to the current spot price is around US\$600/t, the DFS outlines the following metrics:

Table 4 Colluli DFS key production metrics

		Phase I	Phase II
Throughput	kt	425	850
Development/Growth capital	US\$m	298	175
Average SOP price	US\$/t	572	572
Average mine gate costs	US\$/t SOP	162	141
Average total cash costs	US\$/t SOP	255	227
Strip Ratio	T:T	1.91	1.93

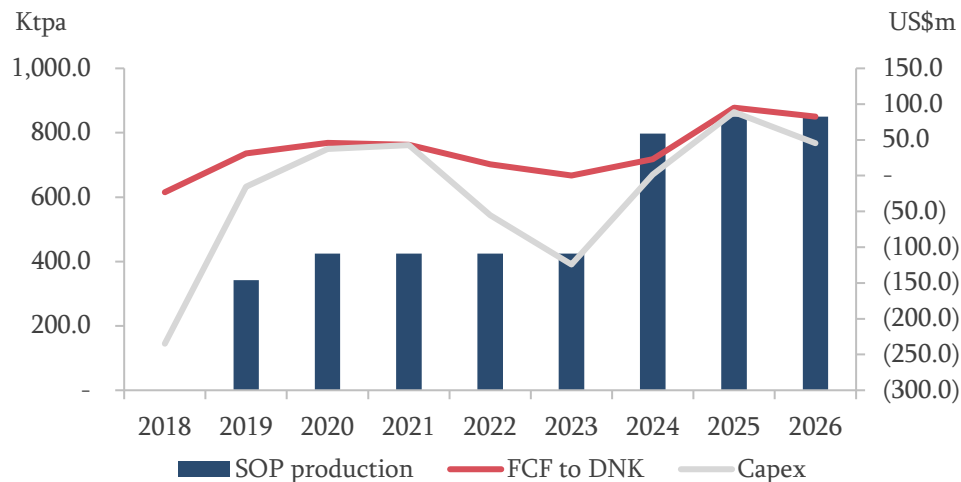
Table 5: Colluli DFS key financial metrics

		100% basis		Danakali share (50%)	
		Phase I	Phase II	Phase I	Phase II
Post-tax NPV _{10%}	US\$m	439.0	860.0	206.0	415.0
IRR	%	25.4	29.0	25.2	29.3

Source: Danakali Limited

Danakali's share post financing of the NPV and IRR of Phase I are US\$206m and 25.2% respectively. Also according to the DFS, Colluli will generate around US\$180m (US\$90m attributed to Danakali) of Free Cash Flow per year once in steady state post Phase II expansion.

Figure 3: Colluli project production and free cash flow in years 1- 6



Source: Danakali Limited

MANAGEMENT STRENGTHENED

As Danakali evolved from an explorer to a developer, significant strengthening of the management team and the Board took place. The key technical personnel have extensive experience with large scale open pit bulk mining projects. Paul Donaldson, CEO, has over 25 years' experience with BHP Billiton in various senior management roles including managing large scale open cut mining operations and significant capital projects. He is also a qualified Chemical Engineer and has an excellent understanding of the salt to SOP conversion process – this is key for a project like Colluli. Recent appointment of Robert Connochie to the Danakali board, the former Chairman of Canpotex (a world leading potash exporter), brings

exceptional brings management experience from the potash industry to the Company.

FAVOURABLE SOP FUNDAMENTALS SUPPORTED BY POPULATION GROWTH

Future demand outlook for potash looks strong due to the ever-increasing global population, an increase in global food consumption and the reduction in the amount of arable land available.

There are two main types of potash on the market, Muriate of Potash (MOP) and SOP. SOP is critical for high-value chloride intolerant crops such as fruits, vegetables, nuts, tea, coffee and tobacco. In addition SOP contains circa 18% of sulphur, an increasingly sought after nutrient, that is absent in MOP. For these reasons, we believe that SOP demand will strengthen versus MOP in the medium to long term. We believe this bodes well for the SOP price into the future with SOP supply significantly less plentiful than MOP.

ERITREA - AN IMPROVING MINING INVESTMENT DESTINATION

Following a period of international isolation, Eritrea has opened itself up to foreign investment with mining identified as a key sector to drive economic growth and social development. The government has set parameters for mining investment and has aggressively pursued these. The country's progress is evidenced by the fact that Eritrea has been ranked as the 6th most attractive mining investment destination in Africa out of 20 in the 2015 Fraser Institute Survey of mining executives globally.

Figure 4: Fraser Institute Investment Attractiveness by Country (scores ranked (0-100))



Source: Fraser Institute

Four significant mining projects have been advanced in the country in recent years, with TSX listed Nevsun's Bisha VMS project and Shanghai Construction Group's Koka gold project now in production. The Eritrean government to date has been strongly supportive of all the mining projects in country, with no issues in permitting or license tenure. Nevsun's shareholder register consists of

institutions such as M&G Vanguard, Franklin as well as Blackrock, demonstrating the confidence that some of the world's most significant mining funds have placed in Eritrea as a mining investment destination.

ERITREA: PERCEPTION V/S REALITY

Eritrea has received a lot of negative publicity in the press, particularly with respect to its human rights record. Whilst some of that coverage is justified, a lot of it is driven by poor relations with the USA, which has a key African ally in Ethiopia. Ethiopia and Eritrea still have a not completely resolved conflict following a brutal independence war that ended more than 20 years ago in Eritrea's sovereignty. We have had a number of conversations with people doing business in Eritrea, and it appears that the situation on the ground in Eritrea is rather misrepresented. The overwhelming feedback has been that Eritrea is a stable country with low corruption and good rule of law, a good education system and health care.

The unresolved tension between Eritrea and Ethiopia has however also driven some social policies which have contributed to the negative image of Eritrea. The Eritrean government still sees Ethiopia as a major threat and thus apportions a significant part of its budget to the military. Eritrea's tough conscription policies are widely publicised and are seen as the key driver behind a significant number of asylum seekers fleeing the country. The government has in 2016 limited conscription to 18 months, however the extent to which this has been followed is unclear. There are also signs of the government softening harsh conscription policies, which have been the main source of negative publicity. The EU and its member states have established several programmes to support Eritrea in its economic development, so that young graduates remain in the country. Some of the programmes are focused at food security and aim to link with the development of Colluli as a key part of their strategy.

INVESTMENT RISKS

Danakali faces risks common to most mining companies moving its project into full production, such as resource, construction, production, commodity prices and operating and capital cost risks. Escalation of border tensions between Eritrea and Ethiopia is another risk, considering the location of Colluli is close to the border between the two countries and there is a shared economic interest between the two countries in developing the potash projects located near the border. We note however, the border region of the Danakil has no history of conflict. Raising funds for a mining project in Eritrea remains a challenge, particularly with respect to debt funding. However, in our view the high quality nature of the Colluli project, relatively low up front capital requirements and the attractive financial metrics help to mitigate this risk.

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