ASX Release **26 October 2016**

SEPTEMBER 2016 QUARTERLY REPORT

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

HIGHLIGHTS

CONTINUED SUCCESSFUL ADVANCEMENT OF THE WORLD CLASS COLLULI POTASH PROJECT

- Colluli is the most fundable and economically attractive **advanced stage greenfield sulphate of potash development in the world**
- **Mining license approvals progressing positively towards completion**
- **Successful $6.7m private placement to JP Morgan (UK)**
- **85 million tonne Kieserite resource defined**
- **MOU's signed for 200kt per annum of SOPM**
- **Completed final round of post Definitive Feasibility Study (DFS) stakeholder engagements**
- **Completed Social and Environmental Impact Assessment (SEIA) engagements**
- **Completed Expressions of Interest (EoI) process for engineering, procurement and construction (EPC) contract for Colluli Project**
- **Completed successful Colluli site visits by shortlisted EPC companies**

PLANNED FOR DECEMBER QUARTER

- **Continued engagement with relevant ministries on the advancement and award of the mining license**
- **Continuation of** off-take and financing discussions
- **Advancement of pre-construction activities**

CORPORATE

- **Strong cash position of A$10.6m** at quarter end
- **Progressed off-take and project funding** discussions
- Appointment of **Head of Marketing**

COLLULI POTASH PROJECT – THE PREMIER POTASH AND MULTI AGRI-COMMODITY OPPORTUNITY

PROJECT OVERVIEW

Colluli is 100% owned by the Colluli Mining Share Company ("**CMSC**"), a 50:50 joint venture between Danakali and the Eritrean National Mining Corporation ("**ENAMCO**"), and is one of the most advanced greenfield potash developments in the world. The current concession covers over 200km^2.

A positive definitive feasibility study for the project has been completed. The project is now progressing through mining approvals and funding.

Since exploration commenced, a world class reserve comprising over 1.1 billion tonnes of potassium salts, and 350 million tonnes of high quality rock salt have been identified.

The completed definitive feasibility study **(DFS)**[A] demonstrates a world class development, industry leading capital intensity, bottom quartile operating costs and unrivalled product diversification potential.

Commercially proven and commonly used processing technology is planned to process the potassium bearing salts to produce sulphate of potash **(SOP)**. SOP is a high quality, chloride free, potash type with limited production centres globally and carries a substantial price premium over the more common potash type, potassium chloride **(MOP).**

The project development strategy is built on a modular approach that mitigates commercial risk and underpins a simple scalable development model.

There are no habitants within the Colluli tenements and the development has strong support from regional communities.

The Colluli definitive feasibility study demonstrates a large, long life, world class potash project with significant upside potential

PROJECT UPDATE - CONTINUED SUCCESSFUL ADVANCEMENT OF COLLULI POTASH PROJECT

During the quarter, Danakali Limited ("Danakali" or "the Company") maintained its operational focus on its world class Colluli Potash Project ("Colluli"), located in the Danakil basin in Eritrea, East Africa.

Following the submission of the completed definitive feasibility study to the Eritrean Ministry of Energy and Mines (MoEM) in February, significant work has been completed that builds on a well-established track record of success for Danakali.

Key activities completed for the quarter include:

- **Mining License approvals well progressed –** following the submission of the DFS, Social and Environmental Impact Assessment, Social and Environmental Management Plans, and completion of stakeholder engagements, the mining license has continued to progress well and is nearing completion.
- **85 million tonne kieserite resource** - defined within Colluli resource
- **Memorandums of Understanding (MOUs)** signed for sulphate of Potash Magnesia (SOPM)
- **Completed Expressions of Interest (EoI) process** for engineering, procurement and construction (EPC)
- **Site visit completed by shortlisted EPC bidders**
- **Power generation bids** initiated
- **Completed second round of post DFS stakeholder engagements**

Photo: Ministry of Energy and Mines Site Visit

Photo: Massawa Port Visit

Photo: EPC bidding site visit

Mining License Approvals well progressed – advancing to completion

Following the submission of the DFS, Social Environmental Impact Assessment (SEIA) and Social and Environmental Management Plans (SEMP), and completion of post DFS stakeholder engagements, the mining license application has progressed well. Two committees have been established and completed reviews on the DFS, SEIA and SEMP documentation.

The due diligence review committee (DDRC) established by the Ministry of Energy and Mines (MoEM) completed a comprehensive review of the DFS. Representatives from the Colluli project team presented detailed formal responses to questions arising from the review, and gave a detailed presentation to the DDRC.

The engagement was positively received and all issues and questions raised were addressed to the satisfaction of the committee.

Photo: Ministry of Energy and Mines Site Visit

Photo: Submission of the DFS earlier in 2016

The Impact Review Committee (IRC) was formed by the Ministry of Land, Water and Environment, and conducted a comprehensive review of the Social and Environmental Impact Assessment and Social and Environmental Management Plans. A formal response has been submitted to the IRC based on a number of general queries raised as part of the review.

The next step in the process is the establishment of a mining agreement.

Kieserite resource defined – in excess of 85 million tonnes[1]

The kieserite content in the Colluli resource was quantified during the quarter by AMC Consultants (refer the Resource and Reserve section of this report). Kieserite (Magnesium sulphate monohydrate) is a commonly used, chloride free, multi-nutrient fertiliser with limited primary production centres globally.

Kieserite is suitable for magnesium deficient soils which are common in South East Asia, Africa and Eastern South America.

Figure: Distribution of Magnesium deficient soils[2]

The large volume of kieserite adds to the multi-agri commodity potential of Colluli. Colluli has unrivalled product diversification potential relative to other potash projects as a consequence of both the diverse range of salts within the resource and the ease of extraction.

Metallurgical test work indicates that kieserite will report to the tailings stream of the planned processing plant. Test work was completed at the Saskatchewan Research Council (SRC) using salts from the Colluli resource. Preliminary liberation testing indicates the kieserite can be separated from the tailings salt.

[1] **ASX Announcement 15th August 2016**
[2] **CRU Consultants**

Memorandums of Understanding (MoU) signed for SOPM

Sulphate of Potash Magnesia is a high quality, chloride free, multi nutrient potash type that has limited production centres globally. SOPM achieves a price premium relative to potassium chloride (MOP), and in addition to SOP and kieserite, has the potential to add to the Colluli suite of premium, chloride free fertilisers.

SOPM was produced from Colluli salts at the Saskatchewan Research Council (SRC) and the samples generated were provided to potential offtakers. The key purpose of producing and distributing samples, was to determine the potential demand of SOPM for Colluli to support an evaluation of producing SOPM in the second module of the project development.

MOUs have been signed for 200kt per annum of Colluli SOPM[C]. An economic evaluation of producing SOPM in the second production module is underway.

Completed Expressions of Interest (EoI) process for engineering, procurement and construction (EPC)

The expression of interest phase for the front-end engineering and design (FEED) and the engineering, procurement and construction (EPC) for the Colluli development drew strong support from internationally renowned engineering companies. A shortlist was derived from the expressions of interest based on Africa, Potash and Eritrean experience, after which a formal bidding process was initiated and is well progressed.

Site visit completed by shortlisted EPC bidders

A site visit was completed by the shortlisted engineering firms in early October. In addition to a visit to the future Colluli Mine Site and an inspection of the planned seawater pipeline corridor, meetings were held between the engineering firms and Eritrean construction and logistics companies. A comprehensive tour of the port facilities at Massawa was also conducted, and the visiting parties were provided the opportunity to examine the entire logistics corridor between the Port of Massawa and Colluli.

Photos: Representatives of the shortlisted EPC engineering teams and power station providers visit the mine site. Shown here at the start of the site access road with Mr Zeray Leake, CMSC General Manager.

Power Station Bidding Process Completed

Formal tendering has been completed for power generation for the Colluli project. The tendering process received strong interest from a significant number of reputable power providers from the USA, the UK, South Africa and Australia.

Illustration: Power plant

A number of internationally recognised power providers currently operate facilities within Eritrea and were included within the bidding parties.

RESERVE AND RESOURCE OVERVIEW

Colluli has a JORC-2012 compliant resource of 1.289 billion tonnes as shown in Table 1. [1,3,4]

Table 1: Colluli Mineral Resource Estimate, Feb 2015, with Kieserite added

Rock Unit	Tonnes (Mt)	Density (t/m^3)	K_2O Equiv. (%)	Kieserite (%)
Sylvinite	265	2.2	12	0.03
Upper Carnallite	51	2.1	12	3
Lower Carnallite	347	2.1	7	22
Kainite	626	2.1	12	1
Total	**1,289**	**2.1**	**11**	**7**

Within the JORC-2012 compliant, 1.289 billion tonnes, Mineral Resource Estimate, the JORC-2012 compliant Ore Reserve Estimate for Colluli's potassium sulphate potash fertiliser is approximately 1.1 billion tonnes comprising 287 million tonnes of Proved and 827 million tonnes of Probable Ore Reserve and is shown below in Table 2[2,3]. There have been no changes to the Ore Reserve since 30 November 2015.

[1] ASX Announcement 25th Feb 2015

[2] ASX Announcement 19th May 2015

[3] ASX Announcement 30 Nov 2015

[4] ASX Announcement 15th August 2016

Table 2: JORC-2012 Colluli Potassium Sulphate Ore Reserve as at 30 November 2015[1]

Occurrence	Proved		Probable		Total			
	Mt	K_2O Equiv %	Mt	K_2O Equiv %	Mt	K_2O Equiv %	K_2SO_4 Equiv %	K_2SO_4 Equiv Mt[2]
Sylvinite **(KCl.NaCl)**	78	15	174	12	253	13		
Carnallitite **($KCl.MgCl_2.H_2O$)**	79	7	284	8	363	8		
Kainitite **($KCl.MgSO_4.H_2O$)**	130	12	368	11	497	11		
Total	**287**	**11**	**827**	**10**	**1,113**	**10**	**18.5**[1]	**205**

[1] Equivalent K_2SO_4 (SOP) calculated by multiplying $\%K_2O$ by 1.85

In addition to potassium sulphate, substantial quantities of rock salt exist. 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 (Table 3). There have been no changes to the Mineral Resource estimate since 23 September 2015[2].

Table 3: JORC 2012 Colluli Rock Salt Mineral Resource as at 23 September 2015[2]

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

[1] ASX Announcement 30 Nov 2015

[2] ASX Announcement 23rd Sep 2015

CORPORATE

CASH

Consolidated cash on hand as at 30 September 2016 was A$10.6m.

CORPORATE APPOINTMENT

Mr Danny Goeman was appointed as Head of Marketing on of Danakali Ltd on 22 August 2016. Mr Goeman has over 20 years of Marketing and Sales experience including Industry analysis, Price negotiation, market segmentation and product placement across multiple commodities and geographies (Australia, Asia, Europe).

He has a Master's Degree in Business Administration and held senior marketing roles such as the General Manager Marketing and Industry Analysis at Rio Tinto.

Mr Goeman replaces Mr Gordon Tainton who completed his consultancy contract with Danakali in September.

FUNDRAISING ACTIVITY.

Danakali issued 20,200,000 shares (**Placement Shares**) at $0.33 per share, to JP Morgan (UK) Limited, a subsidiary of JP Morgan Chase, on 18 August 2016 to raise gross $6.7 million. The Placement Shares were issued in a single tranche under the Company's 15% placement capacity pursuant to ASX Listing Rule 7.1.

Funds raised from the Placement are being used to advance the development of the Colluli Project, working capital, transaction costs and corporate purposes.

EQUITY

Share Capital

20,200,000 ordinary fully paid shares were issued during the quarter pursuant to the share placement announced on 12 August 2016. A further 242,500 fully paid shares were issued on conversion of unlisted options of $0.35 with expiry date of 30 March 2018 and 400,000 fully paid shares were issued on conversion of unlisted options of $0.278 with expiry date 17 November 2017.

Total issued capital at the end of the quarter was 221,535,131 fully paid ordinary shares.

Options

On 8 August 2016, the Company issued 1,000,000 unlisted options to the newly appointed Head of Marketing, Mr Danny Goeman. The unlisted options were issued at no monetary consideration with an exercise price of $0.558 and expiry 8 August 2019. The unlisted options will vest subject to satisfaction of vesting conditions.

During the quarter 400,000 unlisted options with exercise price of $0.278, expiring 17 November 2017 and 242,500 options with exercise price of $0.35, expiring 13 May 2018 were converted to fully paid ordinary shares. No options expired in this quarter.

The balance of unlisted options as at 30 September 2016 was 29,717,732 (various options prices and expiry dates).

Performance Rights

There was no change to performance rights during the quarter. Outstanding performance rights as at 30 September was 1,958,000.

PROJECT FINANCE UPDATE

Off-take

During the quarter Danakali continued engagements with the multi-national parties who have signed non-binding off-take MoU's for SOP. Parties include traders, end-users and producers[B]. Danakali has received strong interest in its product and has been able to provide interested parties with product samples generated in pilot tests from the Colluli resource, as well as provide indicative product specification sheets.

Funding

Danakali and CMSC continue to work with its debt advisor, Endeavour Financial on the funding solution for the project development. The company is currently developing its procurement strategy to support the ongoing funding discussions.

INTERESTS IN MINING TENEMENTS

The exploration license for the Colluli Potash Project covers over 200km^2 and further details are provided below. There was no change in tenement holding during the quarter.

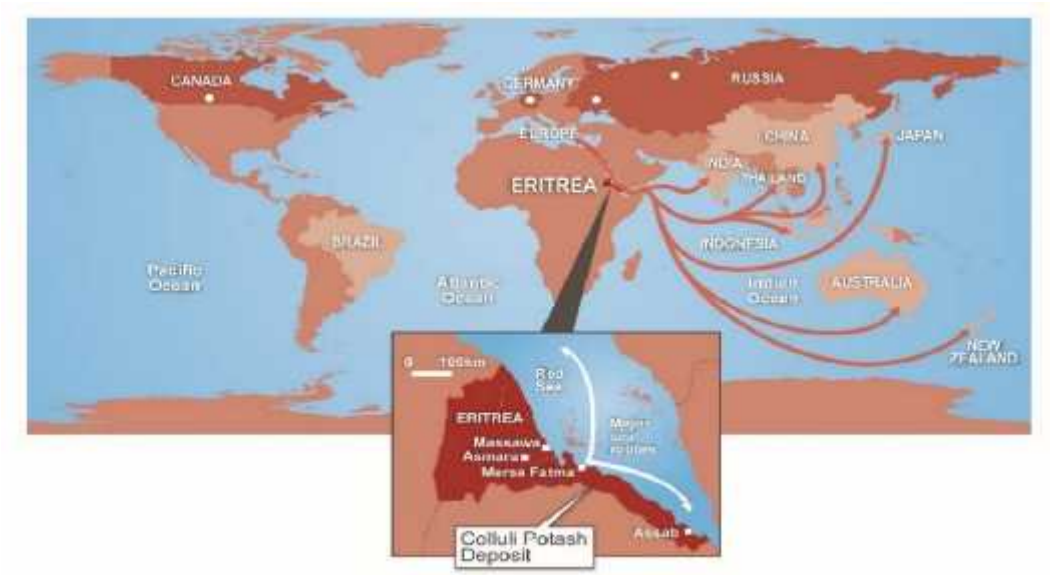
Tenement:	Colluli, Eritrea
License Type:	Exploration License
Nature of Interest:	Owned
Current Equity:	50%

A POSITIVELY UNIQUE RESOURCE

The youngest and largest unexploited potash basin in the world

The Colluli resource is located in the Danakil region of Eritrea, and is part of the youngest and largest unexploited potash basin in the world. The evaporite sequence formed when the Red Sea was connected by a seaway to the Danakil Depression. To date over 10 billion tonnes of potassium bearing salts have been identified in the Danakil basin which extends over 350km from Eritrea to Ethiopia[1].

The composition, depth and proximity to coast are all fundamentally different to other potash deposits throughout the world, giving the project many strategic advantages. The geographic location is highly favourable relative to the key growth markets of the future including India, South East Asia, the Middle East and Africa itself.



Colluli is geographically favourably positioned to supply key markets

Colluli is a World Class Resource with favourable suite of potassium salts and shallow mineralisation

Geologically unique, the Colluli resource comprises over 1.2 billion tonnes[A] of potassium-bearing salts suitable for the production of potash fertilisers. The local geology is dominated by an extensive evaporite sequence. When the entrance to the basin was uplifted, thus cutting off the ingress of seawater, the cycle of evaporation and deposition of salts and minor clastics formed the evaporitic basin. In addition to the salts from seawater, additional salts may have been added by runoff from surrounding highlands and hot springs.

[1] **Combined resource volumes for Danakali, Allana and CIRCUM (Danakali and Circum websites, Allana potash N43-101 report)**

Shallow Mineralisation allows ease of recovery, selective mining, low capital intensity and reduced complexity

Mineralisation commences at just 16m making Colluli the shallowest known evaporite deposit in the world. The evaporite sequence is capped by an upper rock salt layer, and interbedded sequence of halite, gypsum and anhydrite and clay. Underlying this rock salt is the main mineralised formation containing four potassium salts; sylvinite, carnallitite, polyhalite and kainitite. Mineralisation generally dips less than 0.5° to the south-west. Results from over 100 diamond drill holes have been used, in conjunction with geophysical logging to evaluate the resource and its geo-mechanical properties.

The topography at Colluli is extremely flat. There is minimal vegetation within the tenements and no communities living within the tenement boundaries.

Photo: Overlooking the Colluli resource from the nominated processing plant site

Photo: Colluli project team and visitors at nominated processing plant site

Open cut mining is to be executed with the use of surface miners which are commonly used in salt mining operations throughout the world. Surface miners are highly suitable for the shallow resource decline and selective mining of the different potassium bearing salt types.

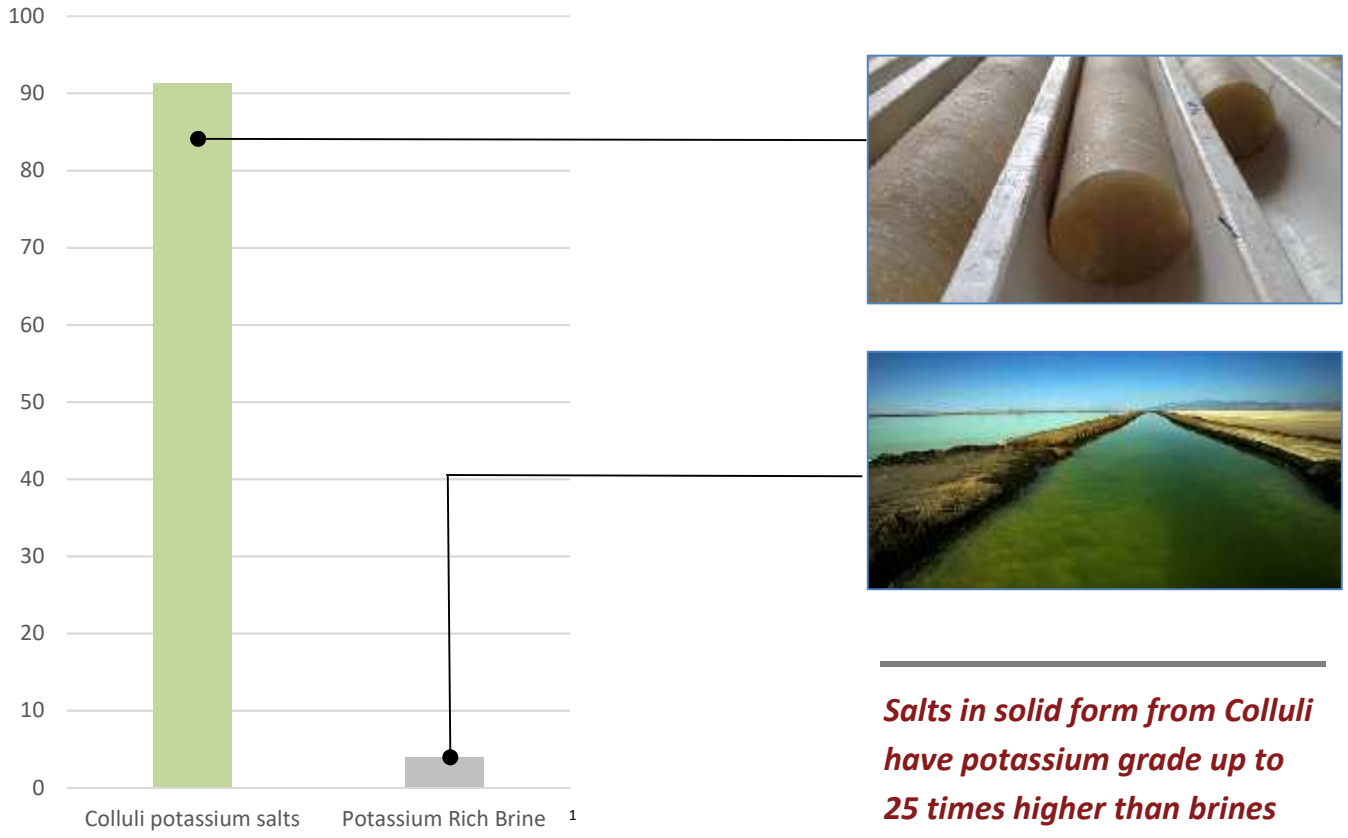
Simple, commercially proven technology

The suite of chloridic (sylvinite and carnallitite) and sulphatic (kainitite) potassium salts within the resource provide the most favourable combination of potassium salts for high yield, ambient temperature

conversion to sulphate of potash (SOP) using a commercially proven process. **This is the most preferred an advantageous mix of salts for SOP production.** Major brine producers in the United States and China, produce sulphate of potash by combining the same salt types.

The key difference between brine resources and the Colluli resource, is that at Colluli, nature has taken care of the evaporation process which allows processing to commence with salts in solid form. This provides extremely high ore grade in contrast with potassium rich brines, and negates the need for large, capital intensive evaporation ponds.

Kg Potassium per tonne of feed material mined



Salts in solid form from Colluli have potassium grade up to 25 times higher than brines

[1] **Salt Lake Potash Website, Reward Minerals Website**

Illustration: Colluli process plant design incorporates simple, well understood mineral processing units

Open cut mining results in high resource utilisation relative to underground mining, solution mining and sub-surface brine extraction, resulting in a massive conversion of resource to reserve.

The JORC 2012 compliant resource contains 1.289bt of potassium bearing salts with 97% in the measured and indicated categories. The resource comprises an estimated 1.1bt (@10% K_2O) ore reserve which was estimated as part of the definitive feasibility study[A]. The ore reserve contains an estimated proved reserve of 286 million tonnes and a probable reserve of 827 million tonnes. At 260 million tonnes, the in-situ potassium sulphate reserve is one of the largest in the world[A].

Relative to other greenfield multi-nutrient potassium projects, Colluli has an unrivalled ore reserve which has the capability to underpin decades of growth.

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-ENDS-

Notes

A: For more information on the Definitive Feasibility Study, refer ASX Announcement dated 30 November 2015. Danakali is not aware of any new information or data that materially affects the information in the announcement and confirms that the material assumptions used in the DFS continue to apply and have not materially changed.

B: For more information on the parties who signed the non-binding MoU's refer the ASX Announcement dated 25 July 2016.

C: For more information on the parties who signed the non-binding MoU's refer the ASX Announcement dated 21 July 2016.

About Danakali Ltd

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

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

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

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

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

Competent Persons Statement (Rock Salt Resource)

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

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

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

Competent Persons Statement (Sulphate of Potash Resource)

Colluli has a JORC 2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 1,289Mt @11% K_20. The resource contains 303Mt @ 11% K_20 of Measured Resources, 951Mt @ 11% K_20 of Indicated Resources and 35Mt @ 10% K_20 of Inferred Resources.

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

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

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

Competent Persons Statement (Sulphate of Potash Reserve)

The November 2015 Colluli Ore Reserve is reported according to the JORC Code and estimated at 1,113Mt @10% K2O Equiv. The Ore Reserve is classed as 286Mt @ 11% K^2O Equiv Proved and 827Mt @ 10% K^2O Equiv Probable. The Competent Person for the estimate is Mr Mark Chesher, a mining engineer with more than 30 years' experience in the mining industry. Mr. Chesher is a Fellow of the AusIMM, a Chartered Professional, a full-time employee of AMC Consultants Pty Ltd, and has sufficient open pit mining activity experience relevant to the style of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the JORC Code. Mr Chesher consents to the inclusion of information relating to the Ore Reserve in the form and context in which it appears.

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

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

Quality Control and Quality Assurance

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

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

Halite blanks and duplicate samples are submitted with each hole. Chemical analyses were conducted by Kali-UmwelttechnikGmBHSondershausen, 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 by DIN EN ISO/IEC 17025 by the Deutsche AkkreditierungssystemPrüfwesen GmbH (DAR). The laboratory follows standard procedures for the analysis of potash salt rocks chemical analysis (K+, Na+, Mg2+, Ca2+, Cl-, SO42-, H2O) and X-ray diffraction (XRD) analysis of the same samples as for chemical analysis to determine a qualitative mineral composition, which combined with the chemical analysis gives a quantitative mineral composition.

Forward Looking Statements and Disclaimer

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

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

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

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

+Rule 5.5

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

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

Name of entity

Danakali Limited

ABN	**Quarter ended ("current quarter")**
57 097 904 302	30 SEPTEMBER 2016

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (9 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	-	
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(81)	(447)
	(e) administration and corporate costs	(232)	(1,207)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	29	68
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Research and development refunds	-	-
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(284)**	**(1,586)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(3)	(3)
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (9 months) $A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other – Funding of Joint Venture	(793)	(2,329)
2.6	**Net cash from / (used in) investing activities**	**(796)**	**(2,332)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	6,666	12,138
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	197	214
3.4	Transaction costs related to issues of shares, convertible notes or options	(354)	(586)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**6,509**	**11,766**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	5,175	2,756
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(284)	(1,586)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(796)	(2,332)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	6,509	11,766
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**10,604**	**10,604**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	6,610	5,175
5.2	Call deposits	3,994	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**10,604**	**5,175**

6.	**Payments to directors of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to these parties included in items 1.2 and 2.5	109
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Item 1.2 includes aggregate amounts paid to directors including salary, directors' fees, and superannuation, not allocated to the Joint Venture.

7.	**Payments to related entities of the entity and their associates**	**Current quarter $A'000**
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
8.1	Loan facilities	Nil	Nil
8.2	Credit standby arrangements	Nil	Nil
8.3	Other (please specify)	Nil	Nil

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

9.	**Estimated cash outflows for next quarter**	**$A'000**
9.1	Exploration and evaluation	
9.2	Development	
9.3	Production	
9.4	Staff costs	96
9.5	Administration and corporate costs	194
9.6	Other (provide details if material)	795
9.7	**Total estimated cash outflows**	**1,085**

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

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

26 October 2016

Sign here: ..... Date: .....
(Director/Company secretary)

Chris Els

Print name: .....

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.

2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.