



DANAKALI
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ASX Release:

29 July 2021

Quarterly Report

For the period ending 30 June 2021

Danakali Limited (ASX: DNK, LSE: DNK, **Danakali**, or the **Company**) is pleased to provide this quarterly update on the activities and financial position of the Company and its Colluli Potash Project located in Eritrea, East Africa. CMSC is progressing to become a leading producer and exporter of Sulphate of Potash (**SOP**), the premium potash type.

Highlights

Project

- Optimisation of the Water Intake and Treatment Area (WITA) simplifying infrastructure using sea water in processing was completed. Engineering design and estimation updates have commenced
- Reverse Osmosis Plant (RO) manufacturing recommenced and the order of the Sewage Treatment Plant (STP) placed and manufacturing also commenced. Camp scope and terms materially agreed subject to relevant in country approvals and formal documentation
- On site Infrastructure design commenced by DRA in South Africa

Project Financing

- Received A\$20.3m (before costs), from institutional and sophisticated investors and senior Danakali Executives. An additional A\$466,400 will be received from Danakali Directors subject to Shareholder approval
- Discussions with ENAMCO, senior lenders and interested third parties on a full funding solution progressed

Environmental, Social and Governance (ESG)

- The Company continues to advance the environmental and social management deliverables required as part of the lender requirements for project debt financing

Corporate & Financial

- Cash balance of A\$25.7M as of 30 June 2021

The Colluli Potash Project (**Project, Colluli**) is 100% owned by Colluli Mining Share company (**CMSC**), a 50:50 Joint Venture between Danakali Limited (**DNK**) and Eritrean National Mining Corporation (**ENAMCO**)



Codes:

ASX: DNK, LSE: DNK,
SO3-FRA, SO3-BER.
US Level 1 ADR's OTC-
DNKLY,
CUSIP.23585T101

Highlights:

The world's largest JORC compliant solid salt, Sulphate of Potash (**SOP**) reserve, 1.1Bt

Aiming to be the worlds first Zero Carbon SOP Producer

Development underway towards production

Financial facts:

Issued capital: 367.3m
Share price: A\$0.43
Market cap: A\$157.9m



Project & Corporate Update

Project Update

CMSC commenced the early works program with instructions being issued to WEC Projects Pty Ltd in South Africa to complete the Reverse Osmosis (RO) plant and Sewerage Treatment Plant (STP) manufacturing and function testing ready for shipment to Eritrea.

Environmental & Social Governance

E&S Management System Development

CMSC operational management systems will align with the Equator Principles, IFC standard for Environmental and Social Performance and the World Bank Group Environment, Health and Safety Guidelines. During the quarter, the Company further advanced the Environmental and Social Action Plan (ESAP) requirements, which is now approximately 90% complete. ESAP closure is a one of the conditions precedents to the US\$200m Senior Debt and the senior lenders are regularly engaged with regard to the progress.

Project

Process Test Work

Following completion of recent test work CMSC confirmed on 27 May 2021 that it will rely on a combination of beach well intake, and filtered seawater to the SOP production plant at the Colluli mine site. The proposed new Water Intake and Treatment Area (WITA) boasts having a smaller onshore and offshore footprint, significantly reducing the environmental impact. It will also require less opex. Renewable energy options are also being investigated to reduce, fuel costs and CO₂ emissions. This is a game changing development in the Colluli Project production process using an unlimited source of Red Sea seawater.

CMSC also confirmed on 17 June 2021, the optimisation of the process plant design and mass balance using filtered seawater. The results proved that Colluli ore will produce predictable high grade (51.0% K₂O SOP at low chloride levels (<1%)) at the stated 472,000 tonnes per annum from Module 1 & 2. These test work results reinforce the benefits at Colluli with its unique natural resources and in situ potassium that result in significant economic advantages.

Corporate

Danakali continues to review a number of funding options currently available to it, including institutional funding, placement instruments in addition to current corporate development options with key strategic players.



In particular, discussions continue with DNK's senior debt lenders, African Finance Corporation and Afrieximbank toward an agreement in principle for increasing senior debt limits at the CMSC level.

Project Financing

On 12 May 2021, the Company completed a share placement to institutional and sophisticated investors raising A\$21.3m (before costs) (**Placement**). An additional A\$466,400 will be received from Danakali Directors subject to Shareholder approval.

Capital

Cash

Consolidated cash on hand was A\$25.7M as at 30 June 2021. Please refer to the Appendix 5B for the quarter which estimates that available funding is sufficient for more than 18 quarters.

Securities

As at 30 June 2021, there were a total of 367,254,346 fully paid ordinary shares on issue. A total of 47,565,999 shares were issued during the June 2021 Quarter pursuant to the Placement.

As at 30 June 2021, there were a total of 5,264,112 unlisted options on issue at various exercise prices and expiry dates. No unlisted options were issued, exercised or lapsed during the June 2021 Quarter.

As at 30 June 2021, there were a total of 360,000 performance rights on issue. No performance rights were issued, converted or lapsed during the June 2021 Quarter.

Related Party Transactions

In accordance with ASX Listing Rule 5.3.5, payments to related parties of the Company and their associates during the quarter totaled A\$0.131m. The Company advises that this relates to Director fees. Refer to the Remuneration Report in the Financial Report for further details on director remuneration.

Interests in mining tenements

The 7 Mining Licenses awarded to CMSC span over 60km² of the 100km² Mining Agreement area. There were no mining exploration activities undertaken during the quarter.



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Tenement holdings:

Tenement	Colluli, Eritrea
Nature of interest	Owned
License type	Mining Licenses
Current equity	50%

There was no change in tenement holding during the June 2021 Quarter.

For more information, please contact:

Danakali

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Announcement authorised for release by the board of Danakali.



About Danakali

Danakali Limited (ASX: DNK, LSE: DNK) (**Danakali**, or the **Company**) is an ASX- and LSE-listed potash company focused on the development of the Colluli Sulphate of Potash Project (**Colluli** or the **Project**). The Project is 100% owned by the Colluli Mining Share Company (**CMSC**), a 50:50 joint venture between Danakali and the Eritrean National Mining Corporation (**ENAMCO**).

The Project is located in the Danakil Depression region of Eritrea, East Africa, 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 known potash deposit. The resource is amenable to open cut 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 Front-End Engineering Design (**FEED**) for the production of potassium sulphate, otherwise known as Sulphate of Potash or **SOP**. SOP is a chloride free, specialty fertiliser which carries a substantial price premium relative to the more common potash type; potassium chloride (or **MOP**). 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) 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. A binding take-or-pay offtake agreement has been confirmed with EuroChem Trading GmbH (**EuroChem**) for up to 100% (minimum 87%) of Colluli Module I SOP production.

Development Finance Institutions, Africa Finance Corporation (**AFC**) and African Export Import Bank (**Afreximbank**), have obtained formal credit approval to provide CMSC with US\$200M in senior debt finance. The credit documentation was executed in December 2019, allowing drawdown of CMSC senior debt on satisfaction of customary conditions precedent. This represents the majority of funding required for the development and construction of the Colluli.

Project execution has commenced and the Company's vision is to bring Colluli into production using the principles of risk management, resource utilisation and modularity, using the starting module (**Module I**) as a growth platform to develop the resource to its full potential.

Forward looking statements and disclaimer

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

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

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

Mineral Resource, Ore Reserve, production target, forecast financial information and financial assumptions made in this announcement are consistent with assumptions detailed in the Company's ASX announcements dated 25 February 2015, 23 September 2015, 15 August 2016, 1 February 2017, 29 January 2018, and 19 February 2018 which continue to apply and have not materially changed. The Company is not aware of any new information or data that materially affects assumptions made.

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

The distribution of this announcement outside the United Kingdom may be restricted by law and therefore any persons outside the United Kingdom into whose possession this announcement comes should inform themselves about and observe any such restrictions in connection with the distribution of this announcement. Any failure to comply with such restrictions may constitute a violation of the securities laws of any jurisdiction outside the United Kingdom.

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

Danakali Limited

ABN

57 097 904 302

Quarter ended ("current quarter")

30 June 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 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	(203)	(865)
(e) administration and corporate costs	(441)	(1,099)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	9	9
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(635)	(1,955)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) tenements	-	-
(c) property, plant and equipment	-	-
(d) exploration & evaluation	-	-
(e) investments	-	-
(f) other non-current assets	-	-

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) 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)	(782)*	(1,689)
2.6	Net cash from / (used in) investing activities	(782)	(1,689)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	20,455	20,455
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(1,482)	(1,482)
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	18,973	18,973
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,606	9,739
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(635)	(1,955)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(782)	(1,689)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	18,973	18,973

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Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	568	662
4.6	Cash and cash equivalents at end of period	25,730	25,730

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	25,730	7,606
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (term deposit)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	25,730	7,606

6. Payments to related parties of the entity and their associates		Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	131
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

Payments included in item 6.1 relates to payment of director fees (\$131k)

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Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(635)
8.2 Payments for exploration & evaluation classified as investing activities (item 2.1(d))	-
8.2a Other (funding of joint venture) (item 2.5)	(782)*
8.3 Total relevant outgoings (item 8.1 + item 8.2 + item 8.2a)	(1,416)
8.4 Cash and cash equivalents at quarter end (item 4.6)	25,730
8.5 Unused finance facilities available at quarter end (item 7.5)	-
8.6 Total available funding (item 8.4 + item 8.5)	25,730
8.7 Estimated quarters of funding available (item 8.6 divided by item 8.3)	18.2
<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>	
* The Company considers it appropriate to include cash outflows related to the funding of joint venture (investing activities) in this table given its ongoing obligation to fund these activities.	
8.8 If item 8.7 is less than 2 quarters, please provide answers to the following questions:	
8.8.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer:	
8.8.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer:	

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Mining exploration entity or oil and gas exploration entity quarterly cash flow report

8.8.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.

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.

Date: 29 July 2021.....

Authorised by: By the Audit and Risk Committee.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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