



Chairman's Letter

Dear fellow shareholders

2020 the year in review

As we are all very much aware 2020 has been a remarkable and challenging year due to the Covid-19 pandemic and resulting economic and public health crisis. Future generations and historians will have a lot more to say about the pandemic and the way different countries responded so I will not add to the volume of words spent and to be spent on this topic. My focus in this letter and in general is Danakali Limited and the Colluli Potash Project in Eritrea ("Colluli") which we are developing with the Eritrean National Mining Corporation ("ENAMCO") in a 50:50 joint venture known as the Colluli Mining Share Company ("CMSC").

I think it is important to acknowledge that Danakali's share price performance in 2020 has been, at best, very disappointing. After finishing 2019 so positively by signing the key documents for a US\$200m¹ senior debt facility with African Export-Import Bank ("Afreximbank") and Africa Finance Corporation ("AFC") and receiving a significant equity investment of US\$21.5m from AFC which became Danakali's largest single shareholder, I began 2020 with a strong sense of optimism that we would be able to make substantial progress at Colluli.

Unfortunately, our share price fell dramatically in March 2020 and has not recovered to pre-crisis levels. It is a fact that we have not made the progress we expected to make on the development of Colluli in 2020. Paradoxically for companies seeking to develop projects, a falling share price makes it more difficult to raise the final funds necessary for the development even though the investment proposition for incoming shareholders is improved by a lower entry price point. Colluli as a project is exceptional but Danakali as a public listed company is always subject to market forces, for better or worse. At our current share price there is little opportunity in the short term for a further issue of Danakali shares to fund Colluli. However, we are pursuing several alternatives and making progress toward a positive outcome.

Colluli the asset

Colluli remains an outstanding asset and we have very strong and productive relationships with ENAMCO, relevant Government Departments in Eritrea, AFC, Afrximbank and EuroChem. These key stakeholders are all working with us to bring Colluli into production as quickly and safely as possible. Given that we are coming to the end of 2020 the chances of us bringing Colluli into production in 2022 are diminishing. There is some flexibility in the construction schedule we have developed with our EPCM contractor DRA Global but meeting the 2022 production target date depends on us closing out funding and starting construction early in 2021.

In my experience since joining the board of Danakali in 2013, ENAMCO and the relevant Government Departments in Eritrea including of course our key regulator, the Ministry of Energy and Mines ("MOEM") have always supported and worked closely with Danakali. As is the way with these things almost all of what they do goes unannounced, but it is vital and very much appreciated despite not being well known. We are discussing all possible options for

¹ Danakali ASX Announcement 23 December 2019



developing Colluli with ENAMCO and MOEM. Given that Colluli is widely recognized as an outstanding asset I am confident that we will have an outcome soon.

Colluli has many positive attributes and has been extensively studied by Danakali through the course of the PFS², DFS³, and FEED⁴ studies and by our senior lenders, AFC and Afreximbank through their consultants and of course by our off-taker, EuroChem. Colluli's key advantages as a project are well known and undeniable. It has outstanding size, grade, minerology, is very close to surface and is located close to excellent infrastructure as well as current and future markets for its products. All of these qualities combine to make Colluli an outstanding project that will deliver superior economic returns.

Social Impact of Colluli

In addition to the economic returns Colluli will also provide a significant social impact dividend as was demonstrated by the independent report from the United Nations Development Program ("UNDP Report")⁵ on Colluli published in January 2019. The jobs Colluli will create, the improved outcomes for farmers and improvements in food and nutrition security are all detailed in the report. Other opportunities including the use of geothermal, wind and solar energy at Colluli to make it carbon neutral will all be examined as soon as the required funding is secured.

For me personally as a long term and reasonably large shareholder in Danakali the social impact returns from Colluli are as important as the economic returns. Eritrea has for far too long been subject to unwarranted and unscrupulous criticism and worse by some foreign governments, NGO's, well-known news outlets and talking heads who should know better. Despite the numerous obstacles imposed on Eritrea over the last 20 years or so the Government has done a remarkable job with scarce resources and achieved superior outcomes in the key areas of food security, water conservation, environmental protection, public health and education. I am very confident that the development of Colluli will only enhance these results.

From the beginning of our 50:50 joint venture with ENAMCO it has been clear that economic and social impact returns are equally important. I do not shy away from the fact that Danakali is manifestly not a typical foreign investor in the development of an African resource. Perhaps it would be easier if we were but then again most of the things that are really worth doing require extra effort. We are equal partners equally committed to doing the right thing.

The future

When we did the initial PFS on Colluli we approached it on the basis that we would develop it as an equal partner with ENAMCO and begin at a scale that is, for want of a better word, "sensible" keeping in mind the obvious constraints such as product market size, development risk, local conditions and fundability. This is why we have proposed starting the development of Colluli in two modules, both producing approximately 472,000t of SOP/year or 944,000t/year⁶ after the second module. At that scale Colluli will produce SOP for approximately 200 years. Clearly once Colluli is in production, we will reassess the development plan and look at product diversification and improved port/transport access to cut the operating costs even further and thereby deliver even greater economic and social impact dividends.

² Danakali ASX Announcement 4 March 2015

³ Danakali ASX Announcement 2 December 2015

⁴ Danakali ASX Announcement 29 January 2018

⁵ Danakali ASX Announcement 30 January 2019

⁶ Danakali ASX Announcement 30 January 2019



ESG aspirations

Danakali and ENAMCO have from the outset been committed to developing Colluli the right way and with due regard for the many future generations that will see Colluli operate at its full potential. We know the first two SOP modules considered in the studies to date are really just start up modules but that it is very important to get the start up right.

To this end we have in place a sustainable development framework that is aligned with the IFC Performance Standards and Equator Principles. The UNDP Report on Colluli is an excellent guide to aligning the development with the UN Sustainable Development Goals.

The only remaining hurdle to the development of Colluli is securing the balance of funds needed to build the asset, operate the company and service the debt before we start earning revenue. We are pursuing multiple options in partnership with ENAMCO and as the saying goes “all options are on the table.”

I can assure you that if obtaining the final development funds required on sensible terms was easy, it would have been done by now. The Covid-19 pandemic and recent local security operation in Ethiopia have not helped our quest. Acknowledging the additional challenges does not by any means excuse the fact that we are yet to succeed. Our determination to honour our commitments and see Colluli developed is unwavering.

We have strong shareholder representation on our board and are focused on achieving an outcome that creates value for shareholders and other stakeholders.

Yours sincerely

Seamus Cornelius
Chairman

Announcement authorised for release by the Board of Danakali.

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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 ⁷agreement 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. AFC has also executed a Subscription Agreement and DNK has received the first tranche of US\$21.5M (A\$31.8M) that allowed commencement of the development.

Phase 1 and Phase 2 of the Project development is complete. 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.

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⁷ Danakali ASX Announcement 12 June 2018