



DANAKALI
create. nurture. grow

Announcement

1 July 2021

Notice of Annual General Meeting

Danakali Limited (ASX: DNK / LSE: DNK) (**Danakali**, or the **Company**) is pleased to confirm release of its Notice of Annual General Meeting (**Notice**) to shareholders.

The Annual General Meeting will be held at 10:00am (AWST) on Friday 30 July 2021 at The Celtic Club, Presidents Room, 48 Ord Street, West Perth, Western Australia.

A copy of the Notice is attached to this announcement.

Announcement authorised for release by the Company Secretary of Danakali.

For more information, please contact:

Danakali

Seamus Cornelius
Executive Chairman
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Visit the Company's website: www.danakali.com

Follow Danakali on LinkedIn: www.linkedin.com/company/danakali-limited

Subscribe to Danakali on YouTube: www.youtube.com/channel/UChGKN4-M4lOvPKxs9b-IJvvh

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: 367.25m
Share price: A\$0.445
Market cap: A\$163.4m



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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 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.



DANAKALI

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28 June 2021

Dear Shareholder,

Danakali Ltd – Annual General Meeting

Danakali Ltd (ASX: DNK, LSE: DNK, **Danakali** or the **Company**) is convening its Annual General meeting of Shareholders (**Meeting**) to be held on Friday, 30 July 2021 at 10:00am (AWST) at The Celtic Club, Presidents Room, 48 Ord Street, West Perth, Western Australia, 6005.

The Australian Securities and Investments Commission (**ASIC**) has adopted a temporary 'no-action' position in relation to the convening and holding of shareholder meetings. The position follows on from the *Corporations (Coronavirus Economic Response) Determination (No. 3) 2020* which expired on 21 March 2021. ASIC's 'no action' policy addresses, amongst other things, companies providing shareholders with details of an online location where the contents of a notice of meeting can be viewed and downloaded.

Accordingly, the Company is not sending hard copies of the Meeting materials to members. Instead, a copy of the Meeting materials can be viewed and downloaded online as follows:

- You can access the Meeting materials online at the Company's website: www.danakali.com.au
- A complete copy of the Meeting materials has been posted to the Company's ASX Market announcements page at www.asx.com.au under the Company's ASX code "DNK".
- If you have provided an email address and have elected to receive electronic communications from the Company, you will receive an email to your nominated email address with a link to an electronic copy of the Meeting materials and the voting instruction form.

A copy of your Proxy Form is enclosed for convenience.

The Company intends to hold a physical meeting.

However, in order to minimise the risk to shareholders and to the Company and its ongoing operations, Shareholders are encouraged to vote by proxy instead of attending the meeting.

The Board will continue to monitor Australian Government restrictions on public gatherings.

The situation is constantly evolving and accordingly, we may make alternative arrangements to the way in which the Meeting is held. If this occurs, we will notify any changes by way of announcement on ASX and the details will also be made available on our website.

The Meeting materials are important and should be read in their entirety. If you are in doubt as to the course of action you should follow, you should consult your financial adviser, lawyer, accountant or other professional adviser.

Yours faithfully

Catherine Grant-Edwards
Company Secretary
Danakali Ltd



DANAKALI

Danakali Ltd

ACN 097 904 302

**NOTICE OF ANNUAL GENERAL
MEETING AND EXPLANATORY
MEMORANDUM TO SHAREHOLDERS**

Date of Meeting

30 July 2021

Time of Meeting

10:00am AWST

Place of Meeting

The Celtic Club, Presidents Room, 48 Ord Street, West Perth, Western Australia.

A Proxy Form is enclosed

Please read this Notice and Explanatory Memorandum carefully.

If you are unable to attend the Annual General Meeting please complete and return the enclosed Proxy Form in accordance with the specified directions.

DANAKALI LTD ANNUAL GENERAL MEETING AND CORONAVIRUS (COVID-19)

Danakali Ltd's Annual General Meeting (Meeting) is due to be held at 10:00am (AWST) on 30 July 2021 at The Celtic Club, Presidents Room, 48 Ord Street, West Perth, Western Australia.

As a result of the uncertainty and potential health risks created by the rapidly evolving coronavirus (COVID-19) pandemic, the Company encourages its Shareholders to consider lodging a directed proxy in advance of the Meeting, rather than attending the Meeting in person.

Danakali Ltd's Meeting is due to be held at 10:00am (AWST) on 30 July 2021 at The Celtic Club, Presidents Room, 48 Ord Street, West Perth, Western Australia.

We are acutely aware of the current global circumstances from the COVID-19 pandemic. As a result of the uncertainty and potential health risks created by COVID-19, the Company strongly encourages its Shareholders to consider lodging a directed proxy in advance of the Meeting, rather than attending the Meeting in person.

To lodge your directed proxy in advance of the Meeting, please follow the instructions set out in this Notice and in the enclosed Proxy Form and lodge it by 10:00am (AWST) on 28 July 2021.

If you wish to ask questions of the Board, Shareholders are encouraged to lodge questions in advance of the Meeting by visiting the Company's website at www.danakali.com.au to submit a question electronically or by emailing admin@danakali.com by no later than 10:00am (AWST) on 28 July 2021.

Any Shareholders who wish to attend the physical Meeting should be mindful of State and Federal Government warnings and recommendations regarding COVID-19 and monitor the Company's website and ASX announcements for any updates regarding the Meeting. If it becomes necessary or appropriate to make alternative arrangements for the holding or conducting of the Meeting, the Company will make further information available via the Company's ASX platform at www.asx.com.au (ASX:DNK) and on the Company's website www.danakali.com.au.

CHAIRMAN'S LETTER

Dear Shareholder

This Notice and accompanying Explanatory Memorandum relate to important matters requiring your consideration.

As announced on 23 December 2019, Africa Finance Corporation (**AFC**), together with African Export-Import Bank (**Afreximbank**, and together with AFC, the **Mandated Lead Arrangers**), have executed definitive debt documentation for the provision of US\$200 million in senior debt finance to CMSC (as borrower) (**Senior Debt Facility**). CMSC is an incorporated 50:50 joint venture company between STB Eritrea and the Eritrean National Mining Corporation (**ENAMCO**).

Under the terms of the Senior Debt Facility, the Company (as security provider and guarantor), along with its Associates, CMSC and STB Eritrea, are required to grant security over their assets to AFC, with Afreximbank acting as the security agent. In accordance with the Senior Debt Facility, the security arrangements include:

1. the Company entering into a specific security agreement in relation to its shares in STB Eritrea, which holds the 50% interest in CMSC, and provide security over the Cost Overrun Reserve Account to AFC;
2. the Company entering into a featherweight security agreement, which is an all-asset security agreement, which secures a nominal amount, to avoid administration risk to Afreximbank and AFC Equity (**Secured Parties**) where the Secured Parties otherwise would have security over less than all of the assets of an Australian company;
3. the Company will guarantee all CMSC's obligations to the Secured Parties under the terms of the Senior Debt Facility up until the satisfaction of a number of conditions including, the project completion tests, payment of six consecutive principal repayments, an updated base case model, the balances of the Debt Service Reserve Account and Offshore Payment Accounts being at the required amounts (**Project Final Completion**) occurs;
4. STB Eritrea is required to enter into a security agreement to secure all of its assets as security to the Secured Parties; and
5. CMSC is required to enter into certain security agreements to secure all of its assets to the Secured Parties, (together, the **Security**).

Given AFC is an Associate of AFC Equity, a substantial shareholder of the Company, the grant of the Security requires Shareholder approval, which is the subject of Resolution 10 of this Notice.

Shareholder approval of Resolution 10 will permit the Company to grant the Security in accordance with the Senior Debt Facility.

The Company commissioned an Independent Expert to provide an opinion on whether the grant of security to AFC under the Senior Debt Facility is 'fair' and 'reasonable'.

The Independent Expert has concluded the grant of security to AFC under the Senior Debt Facility is Fair and Reasonable.

A complete copy of the Independent Expert's Report is included as Annexure A to this Notice. Shareholders are encouraged to read the Independent Expert's Report in its entirety before making a decision on how to vote on Resolution 10.

The Board believes that the proposals set out in this Notice are in the best interests of Shareholders as a whole, and the Company, in the circumstances. As a result, the Board recommends that Shareholders vote in favour of each of the proposals set out in this Notice.

Finally, on behalf of all of the Directors I would like to take this opportunity to thank all Shareholders for their continued support of the Company and the Project.



Seamus Cornelius
Executive Chairman
Danakali Ltd

Danakali Ltd
ACN 097 904 302

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of Shareholders of Danakali Ltd (ACN 097 904 302) will be held at The Celtic Club, Presidents Room, 48 Ord Street, West Perth, Western Australia on 30 July 2021 at 10:00am (AWST) for the purpose of transacting the following business referred to in this Notice of Annual General Meeting.

BUSINESS OF MEETING

Financial Report, Directors' Report and Auditor's Report

To receive and consider the Financial Report of the Company for the year ended 31 December 2020, together with the Directors' Report and the Auditor's Report as set out in the Annual Report.

Resolution 1 – Non-Binding Resolution to adopt Remuneration Report

To consider and, if thought fit, to pass, with or without amendment the following resolution as a **non-binding resolution**:

"That the Remuneration Report for the year ended 31 December 2020 as set out in the Annual Report be adopted."

Note: The vote on this Resolution is advisory only and does not bind the Directors or the Company.

Resolution 2 – Election of Neil Gregson as a Director

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That, for the purpose of ASX Listing Rule 14.4, Rule 59.2 of the Constitution and for all other purposes, Neil Gregson, being a Director appointed casually on 3 August 2020, retires and, being eligible, is hereby elected as a Director."

Resolution 3 - Re-election of Robert Connochie as a Director

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That, for the purpose of ASX Listing Rule 14.5, Rule 61.2 of the Constitution and for all other purposes, Robert Connochie, being a Director, retires by rotation and, being eligible, is hereby re-elected as a Director."

Resolution 4 – Ratification of Prior Issue of Shares – Placement

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 15,597,165 Shares on the terms and conditions set out in the Explanatory Memorandum."

Resolution 5 - Ratification of Prior Issue of Shares - Placement

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 31,968,834 Shares on the terms and conditions set out in the Explanatory Memorandum."

Resolution 6 – Issue of Shares to Related Party - Seamus Cornelius

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 1,000,000 Shares to Seamus Cornelius (or their nominee) on the terms and conditions set out in the Explanatory Statement."

Resolution 7 - Issue of Shares to Related Party - Neil Gregson

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 80,000 Shares to Neil Gregson (or their nominee) on the terms and conditions set out in the Explanatory Statement."

Resolution 8 – Amendment to Constitution

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

"That, for the purposes of section 136(2) of the Corporations Act and for all other purposes, approval is given for the Company to modify its Constitution by amending rule 64.1(3) as set out in the Explanatory Memorandum."

Resolution 9 – Approval of 7.1A Mandate (Special Resolution)

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

"That, for the purposes of Listing Rule 7.1A and for all other purposes, approval is given for the Company to issue up to that number of Equity Securities equal to 10% of the issued capital of the Company at the time of issue, calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and otherwise on the terms and conditions set out in the Explanatory Memorandum."

Resolution 10 - Approval of the grant of Security to AFC under the Senior Debt Facility

To consider and, if thought fit, to pass the following resolution as an ordinary resolution, with or without amendment:

"That, for the purposes of Listing Rule 10.1, and for all other purposes, Shareholders approve the Company, and its Associates, granting the Security to AFC in relation to the Senior Debt Facility on the terms and conditions set out in the Explanatory Memorandum."

Independent Expert: BDO has been engaged by the Company to prepare an independent expert report for consideration by Shareholders that comments on the fairness and reasonableness to the Shareholders in the Company of the matter which is the subject of Resolution 10. The Independent Expert has concluded in the Independent Expert's Report that: the grant of Security to AFC in relation to the Senior Debt Facility is Fair and Reasonable to the Non-Associated Shareholders. For more information, please see the section titled "Independent Expert's Report" in the Explanatory Memorandum and the copy of the Independent Expert's Report set out in Annexure A.

Resolution 11 - Issue of Options to Related Party - Seamus Cornelius

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 2,000,000 Options to Seamus Cornelius (or their nominee) on the terms and conditions set out in the Explanatory Memorandum."

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Voting Prohibition Statements

Resolution 1 - Non-Binding Resolution to adopt Remuneration Report

Voting Prohibition: In accordance with section 250R of the Corporations Act, a vote on this Resolution must not be cast (in any capacity) by or on behalf of a member of the Key Management Personnel whose remuneration details are included in the Remuneration Report, or a Closely Related Party of such a member (**Restricted Voter**).

However, a Restricted Voter described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- (a) the voter is appointed as a proxy by writing that specifies the way the proxy is to vote on this Resolution; or
- (b) the voter is the Chair of the Meeting and the appointment of the Chair as proxy:
 - (i) does not specify the way the proxy is to vote on this Resolution; and
 - (ii) expressly authorises the Chair to exercise the proxy even though the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

Voting Exclusion Statements

Resolution 4 – Ratification of previously issued securities

Voting exclusion statement: The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- (a) a person who participated in the issue; or
- (b) an associate of that person or those persons.

However, this does not apply to a vote cast in favour of this Resolution by:

- (a) a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- (b) the chair of the meeting as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the chair to vote on this Resolution as the chair decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on this Resolution; and
 - (ii) the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 5 – Ratifications of previously issued securities

Voting exclusion statement: The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- (a) a person who participated in the issue; or
- (b) an associate of that person or those persons.

However, this does not apply to a vote cast in favour of this Resolution by:

- (a) a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- (b) the chair of the meeting as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the chair to vote on this Resolution as the chair decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on this Resolution; and
 - (ii) the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 6 – Issues of Shares to Related Party – Seamus Cornelius

Voting exclusion statement: *The Company will disregard any votes cast in favour of this Resolution by or on behalf of:*

- (a) *Seamus Cornelius (or their nominee) and any other person who will obtain a material benefit as a result of the issue of the securities (except a benefit solely by reason of being a holder of ordinary securities in the Company); or*
- (b) *an associate of that person or those persons.*

However, this does not apply to a vote cast in favour of this Resolution by:

- (a) *a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or*
- (b) *the chair of the meeting as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the chair to vote on this Resolution as the chair decides; or*
- (c) *a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:*
 - (i) *the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on this Resolution; and*
 - (ii) *the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.*

Resolution 7– Issues of Shares to Related Party – Neil Gregson

Voting exclusion statement: *The Company will disregard any votes cast in favour of this Resolution by or on behalf of:*

- (a) *Neil Gregson (or their nominee) and any other person who will obtain a material benefit as a result of the issue of the securities (except a benefit solely by reason of being a holder of ordinary securities in the Company); or*
- (b) *an associate of that person or those persons.*

However, this does not apply to a vote cast in favour of this Resolution by:

- (a) *a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or*
- (b) *the chair of the meeting as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the chair to vote on this Resolution as the chair decides; or*
- (c) *a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:*
 - (i) *the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on this Resolution; and*
 - (ii) *the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.*

Resolution 9 - Approval of 7.1A Mandate (Special Resolution)

Voting exclusion statement: *The Company will disregard any votes cast in favour of the Resolution by or on behalf of*

- (a) *a person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the Company); or*
- (b) *an associate of that person or those persons.*

However, this does not apply to a vote cast in favour of this Resolution by:

- (a) *a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or*
- (b) *the chair of the Meeting as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the chair to vote on this Resolution as the chair decides; or*
- (c) *a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:*

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- (i) *the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on this Resolution; and*
 - (ii) *the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.*

Resolution 10 - Approval of the grant of Security to AFC under the Senior Debt Facility

Voting exclusion statement: *The Company will disregard any votes cast in favour of Resolution 10 by or on behalf of Africa Finance Corporation and African Export-Import Bank or any of their Associates.*

However, the Company need not disregard a vote cast in favour of Resolution 10 by:

- (a) *a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or*
- (b) *the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or*
- (c) *a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:*
 - (i) *the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and*
 - (ii) *the holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.*

Resolution 11 – Issue of Options to a Related Party – Seamus Cornelius

Voting exclusion statement: The Company will disregard any votes cast in favour of this Resolution by or on behalf of Seamus Cornelius (or their nominee) and any other person who will obtain a material benefit as a result of the issue of the securities (except a benefit solely by reason of being a holder of ordinary securities in the Company) or an associate of that person or those persons.

However, this does not apply to a vote cast in favour of this Resolution by:

- (a) a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- (b) the chair of the meeting as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the chair to vote on this Resolution as the chair decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
- (d) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on this Resolution; and
- (e) the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Voting prohibition statement: The Company will disregard any votes cast in favour of this Resolution by or on behalf of a person appointed as a proxy must not vote on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

OTHER BUSINESS

To deal with any other business which may be brought forward in accordance with the Constitution and the Corporations Act.

Details of the definitions and abbreviations used in this Notice are set out in the Glossary to the Explanatory Memorandum.

By order of the Board



Catherine Grant-Edwards

Company Secretary

Dated: 28 June 2021

How to vote

Shareholders can vote by either:

- attending the Meeting and voting in person or by attorney or, in the case of corporate Shareholders, by appointing a corporate representative to attend and vote; or
- appointing a proxy to attend and vote on their behalf using the Proxy Form accompanying this Notice and by submitting their proxy appointment and voting instructions in person, by post, electronically via the internet or by facsimile.

Voting in person (or by attorney)

Shareholders, or their attorneys, who plan to attend the Meeting are asked to arrive at the venue 15 minutes prior to the time designated for the Meeting, if possible, so that their holding may be checked against the Company's share register and their attendance recorded. To be effective a certified copy of the Power of Attorney, or the original Power of Attorney, must be received by the Company in the same manner, and by the same time as outlined for proxy forms below.

Voting by a Corporation

A Shareholder that is a corporation may appoint an individual to act as its representative and vote in person at the Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which it is signed.

Voting by proxy

- A Shareholder entitled to attend and vote is entitled to appoint not more than two proxies. Each proxy will have the right to vote on a poll and also to speak at the Meeting.
- The appointment of the proxy may specify the proportion or the number of votes that the proxy may exercise. Where more than one proxy is appointed and the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, the votes will be divided equally among the proxies (i.e. where there are two proxies, each proxy may exercise half of the votes).
- A proxy need not be a Shareholder.
- The proxy can be either an individual or a body corporate.
- If a proxy is not directed how to vote on an item of business, the proxy may generally vote, or abstain from voting, as they think fit. However, where a Restricted Voter is appointed as a proxy, the proxy may only vote on Resolution 1 in accordance with a direction on how the proxy is to vote or, if the proxy is the Chair of the Meeting and the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.
- Should any resolution, other than those specified in this Notice, be proposed at the Meeting, a proxy may vote on that resolution as they think fit.
- If a proxy is instructed to abstain from voting on an item of business, they are directed not to vote on the Shareholder's behalf on the poll and the Shares that are the subject of the proxy appointment will not be counted in calculating the required majority.
- Shareholders who return their Proxy Forms with a direction how to vote, but who do not nominate the identity of their proxy, will be taken to have appointed the Chair of the Meeting as their proxy to vote on their behalf. If a Proxy Form is returned but the nominated proxy does not attend the Meeting, the Chair of the Meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the Chair of the Meeting, the secretary or any Director that do not contain a direction how to vote will be used, where possible, to support each of the Resolutions proposed in this Notice, provided they are entitled to cast votes as a proxy under the voting exclusion rules which apply to some of the proposed Resolutions. These rules are explained in this Notice.
- To be effective, proxies must be received by 10:00am (AWST time) on 28 July 2021. Proxies received after this time will be invalid.
- Proxies may be lodged using any of the following methods:
 - Online At www.investorvote.com.au
 - By mail Share Registry – Computershare Investor Services Pty Limited, GPO Box 242 Melbourne Victoria 3001, Australia
 - By fax 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)
 - By mobile Scan the QR Code on your proxy form and follow the prompts
 - Custodian voting For Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions

The Proxy Form must be signed by the Shareholder or the Shareholder's attorney. Proxies given by corporations must be executed in accordance with the Corporations Act. Where the appointment of a proxy is signed by the appointer's attorney, a certified copy of the Power of Attorney, or the power itself, must be received by the Company at the above address, or by facsimile, and by 10:00am (AWST time) on 28 July 2021. If facsimile transmission is used, the Power of Attorney must be certified. The time is 48 hours prior to the meeting (10:00am (AWST time) on 30 July 2021).

United Kingdom (CREST Voting Instruction)

DI Holders in CREST may transmit voting instructions by utilising the CREST voting service in accordance with the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take appropriate action on their behalf.

In order for instructions made using the CREST voting service to be valid, the appropriate CREST message (a "CREST Voting Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual (available via www.euroclear.com/CREST).

To be effective, the CREST Voting Instruction must be transmitted so as to be received by the Company's agent (3RA50) no later than Tuesday, 27 July 2021 at 10:00am (BST). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the CREST Voting Instruction by the CREST applications host) from which the Company's agent is able to retrieve the CREST Voting Instruction by enquiry to CREST in the manner prescribed by CREST. DI Holders in CREST and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the transmission of CREST Voting Instructions. It is the responsibility of the DI Holder concerned to take (or, if the DI Holder is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that the CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a CREST Voting Instruction is transmitted by means of the CREST voting service by any particular time.

In this connection, DI Holders and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

United Kingdom (Form of Instruction)

DI Holders are invited to attend the Meeting but are not entitled to vote at the Meeting. In order to have votes cast at the Meeting on their behalf, DI holders must complete, sign and return the Forms of Instruction forwarded to them along with the Notice to the Company's agent, Computershare UK, by Tuesday, 27 July 2021 at 10:00am (BST).

Shareholders who are entitled to vote

In accordance with paragraphs 7.11.37 of the Corporations Regulations, the Board has determined that a person's entitlement to vote at the Annual General Meeting will be the entitlement of that person set out in the Register of Shareholders as at 5:00pm (AWST time) on 28 July 2021.

Danakali Ltd

ACN 097 904 302

EXPLANATORY MEMORANDUM

This Explanatory Memorandum is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice.

Certain abbreviations and other defined terms are used throughout this Explanatory Memorandum. Defined terms are generally identifiable by the use of an upper case first letter. Details of the definitions and abbreviations are set out in the Glossary to the Explanatory Memorandum.

FINANCIAL REPORTS

The first item of the Notice deals with the presentation of the consolidated Financial Report of the Company for the financial year ended 31 December 2020, together with the Directors' declaration and report in relation to that financial year and the Auditor's Report on the Financial Report. Shareholders should consider these documents and raise any matters of interest with the Directors when this item is being considered.

The Company will not provide a hard copy of the Company's consolidated Financial Report to Shareholders unless specifically requested to do so. The Company's consolidated Financial Report is available on its website at www.danakali.com.au.

No resolution is required to be moved in respect of this item.

Shareholders will be given a reasonable opportunity at the Annual General Meeting to ask questions and make comments on the accounts and on the management of the Company.

The Chair will also give Shareholders a reasonable opportunity to ask the Auditor or the Auditor's representative questions relevant to:

- (a) the conduct of the audit;
- (b) the preparation and content of the independent audit report;
- (c) the accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- (d) the independence of the Auditor in relation to the conduct of the audit.

The Chair will also allow a reasonable opportunity for the Auditor or their representative to answer any written questions submitted to the Auditor under section 250PA of the Corporations Act.

1. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

Section 250R(2) of the Corporations Act requires the Company to put to its Shareholders a resolution that the Remuneration Report as disclosed in the Company's Annual Report be adopted. The Remuneration Report is set out in the Company's Annual Report and is also available on the Company's website at www.danakali.com.au.

The remuneration report sets out the company's remuneration arrangements for the directors and senior management of the company. The remuneration report is part of the directors' report contained in the annual financial report of the company for a financial year.

The chair of the meeting must allow a reasonable opportunity for its shareholders to ask questions about or make comments on the remuneration report at the annual general meeting.

A company is required to put to its shareholders a resolution proposing the calling of another meeting of shareholders to consider the appointment of directors of the company (**Spill Resolution**) if, at consecutive annual general meetings, at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report and at the first of those annual general meetings a Spill Resolution was not put to vote. If required, the Spill Resolution must be put to vote at the second of those annual general meetings.

If more than 50% of votes cast are in favour of the Spill Resolution, the company must convene a shareholder meeting (**Spill Meeting**) within 90 days of the second annual general meeting.

All of the directors of the company who were in office when the directors' report (as included in the company's annual financial report for the most recent financial year) was approved, other than the managing director of the company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting.

Following the Spill Meeting those persons whose election or re-election as directors of the company is approved will be the directors of the company.

At the Company's previous annual general meeting the votes cast against the remuneration report considered at that annual general meeting were less than 25%. Accordingly, the Spill Resolution is not relevant for this Annual General Meeting.

The Chair will give Shareholders a reasonable opportunity to ask questions about, or make comments on, the Remuneration Report.

Note that a voting prohibition applies to Resolution 1 on the terms set out in the Notice.

2. RESOLUTION 2 – ELECTION OF DIRECTOR - NEIL GREGSON

The Constitution allows the Directors to appoint at any time a person to be a Director either to fill a casual vacancy or as an addition to the existing Directors, but only where the total number of Directors does not at any time exceed the maximum number specified by the Constitution.

Pursuant to the Constitution and Listing Rule 14.4, any Director so appointed holds office only until the next annual general meeting and is then eligible for election by Shareholders but shall not be taken into account in determining the Directors who are to retire by rotation (if any) at that meeting.

Neil Gregson, having been appointed by other Directors on 3 August 2020 in accordance with the Constitution, will retire in accordance with the Constitution and Listing Rule 14.4 and being eligible, seeks election from Shareholders.

2.1. Qualifications and other material directorships

Neil Gregson is a qualified mining engineer with deep experience in the resources sector. He has over 30 years of experience as an investment manager predominantly in the mining and energy sectors. Mr Gregson's most recent role was as portfolio manager at J.P. Morgan Asset Management Global Equities Team based in London where he was responsible for global natural resources mandates. He held prior investment management roles at CQS Asset Management as a Senior Portfolio Manager focused on natural resources and at Credit Suisse as Head of Emerging Markets and related sector funds.

2.2. Independence

Neil Gregson has no interests, position or relationship that might influence, or reasonably be perceived to influence, in a material respect his capacity to bring an independent judgement to bear on issues before the Board and to act in the best interest of the Company as a whole rather than in the interests of an individual security holder or other party.

If elected the Board considers Neil Gregson will be an independent Director.

2.3. Other material information

The Company conducts appropriate checks on the background and experience of candidates before their appointment to the Board. These include checks as to a person's experience, educational qualifications, character, criminal record and bankruptcy history. The Company undertook such checks prior to the appointment of Neil Gregson.

2.4. Board recommendation

The Board has reviewed Mr Gregson's performance since his appointment to the Board and considers that Mr Gregson's skills and experience will continue to enhance the Board's ability to perform its role. Accordingly, the Board supports the election of Neil Gregson and recommends that Shareholders vote in favour of Resolution 2.

3. RESOLUTION 3 – ELECTION OF DIRECTOR - ROBERT CONNOCHIE

Listing Rule 14.5 provides that an entity which has directors must hold an election of directors at each annual general meeting.

The Constitution sets out the requirements for determining which Directors are to retire by rotation at an annual general meeting.

Robert Connochie, who has served as a Director since 6 February 2017 and was last re-elected on 27 May 2019, retires by rotation and seeks re-election.

3.1. Qualifications and other material directorships

Mr Connochie is a highly-experienced potash and mining specialist with more than 40 years of industry experience. He brings extensive senior line management experience from the potash industry, including marketing, corporate development, evaluations, financing and acquisitions. Previously, Mr Connochie held positions as Chairman of Canpotex (a world leading potash exporter for more than 40 years) and Chairman of Behre Dolbear Capital, Inc. Further, Mr Connochie was Chairman and CEO of Potash Company of America, CEO Asia Pacific Potash, Director of Athabasca Potash, Chairman of the Phosphate and Potash Institute, Director of the Fertiliser Institute, and Director of the Saskatchewan Potash Producers Association

3.2. Independence

If re-elected the Board considers Robert Connochie will be an independent Director

3.3. Board recommendation

The Board has reviewed Robert Connochie's performance since his appointment to the Board and considers that Mr Connochie's skills and experience will continue to enhance the Board's ability to perform its role. Accordingly, the Board supports the re-election of Robert Connochie and recommends that Shareholders vote in favour of Resolution 3.

4. BACKGROUND TO RESOLUTIONS 4 AND 5 – PLACEMENT

On 29 April 2021, the Company announced that it had secured firm commitments from institutional and sophisticated investors (**Placement Shares**) and persons discharging managerial responsibilities and persons closely associated (**Other PDMR/PCA Shares**) to subscribe for a total of 47,565,999 Shares at an issue price of \$0.43 per Share to raise \$20,453,380 (before costs). The Placement Shares and the Other PDMR/PCA Shares were issued on 6 May 2021.

The Company is seeking Shareholder approval for Directors Seamus Cornelius and Neil Gregson to participate in the Placement by subscribing for up to 1,080,000 Shares (**Director Participation Shares**). Resolutions 6 and 7 seek Shareholder approval pursuant to Listing Rule 10.11 for the issue of the Director Participation Shares.

The Company engaged the services of Euroz Hartleys Limited (ACN 33 104 195 057) (**Euroz Hartleys**), (AFSL 230052), to manage the issue of the Placement Shares. The Company agreed to pay a fee of \$1,220,243 (being, 6% of the amount raised under the issue of the Placement Shares).

5. RESOLUTIONS 4 AND 5 – RATIFICATION OF PRIOR ISSUE OF SHARES - PLACEMENT

5.1. General

As summarised in Section 4, on 6 May 2021, the Company issued 47,565,999 Shares. 15,597,165 Shares were issued pursuant to the Company's capacity under Listing Rule 7.1 (being, the subject of Resolution 4) and 31,968,834 Shares were issued pursuant to the Company's 7.1A mandate (being, the subject of Resolution 5) which was approved by Shareholders at the annual general meeting held on 15 June 2020.

5.2. Listing Rules 7.1 and 7.1A

Broadly speaking, and subject to a number of exceptions, Listing Rule 7.1 limits the amount of equity securities that a listed company can issue without the approval of its shareholders over any 12 month period to 15% of the fully paid ordinary securities it had on issue at the start of that 12 month period.

Under Listing Rule 7.1A however, an eligible entity can seek approval from its members, by way of a special resolution passed at its annual general meeting, to increase this 15% limit by an extra 10% to 25%.

The Company's ability to utilise the additional 10% capacity provided for in Listing Rule 7.1A for issues of equity securities following this Meeting remains conditional on Resolution 9 being passed by the requisite majority at this Meeting.

The issue of the Placement Shares and Other PDMR/PCA Shares does not fit within any of the exceptions set out in Listing Rule 7.2 and, as it has not yet been approved by Shareholders, it effectively uses up part of the 25% limit in Listing Rules 7.1 and 7.1A, reducing the Company's capacity to issue further equity securities without Shareholder approval under Listing Rule 7.1 and 7.1A for the 12 month period following the date of issue of the Placement Shares and Other PDMR/PCA Shares.

5.3. Listing Rule 7.4

Listing Rule 7.4 allows the shareholders of a listed company to approve an issue of equity securities after it has been made or agreed to be made. If they do, the issue is taken to have been approved under Listing Rule 7.1 and so does not reduce the company's capacity to issue further equity securities without shareholder approval under that rule.

The Company wishes to retain as much flexibility as possible to issue additional equity securities in the future without having to obtain Shareholder approval for such issues under Listing Rule 7.1. Accordingly, the Company is seeking Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the Placement Shares and Other PDMR/PCA Shares.

Resolutions 4 and 5 seek Shareholder ratification pursuant to Listing Rule 7.4 for the issue of the Placement Shares and Other PDMR/PCA Shares.

5.4. Technical information required by Listing Rule 14.1A

If Resolutions 4 and 5 are passed, the Placement Shares and Other PDMR/PCA Shares will be excluded in calculating the Company's combined 25% limit in Listing Rules 7.1 and 7.1A, effectively increasing the number of equity securities the Company can issue without Shareholder approval over the 12 month period following the date of issue of the Placement Shares and Other PDMR/PCA Shares.

If Resolutions 4 and 5 are not passed, the Placement Shares and Other PDMR/PCA Shares will be included in calculating the Company's combined 25% limit in Listing Rules 7.1 and 7.1A, effectively decreasing the number of equity securities the Company can issue without Shareholder approval over the 12 month period following the date of issue of the Placement Shares and Other PDMR/PCA Shares.

It is noted that the Company's ability to utilise the additional 10% capacity provided for in Listing Rule 7.1A for issues of equity securities following this Meeting remains conditional on Resolution 9 being passed at this Meeting.

5.5. Technical information required by Listing Rule 7.5

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to Resolutions 4 and 5:

- (a) the Placement Shares were issued to professional and sophisticated investors who are clients of Euroz Hartleys. The recipients were identified through a bookbuild process, which involved Euroz Hartleys seeking expressions of interest to participate in the capital raising from non-related parties of the Company. The Other PDMR/PCA Shares were issued to certain persons discharging managerial responsibilities and persons closely associated with the Company.
- (b) in accordance with paragraph 7.4 of ASX Guidance Note 21, the Company confirms that none of the recipients were:
 - (a) related parties of the Company, members of the Company's Key Management Personnel, substantial holders of the Company, advisers of the Company or an associate of any of these parties; and
 - (b) issued more than 1% of the issued capital of the Company;
- (c) 47,565,999 Placement Shares and Other PDMR/PCA Shares were issued on the following basis:
 - (c) 15,597,165 Shares issued pursuant to Listing Rule 7.1 (ratification of which is sought under Resolution 4); and
 - (d) 31,968,834 Shares issued pursuant to Listing Rule 7.1A (ratification of which is sought under Resolution 5);
- (d) the Placement Shares and Other PDMR/PCA Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (e) the Placement Shares and Other PDMR/PCA Shares were issued on 6 May 2021;
- (f) the issue price was \$0.43 per Placement or Other PDMR/PCA Share under both the issue of Shares pursuant to Listing Rule 7.1 and Listing Rule 7.1A. The Company has not and will not receive any other consideration for the issue of the Placement Shares and Other PDMR/PCA Shares;
- (g) the purpose of the issue of the Placement Shares and Other PDMR/PCA Shares was to raise \$20,453,380, which will be applied towards early works at the Company's Colluli SOP Project, detailed engineering for the Project and general working capital requirements; and
- (h) the Placement Shares and Other PDMR/PCA Shares were not issued under an agreement.

6. RESOLUTIONS 6 AND 7 – ISSUE OF SHARES TO RELATED PARTIES – DIRECTORS

6.1. General

As set out in Section 4 above, Directors Seamus Cornelius and Neil Gregson wish to participate in the Placement on the same terms as unrelated participants in the Placement (**Participation**).

Accordingly, Resolutions 6 and 7 seek Shareholder approval for the issue of 1,080,000 Director Participation Shares to Seamus Cornelius and Neil Gregson (or their respective nominees), as a result of the Participation on the terms set out below.

6.2. Chapter 2E of the Corporations Act

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The Participation will result in the issue of Shares which constitutes giving a financial benefit and Seamus Cornelius and Neil Gregson are related parties of the Company by virtue of being Directors.

The Directors (other than Seamus Cornelius and Neil Gregson who have a material personal interest in the Resolution) consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of the Participation because the Director Participation Shares will be issued to Seamus Cornelius and Neil Gregson (or their nominees) on the same terms as Shares issued to non-related party participants in the Placement and as such the giving of the financial benefit is on arm's length terms.

6.3. Listing Rule 10.11

Listing Rule 10.11 provides that unless one of the exceptions in Listing Rule 10.12 applies, a listed company must not issue or agree to issue equity securities to:

- 6.3.1. a related party;
- 6.3.2. a person who is, or was at any time in the 6 months before the issue or agreement, a substantial (30%+) holder in the company;
- 6.3.3. a person who is, or was at any time in the 6 months before the issue or agreement, a substantial (10%+) holder in the company and who has nominated a director to the board of the company pursuant to a relevant agreement which gives them a right or expectation to do so;
- 6.3.4. an associate of a person referred to in Listing Rules 10.11.1 to 10.11.3; or
- 6.3.5. a person whose relationship with the company or a person referred to in Listing Rules 10.11.1 to 10.11.4 is such that, in ASX's opinion, the issue or agreement should be approved by its shareholders,

unless it obtains the approval of its shareholders.

The Participation falls within Listing Rule 10.11.1 and does not fall within any of the exceptions in Listing Rule 10.12. It therefore requires the approval of Shareholders under Listing Rule 10.11.

Resolutions 6 and 7 seek Shareholder approval for the Participation under and for the purposes of Listing Rule 10.11.

6.4. Technical information required by Listing Rule 14.1A

If Resolutions 6 and 7 are passed, the Company will be able to proceed with the issue of the Director Participation Shares under the Participation within one month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the Listing Rules) and will raise additional funds which will be used in the manner set out in Section 5.5(g) above. As approval pursuant to Listing Rule 7.1 is not required for the issue of the Shares in respect of the Participation (because approval is being obtained under Listing Rule 10.11), the issue of the Director Participation Shares will not use up any of the Company's 15% annual placement capacity.

If Resolutions 6 and 7 are not passed, the Company will not be able to proceed with the issue of the Director Participation Shares under the Participation and no further funds will be raised in respect of the Placement.

6.5. Technical Information required by Listing Rule 10.13

Pursuant to and in accordance with Listing Rule 10.13, the following information is provided in relation to Resolutions 6 and 7:

- (a) the Director Participation Shares will be issued to Seamus Cornelius and Neil Gregson (or their nominees), who fall within the category set out in Listing Rule 10.11.1, as Seamus Cornelius and Neil Gregson are related parties of the Company by virtue of being Directors;
- (b) the maximum number of Director Participation Shares to be issued is:
 - (i) 1,000,000 Shares to Seamus Cornelius (or their nominee); and
 - (ii) 80,000 Shares to Neil Gregson (or their nominee);
- (c) the Director Participation Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Director Participation Shares will be issued no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules) and it is anticipated the Shares will be issued on the same date;
- (e) the issue price will be \$0.43 per Director Participation Share, being the same issue price as Shares issued to other participants in the Placement. The Company will not receive any other consideration for the issue of the Director Participation Shares;
- (f) the purpose of the issue of Director Participation Shares under the Participation is to raise capital, which the Company intends to use in the manner set out in Section 5.5(g) above;
- (g) the Director Participation Shares to be issued under the Participation are not intended to remunerate or incentivise the Director; and
- (h) the Director Participation Shares are not being issued under an agreement.

7. RESOLUTION 8 – AMENDMENT TO CONSTITUTION

A company may modify or repeal its constitution or a provision of its constitution by special resolution of Shareholders.

Resolution 8 is a special resolution which will enable the Company to amend rule 64.1(3) of its existing Constitution (**Amended Constitution**) to allow the Company to elect a candidate as director at a general meeting if at least 30 business days (rather than the current 45 business days) notice is given. An extract of amended rule 64.1(3) is set out below.

- (3) *at least 30 business days (or any other period fixed by the board and notified to ASX) before the date of the general meeting at which the candidate seeks election, the Company receives at its registered office:*
 - (a) *a nomination in writing of the candidate by members holding at least 5% of the Company's ordinary shares and signed by the candidate and proposers; and*
 - (b) *a consent to act as a director signed by the candidate.*

A copy of the Amended Constitution is available for review by Shareholders at the office of the Company. A copy of the Amended Constitution can also be sent to Shareholders upon request to the Company Secretary. Shareholders are invited to contact the Company if they have any queries or concerns.

8. RESOLUTION 9 – APPROVAL OF 7.1A MANDATE

8.1. General

Broadly speaking, and subject to a number of exceptions, Listing Rule 7.1 limits the amount of Equity Securities that a listed company can issue without the approval of its shareholders over any 12 month period to 15% of the fully paid ordinary securities it had on issue at the start of that period.

However, under Listing Rule 7.1A, an eligible entity may seek shareholder approval by way of a special resolution passed at its annual general meeting to increase this 15% limit by an extra 10% to 25% (**7.1A Mandate**).

An 'eligible entity' means an entity which is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300,000,000 or less. The Company is an eligible entity for these purposes.

Resolution 9 seeks Shareholder approval by way of special resolution for the Company to have the additional 10% placement capacity provided for in Listing Rule 7.1A to issue Equity Securities without Shareholder approval.

If Resolution 9 is passed, the Company will be able to issue Equity Securities up to the combined 25% limit in Listing Rules 7.1 and 7.1A without any further Shareholder approval.

If Resolution 9 is not passed, the Company will not be able to access the additional 10% capacity to issue Equity Securities without Shareholder approval under Listing Rule 7.1A, and will remain subject to the 15% limit on issuing Equity Securities without Shareholder approval set out in Listing Rule 7.1.

8.2. Technical information required by Listing Rule 7.1A

Pursuant to and in accordance with Listing Rule 7.3A, the information below is provided in relation to Resolution 9:

(a) Period for which the 7.1A Mandate is valid

The 7.1A Mandate will commence on the date of the Meeting and expiring on the first to occur of the following:

- (i) the date that is 12 months after the date of this Meeting;
- (i) the time and date of the Company's next annual general meeting; and
- (ii) the time and date of approval by Shareholders of any transaction under Listing Rule 11.1.2 (a significant change in the nature or scale of activities) or Listing Rule 11.2 (disposal of the main undertaking).

(a) Minimum Price

Any Equity Securities issued under the 7.1A Mandate must be in an existing quoted class of Equity Securities and be issued at a minimum price of 75% of the volume weighted average price of Equity Securities in that class, calculated over the 15 trading days on which trades in that class were recorded immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed by the entity and the recipient of the Equity Securities; or

- (ii) if the Equity Securities are not issued within 10 trading days of the date in Section 8.2(b)(i), the date on which the Equity Securities are issued.

(b) **Use of funds raised under the 7.1A Mandate**

The Company intends to use funds raised from issues of Equity Securities under the 7.1A Mandate for the development and construction of the Colluli Sulphate of Potash Project in the Danakil Depression of Eritrea, East Africa.

(c) **Risk of Economic and Voting Dilution**

Any issue of Equity Securities under the 7.1A Mandate will dilute the interests of Shareholders who do not receive any Shares under the issue.

If Resolution 9 is approved by Shareholders and the Company issues the maximum number of Equity Securities available under the 7.1A Mandate, the economic and voting dilution of existing Shares would be as shown in the table below.

The table below shows the dilution of existing Shareholders calculated in accordance with the formula outlined in Listing Rule 7.1A.2, on the basis of the closing market price of Shares and the number of Equity Securities on issue as at 15 June 2021.

The table also shows the voting dilution impact where the number of Shares on issue (Variable A in the formula) changes and the economic dilution where there are changes in the issue price of Shares issued under the 7.1A Mandate.

Variable 'A'	Number of Shares issued and funds raised under the Additional 10% Placement Capacity and dilution effect	Dilution		
		\$0.235 Issue Price at half the current market price	\$0.470 Issue Price at current market price	\$0.940 Issue Price at double the current market price
Current Variable 'A' 367,254,346 Shares	Shares issued	36,725,435	36,725,435	36,725,435
	Funds raised	\$8,630,477	\$17,260,954	\$34,521,909
	Dilution	10%	10%	10%
50% increase in current Variable 'A' 550,881,519 Shares	Shares issued	55,088,152	55,088,152	55,088,152
	Funds raised	\$12,945,716	\$25,891,431	\$51,782,863
	Dilution	10%	10%	10%
100% increase in current variable 'A' 734,508,692 Shares	Shares issued	73,450,869	73,450,869	73,450,869
	Funds raised	\$17,260,954	\$34,521,909	\$69,043,817
	Dilution	10%	10%	10%

*The number of Shares on issue (Variable A in the formula) could increase as a result of the issue of Shares that do not require Shareholder approval (such as under a pro-rata rights issue or scrip issued under a takeover offer) or that are issued with Shareholder approval under Listing Rule 7.1.

The table above uses the following assumptions:

- There are currently 367,254,346 Shares on issue.
- The issue price set out above is the closing market price of the Shares on the ASX on 15 June 2021.
- The Company issues the maximum possible number of Equity Securities under the 7.1A Mandate.
- The Company has not issued any Equity Securities in the 12 months prior to the Meeting that were not issued under an exception in Listing Rule 7.2 or with approval under Listing Rule 7.1.

5. The issue of Equity Securities under the 7.1A Mandate consists only of Shares. It is assumed that no Options are exercised into Shares before the date of issue of the Equity Securities.
6. The calculations above do not show the dilution that any one particular Shareholder will be subject to. All Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.
7. This table does not set out any dilution pursuant to approvals under Listing Rule 7.1 unless otherwise disclosed.
8. The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
9. The table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the 7.1A mandate, based on that Shareholder's holding at the date of the Meeting.

Shareholders should note that there is a risk that:

- (i) the market price for the Company's Shares may be significantly lower on the issue date than on the date of the Meeting; and
- (ii) the Shares may be issued at a price that is at a discount to the market price for those Shares on the date of issue.

(e) **Allocation policy under the 7.1A Mandate**

The recipients of the Equity Securities to be issued under the 7.1A Mandate have not yet been determined. However, the recipients of Equity Securities could consist of current Shareholders or new investors (or both), none of whom will be related parties of the Company.

The Company will determine the recipients at the time of the issue under the 7.1A Mandate, having regard to the following factors:

- (i) the purpose of the issue;
- (ii) alternative methods for raising funds available to the Company at that time, including, but not limited to, an entitlement issue, share purchase plan, placement or other offer where existing Shareholders may participate;
- (iii) the effect of the issue of the Equity Securities on the control of the Company;
- (iv) the circumstances of the Company, including, but not limited to, the financial position and solvency of the Company;
- (v) prevailing market conditions; and
- (vi) advice from corporate, financial and broking advisers (if applicable).

(f) **Previous approval under Listing Rule 7.1A**

The Company previously obtained approval from its Shareholders pursuant to Listing Rule 7.1A at its annual general meeting held on 15 July 2020 (**Previous Approval**).

During the 12-month period preceding the date of the Meeting, being on and from 15 July 2020, the Company has issued 31,968,834 Shares pursuant to the Previous Approval (**Previous Issue**), which represents approximately 9.83% of the total diluted number of Equity Securities on issue in the Company on 15 July 2020, which was 325,065,418.

Further details of the issues of Equity Securities by the Company pursuant to Listing Rule 7.1A.2 during the 12 month period preceding the date of the Meeting are set out below.

Date of Issue and Appendix 2A/3B	Date of Issue: 6 May 2021 Date of Appendix 2A/3B: 2A: 6 May 2021, 3B: 29 April 2021.
Recipients	Professional and sophisticated investors who are clients of Euroz Hartleys. The recipients were identified through a bookbuild process, which involved Euroz Hartleys seeking expressions of interest to participate in the capital raising from non-related parties of the Company. The Other PDMR/PCA Shares were issued to certain persons discharging managerial responsibilities and persons closely associated with the Company.
Number and Class of Equity Securities Issued	31,968,834 Shares
Issue Price and discount to Market Price¹ (if any)	\$0.43 per Share (at a discount 14.9% to Market Price).
Total Cash Consideration and Use of Funds	Amount raised: \$13,746,598 Amount spent: Nil Use of funds: Not yet spent Amount remaining: \$13,746,598 Proposed use of remaining funds³: Proceeds of the Placement will be applied towards early works at the Company's Colluli SOP Project, including site road development, geotechnical optimisation, reverse osmosis plant completion and installation, exploration camp relocation and RA International mine camp installation. In addition, proceeds will be used towards detailed engineering for the Project and for general working capital requirements.

Notes:

1. Market Price means the closing price of Shares on ASX (excluding special crossings, overnight sales and exchange traded option exercises). For the purposes of this table the discount is calculated on the Market Price on the last trading day on which a sale was recorded prior to the date of issue of the relevant Equity Securities.
2. Fully paid ordinary shares in the capital of the Company, ASX Code: DNK (terms are set out in the Constitution).
3. This is a statement of current intentions as at the date of this Notice. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way the funds are applied on this basis.

9. RESOLUTION 10 - APPROVAL OF THE GRANT OF SECURITY TO AFC UNDER THE SENIOR DEBT FACILITY

9.1. Funding package

As announced on 23 December 2019, AFC, together with Afreximbank, has entered into definitive documentation for the provision of US\$200 million in senior debt finance to CMSC (as borrower). Shareholders will be aware that the Company owns 50% of CMSC, and CMSC owns 100% of the Project. The US\$200 million in senior debt finance to be provided to CMSC under the Senior Debt Facility is part of

the overall funding package for the development and construction of the Project. Further details of the Senior Debt Facility are set out below.

The Senior Debt Facility is part of the overall funding package for the development and construction of the Project.

The Company has obtained an Independent Expert's Report in connection with the Shareholder approval for granting the Security to AFC.

Pursuant to the Senior Debt Facility, the Company (as security provider and guarantor), and its Associates, CMSC and STB Eritrea, are required to grant security over their assets to AFC with Afreximbank acting as the security agent. In accordance with the Senior Debt Facility, the security arrangements include:

- (a) the Company entering into a specific security agreement in relation to its shares in STB Eritrea, which holds the 50% interest in CMSC, and provide security over the Cost Overrun Reserve Account to AFC;
- (b) the Company entering into a featherweight security agreement, which is an all asset security agreement, which secures a nominal amount, to avoid administration risk to Afreximbank and AFC Equity (Secured Parties) where the Secured Parties otherwise would have security over less than all of the assets of an Australian company;
- (c) the Company will guarantee all CMSC's obligations to the Secured Parties under the terms of the Senior Debt Facility up until the satisfaction of a number of conditions including, the project completion tests, payment of six consecutive principal repayments, an updated base case model, the balances of the Debt Service Reserve Account and Offshore Payment Accounts being at the required amounts (Project Final Completion) occurs;
- (d) STB Eritrea is required to enter into a security agreement to secure all of its assets as security to the Secured Parties; and
- (e) CMSC is required to enter into certain security agreements to secure all of its assets to the Secured Parties.

The purpose of the Security is to guarantee all money and obligations owed by CMSC to the Lenders. The execution and delivery of the documentation required to give effect to the Security is a condition precedent to the initial drawdown of the Senior Debt Facility.

9.2. About AFC and AFC Equity

AFC is an independent, majority private sector owned, multi-lateral African development financial institution providing project structuring expertise and risk capital to address Africa's infrastructure development needs. AFC provides project development, technical advisory, principal investing and financial advisory services. AFC's members currently comprise:

- (a) 26 African member states (Nigeria, Benin, Cape Verde, Chad, Cote d'Ivoire, Djibouti, Eritrea, The Gambia, Ghana, Gabon, Guinea, Guinea-Bissau, Kenya, Liberia, Madagascar, Malawi, Mauritania, Mauritius, Namibia, Rwanda, Uganda, Senegal, Sierra Leone, Togo, Zambia and Zimbabwe); and
- (b) 2 multilateral organisations (the African Reinsurance Corporation and African Development Bank),

who have each signed and/or acceded to the AFC establishment agreement.

AFC's major shareholders as at 31 December 2019 comprise:

- (a) Central Bank of Nigeria – 43.576%;
- (b) United Bank for Africa Plc – 10.368%;

- (c) Access Bank Plc – 9.882%;
- (d) First Bank of Nigeria Limited – 8.893%;
- (e) Zenith Bank Plc – 8.883%; and
- (f) Ecobank Nigeria Limited – 4.441%.

AFC Equity is a wholly owned subsidiary of AFC. AFC Equity was established to hold AFC's equity investments.

Further information about AFC can be found on its website <https://www.africafc.org/home.aspx>.

9.3. Use of Funds

The proceeds from the Senior Debt Facility will be used to commence development and construction of the Project, as well as for general working capital requirements.

9.4. Summary of the Terms and Conditions of the Senior Debt Facility

Term	Description
Facility type and value	<ul style="list-style-type: none"> Senior loan facility of US\$200 million
Issuer	<ul style="list-style-type: none"> CMSC
Mandated Lead Arrangers / Lenders	<ul style="list-style-type: none"> AFC; and Afreximbank
Guarantors	<ul style="list-style-type: none"> the Company, STB Eritrea and ENAMCO
Tenor	<ul style="list-style-type: none"> 7 years from financial close repaid quarterly
Security	<ul style="list-style-type: none"> Onshore and offshore security granted to AFC, over the Company and its Associates, CMSC and STB Eritrea, assets (Security). The Company is required to enter into a specific security agreement in relation to its shares in STB Eritrea and provide security over a cost overrun reserve account. The Company is also required to enter into a featherweight security agreement, which is an all asset security agreement, which secures a nominal amount to avoid administration risk to the secured parties where they otherwise would have security over less than all of the assets of an Australian company. The Company will also guarantee CMSC's obligations under the terms of the facility. STB Eritrea is required to enter into a security agreement to secure all of its assets. Please refer to Table 4.1 of the Independent Expert's Report for a summary of the key documents comprising the security arrangement.
Availability	<ul style="list-style-type: none"> From satisfaction of conditions precedent until the completion of the construction and execution of the Project
Margin	<ul style="list-style-type: none"> 8.5%p.a. over 3 months USD LIBOR
Covenants	<ul style="list-style-type: none"> Customary positive, negative and financial covenants and undertakings for a funding facility of this nature

Term	Description
CMSC shareholder distributions	<ul style="list-style-type: none"> Restrictions preventing any CMSC shareholder distributions occurring before the project completion tests; or the sixth consecutive repayment has been made to AFC and Afreximbank; and subject to compliance with other financial tests
Conditions precedent	<ul style="list-style-type: none"> Conditions precedent are typical for a project financing facility of this kind and include: <ul style="list-style-type: none"> execution of the security documents; obtaining other customary project approvals required to develop the Project; and the balance of the equity contribution having been raised
Other	<ul style="list-style-type: none"> Fees and early repayment terms typical of such project financing facility

9.5. Key advantages

The following is a non-exhaustive list of advantages that the Directors consider may be relevant to a Shareholder's decision on how to vote on Resolution 10:

- the Senior Debt Facility provides the Company with funding necessary to support development and construction of the Project. The funds will help facilitate the commencement of project execution activities which places Colluli on track for production during 2022;
- AFC has an established reputation as a prominent development finance institution aiming to bridge Africa's infrastructure investment gap;
- if Resolution 10 is not approved the Company will be unable to access the Senior Debt Facility Funding and will need to seek alternative funding; and
- the Independent Expert has concluded that the granting of security over the Company's and its Associates' assets in favour of AFC, is Fair and Reasonable to the Shareholders and therefore it is in their interests to approve Resolution 10.

Please refer to Table 2.2 of the Independent Expert's Report accompanying this Notice for further potential advantages of the Senior Debt Facility.

9.6. Key disadvantages

The following is a non-exhaustive list of disadvantages that the Directors consider may be relevant to a Shareholders decision on how to vote on Resolution 10:

- AFC, together with Afreximbank, has executed definitive debt documentation for the provision of US\$200 million in senior debt finance to CMSC. As a result, AFC will be one of the Company's largest creditors (and AFC will have security over CMSC's assets) plus, through its Associate, AFC Equity, the Company's largest Shareholder; and
- the grant of the Security is likely to affect the Company, and its Associates, ability to secure further debt funding where such additional funding is contingent on the granting of security. The consent of the Mandated Lead Arrangers would be required for any further security interest to be granted over the relevant assets of the Company.

Please refer to Table 2.3 of the Independent Expert's Report accompanying this Notice for further potential disadvantages of the Senior Debt Facility.

9.7. Approval in relation to Listing Rule 10.1

Listing Rule 10.1 provides that an entity must ensure that neither the entity, nor any of its child entities, acquires or agrees to acquire a substantial asset from or disposes or agrees to dispose of a substantial asset to, any of the following persons without the approval of the holders of the entity's ordinary securities:

- 10.1.1 a related party of the entity;
- 10.1.2 a child entity of the entity;
- 10.1.3 a person who is, or was at any time in the 6 months before the transaction or agreement, a substantial (10%+) holder in the entity;
- 10.1.4 an associate of a person referred to in Listing Rules 10.1.1 to 10.1.3;
- 10.1.5 a person whose relationship to the entity or a person referred to in Listing Rules 10.1.1 to 10.1.4 is such that, in ASX's opinion, the transaction should be approved by security holders.

An asset is substantial if its value, or the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the company as set out in the latest accounts given to ASX under the Listing Rules. A company's equity interests are the sum of paid up capital, reserves, and accumulated profits or losses, disregarding redeemable preference share capital and outside equity interest, as shown in the company's consolidated financial statements. For the purposes of Listing Rule 10.1, "dispose" includes using an asset as collateral or security in the context of a loan.

The specified persons or entities to whom Listing Rule 10.1 applies includes a "substantial holder" in the entity who either alone or together with its Associates has a Relevant Interest or had a Relevant Interest at any time in the six months before the transaction, of at least 10% of the votes attached to the entity's shares. As set out above, AFC is an Associate of AFC Equity. Given AFC Equity's current Voting Power and shareholding in the Company is 14.4%, it and its Associates, namely AFC, are "substantial holders" for the purpose of Listing Rule 10.1.3.

Approval of Resolution 10 will enable to Company to finalise the security package for the Senior Debt Facility, reducing the number of outstanding conditions precedent to the initial drawdown of the Facility.

Conversely, failure to obtain approval of Resolution 10 will adversely affect the Company's ability to finalise the security package for the Senior Debt Facility, and most likely result in alternative funding having to be obtained.

9.8. Independent Expert's opinion

Under Listing Rule 10.1, the Notice must include a report from an independent expert as to whether or not the grant of the Security is fair and reasonable to Shareholders (other than the lenders and their associates).

The Independent Expert's Report concludes that the transaction contemplated by Resolution 10 is fair and reasonable to the Shareholders of the Company.

A complete copy of the Independent Expert's Report is included as Annexure A to this Notice. Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the Independent Expert's Report, the methodology of the valuation and the sources of information and assumptions made.

A voting exclusion statement is included in the Notice.

9.9. Directors' recommendation

Based on the information available, including that contained in this Explanatory Memorandum and the Independent Expert's Report, all of the Directors (other than Mr Samaila Zubairu and Mr Taiwo Adeniji, abstaining) recommend that the Shareholders vote in favour of Resolution 10.

Mr Zubairu and Mr Adeniji are abstaining from making a recommendation to Shareholders in relation to Resolution 10 because they are representatives of AFC.

The Directors are not aware of any other information other than as set out in this Notice that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 10.

The Chair intends to exercise all undirected proxies in favour of Resolution 10.

10. RESOLUTION 11 – ISSUE OF OPTIONS TO RELATED PARTY – SEAMUS CORNELIUS

10.1. General

The Company has agreed, subject to obtaining Shareholder approval, to issue 2,000,000 Options to Seamus Cornelius (or their nominee) on the terms and conditions set out below.

Resolution 11 seeks Shareholder approval for the issue of the Options to Seamus Cornelius (or their nominee).

10.2. Chapter 2E of the Corporations Act

A summary of Chapter 2E of the Corporations Act is set out in Section 6.2 above.

The issue of Options to Seamus Cornelius (or their nominee) constitutes giving a financial benefit and Seamus Cornelius is a related party of the Company by virtue of being a Director.

The Directors (other than Seamus Cornelius who has a material personal interest in the Resolution) consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of the grant of Options because the agreement to issue the Options, reached as part of the remuneration package for Seamus Cornelius, is considered reasonable remuneration in the circumstances and was negotiated on an arm's length basis.

10.3. Listing Rule 10.11

Listing Rule 10.11 provides that unless one of the exceptions in Listing Rule 10.12 applies, a listed company must not issue or agree to issue equity securities to:

- 10.11.1 a related party;
- 10.11.2 a person who is, or was at any time in the 6 months before the issue or agreement, a substantial (30%+) holder in the company;
- 10.11.3 a person who is, or was at any time in the 6 months before the issue or agreement, a substantial (10%+) holder in the company and who has nominated a director to the board of the company pursuant to a relevant agreement which gives them a right or expectation to do so;
- 10.11.4 an associate of a person referred to in Listing Rules 10.11.1 to 10.11.3; or
- 10.11.5 a person whose relationship with the company or a person referred to in Listing Rules 10.11.1 to 10.11.4 is such that, in ASX's opinion, the issue or agreement should be approved by its shareholders,

unless it obtains the approval of its shareholders

The issue of Options falls within Listing Rule 10.11.1 and does not fall within any of the exceptions in Listing Rule 10.12. It therefore requires the approval of Shareholders under Listing Rule 10.11.

Resolution 11 seeks the required Shareholder approval for the issue of the Options under and for the purposes of Listing Rule 10.11.

10.4. Technical information required by Listing Rule 14.1A

If Resolution 11 is passed, the Company will be able to proceed with the issue of the Options to Seamus Cornelius within one month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the Listing Rules). As approval pursuant to Listing Rule 7.1 is not required for the issue of the Options (because approval is being obtained under Listing Rule 10.11), the issue of the Options will not use up any of the Company's 15% annual placement capacity.

If Resolution 11 is not passed, the Company will not be able to proceed with the issue of the Options and Seamus Cornelius will not be remunerated in any other way in lieu of the Options.

10.5. Technical information required by Listing Rule 10.13

Pursuant to and in accordance with Listing Rule 10.13, the following information is provided in relation to Resolution 11:

- (a) the Options will be issued to Seamus Cornelius (or their nominee), who falls within the category set out in Listing Rule 10.11.1 as Seamus Cornelius is a related party of the Company by virtue of being a Director[
- (b) the maximum number of Options to be issued is 2,000,000;
- (c) the terms and conditions of the Options are set out in Schedule 1;
- (d) the Options will be issued no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules) and it is intended that issue of the Options will occur on the same date;
- (e) the issue price of the Options will be nil. The Company will not receive any other consideration in respect of the issue of the Options (other than in respect of funds received on exercise of the Options);
- (f) the purpose of the issue of the Options is to provide a performance linked incentive component in the remuneration package for Seamus Cornelius to motivate and reward their performance as a Director and to provide cost effective remuneration to Seamus Cornelius, enabling the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to Seamus Cornelius;
- (g) the current total remuneration package for Seamus Cornelius is \$247,500 per annum, comprising of directors' salary of \$225,000 and a superannuation payment of \$22,500. If the Options are issued, the total remuneration package of Seamus Cornelius will increase by \$335,717 to \$603,217, being the value of the Options (based on the Black Scholes methodology); and
- (h) the Options are not being issued under an agreement.

GLOSSARY

\$ means Australian dollars.

Accounting Standards has the meaning given to that term in the Corporations Act.

Additional 10% Placement Capacity has the meaning set out on page 21.

AFC means Africa Finance Corporation.

AFC Equity means AFC Equity Investments Limited.

Amended Constitution has the meaning given on page 20.

Annual General Meeting or **Meeting** means the meeting convened by this Notice.

Annual Report means the annual report of the Company for the year ended 31 December 2020.

Associate has the meaning given in sections 12 and 16 of the Corporations Act. Section 12 is to be applied as if paragraph 12(1)(a) included a reference to the Listing Rules and on the basis that the Company is the “designated body” for the purposes of that section. A related party of a director or officer of the Company or of a Child Entity of the Company is to be taken to be an associate of the director or officer unless the contrary is established.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ABN 98 008 624 691 and, where the context permits, the Australian Securities Exchange operated by ASX Limited.

Auditor means the Company's auditor from time to time (if any).

Auditor's Report means the report of the Auditor contained in the Annual Report for the year ended 31 December 2020.

AWST means western standard time as recognised in Perth, Western Australia.

BDO means BDO Corporate Finance Ltd.

Board means the Directors.

Chair or Chairman means the individual elected to chair any meeting of the Company from time to time.

Child Entity has the meaning given to that term in the Listing Rules.

Closely Related Party has the meaning given in section 9 of the Corporations Act and includes, in relation to Key Management Personnel of the Company, a spouse, dependent and certain other close family members, as well as companies controlled by key management personnel of the Company.

Company or **DNK** means Danakali Limited ACN 097 904 302.

Constitution means the Company's constitution up to and as at the date of the Meeting.

Corporations Act means *Corporations Act 2001* (Cth).

Directors mean the directors of the Company.

Director's Report means the report of the Directors contained in the Annual Report for the year ended 31 December 2020.

Equity Securities has the same meaning given in the Listing Rules.

Explanatory Memorandum means the explanatory memorandum accompanying this Notice.

Financial Report means the annual financial report prepared under Chapter 2M of the Corporations Act for the Company and its controlled entities.

Independent Expert means BDO.

Independent Expert Report means the report prepared by the Independent Expert dated 16 June 2021 and attached to the Notice as Annexure A.

Key Management Personnel has the meaning given to that term in the Accounting Standards.

Listing Rules means the ASX Listing Rules.

Meeting means the Annual General Meeting convened by the Notice.

Notice means this Notice of Annual General Meeting, as does **Notice of Annual General Meeting**.

Option means an option to acquire a Share in the Company.

Performance Rights means the performance rights in the Company.

Proxy Form means the proxy form accompanying the Notice.

Remuneration Report means the remuneration report set out in the Annual Report for the year ended 31 December 2020.

Resolution means a resolution contained in the Notice.

Restricted Securities has the same meaning as in the Listing Rules.

Restricted Voter means Key Management Personnel and their Closely Related Parties as at the date of the Meeting.

Section means a section of the Explanatory Memorandum.

Shareholder means a member of the Company from time to time.

Shares means fully paid ordinary shares in the capital of the Company.

Spill Meeting has the meaning set out in Section 1.

Spill Resolution has the meaning set out Section 1.

Trading Day means a day determined by ASX to be a trading day in accordance with the Listing Rules.

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SCHEDULE 1

TERMS AND CONDITIONS OF OPTIONS

Resolution 11 – Options to be issued to Related Party – Seamus Cornelius

- (a) Each Option shall be issued for no consideration.
- (b) Each Option entitles the holder to subscribe for one Share in the Company upon payment of the exercise price of 143% of the closing Share price on the date that Shareholder approval is obtained for the issue of the options (**Exercise Price**).
- (c) The Options will lapse at 5.00 pm, Western Standard Time on that date which is four (4) years from the date that Shareholder approval is obtained for the issue of the Options (**Expiry Date**). The Options may otherwise lapse and be cancelled prior to the Expiry Date in accordance with clause (f).
- (d) Each Option is non-transferrable.
- (e) The Options shall vest and become exercisable immediately from date of issue.
- (f) In the event that Seamus Cornelius resigns or is terminated from the position of Director for any reason, all unexercised Options will lapse immediately, unless otherwise determined by the Board.
- (g) In the event that, prior to the Expiry Date:
- (i) a bona fide Takeover Bid (as defined in the Corporations Act) to acquire Shares is declared unconditional, and the bidder has acquired a Relevant Interest (as defined in the Corporations Act) in at least 50.1% of the Company's issued Shares;
 - (i) a court approves, under section 411(4)(b) of the Corporations Act, a proposed compromise or arrangement for the purposes of, or in connection with, a scheme for the reconstruction of the Company or its amalgamation with any other company or companies; or
 - (ii) in any other case, a person obtains Voting Power (as defined in the Corporations Act) in the Company that the Board (which for the avoidance of doubt will comprise those Directors immediately prior to the person acquiring that Voting Power) determines, acting in good faith and in accordance with their fiduciary duties, is sufficient to control the composition of the Board,
- and Seamus Cornelius resigns or is terminated from the position of Director as a result of any one of the above, the Options will not lapse or be cancelled.
- (h) There are no participating rights or entitlements inherent in these Options and holders of the Options will not be entitled to participate in new issues of capital that may be offered to shareholders during the currency of the Option.
- (i) If the issued capital of the Company is reconstructed, all rights of an Option holder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (j) If the Company proceeds with a pro rata issue (except a bonus issue) of securities to the holders of Shares after the date of issue of the Options, the exercise price of the Options will be adjusted in accordance with the formula set out in ASX Listing Rule 6.22.2.
- (k) The Options shall be exercisable in whole or in part at any time and from time to time until the Expiry Date (**Exercise Period**) by the delivery to the Company Secretary of one or more notices in writing (each a **Notice**) stating the intention of the Option holder to exercise all or a specified number of Options held by them accompanied by an Options certificate and payment to the Company of an amount in cleared funds equal to the Exercise Price multiplied by the number of Options.

The Notice and cleared funds must be received by the Company during the Exercise Period. An exercise of only some Options shall not affect the rights of the Options holder to the balance of the Options held by it.

- (l) The Company shall as soon as practicable, and no later than 5 business days of exercise of the Options, allot the resultant Shares and deliver a statement of shareholdings with a holders' identification number.
- (m) The Shares allotted shall rank, from the date of allotment, equally with the existing ordinary shares of the Company in all respects.

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DANAKALI LIMITED

Independent Expert's Report and Financial Services Guide

16 JUNE 2021

FINANCIAL SERVICES GUIDE

Dated: 16 June 2021

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 ('BDOCF' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDOCF holds an Australian Financial Services Licence to provide the following services:

- a) Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investment schemes, superannuation, and government debentures, stocks and bonds;
- b) Arranging to deal in financial products mentioned in a) above, with the exception of derivatives; and
- c) Applying for, acquiring, varying or disposing of a financial product in relation to interests in managed investment schemes excluding investor directed portfolio services, and securities.

General Financial Product Advice

This Report sets out what is described as general financial product advice. This Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently, any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDOCF has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDOCF has been engaged to provide an independent expert's report to the non-associated shareholders of Danakali Limited ('Danakali' or 'the Company') in relation to the proposed granting of security over Danakali's assets to Africa Finance Corporation ('AFC') in relation to a senior debt facility ('the Security Transaction').

Further details of the Security Transaction are set out in Section 4. The scope of this Report is set out in detail in Section 3.3. This Report provides an opinion on whether or not the Security Transaction is 'fair and reasonable' to the shareholders which are not associated with AFC ('the Non-Associated Shareholders') and has been prepared to provide information to the Non-Associated Shareholders to assist them to make an informed decision on whether to vote in favour of or against the Security Transaction. Other important information relating to this Report is set out in more detail in Section 3.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A Non-Associated Shareholder's decisions to vote in favour of or against the Security Transaction is likely to be influenced by their particular circumstances, for example, their taxation considerations and risk profile. Each Non-Associated Shareholder should obtain their own professional advice in relation to their own circumstances.

Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate the fee for the preparation of this Report will be approximately \$30,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of the Security Transaction.

Except for the fees referred to above, neither BDOCF, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this Report.

Directors of BDOCF may receive a share in the profits of BDO Group Holdings Limited, a parent entity of BDOCF. All directors and employees of BDO Group Holdings Limited and its subsidiaries (including BDOCF) are entitled to receive a salary. Where a director of BDOCF is a shareholder of BDO Group Holdings Limited, the person is entitled to share in the profits of BDO Group Holdings Limited.

Associations and relationships

From time to time BDOCF or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDOCF commenced preparing an independent expert's report in December 2019 in relation to the Security Transaction and also in relation to the proposed placement of fully paid ordinary shares to a subsidiary of AFC. The work completed at the time included a valuation of the assets of Danakali. We also note that BDO Corporate Tax (WA) Pty Ltd provide tax compliance services to Danakali. BDOCF and its related entities have not provided any other professional services to Danakali in the last two years.

The signatories to this Report do not hold any shares in Danakali and no such shares have ever been held by the signatories.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe or which are publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

Complaints

We are members of the Australian Financial Complaints Authority. Any complaint about our service should be in writing and sent to BDO Corporate Finance Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Australian Financial Complaints Authority. They can be contacted on 1800 931 678. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with Chartered Accountants Australia and New Zealand, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investments Commission ('ASIC') also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

Compensation Arrangements

BDOCF and its related entities hold Professional Indemnity insurance for the purpose of compensating retail clients for loss or damage suffered because of breaches of relevant obligations by BDOCF or its representatives under Chapter 7 of the Corporations Act 2001. These arrangements and the level of cover held by BDOCF satisfy the requirements of section 912B of the Corporations Act 2001.

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GLOSSARY

Reference	Definition
AFC	Africa Finance Corporation
AFC Equity	AFC Equity Investments Limited
Afreximbank	African Export Import Bank
Offtake Agreement, the	EuroChem Offtake Agreement
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 <i>Valuation Services</i>
ASIC	The Australian Securities and Investment Commission
ASX	Australian Securities Exchange
BDO Persons	The partners, directors, agents or associates of BDO
BDOCF	BDO Corporate Finance Ltd
CGC	The Capital Group Companies Inc.
CHIA	Chi-X Australia
CMSC	Colluli Mining Share Company
Company, the	Danakali Limited
Corporations Act, the	The Corporations Act 2001
CRU	CRU Consulting
CRU Market Outlook Reports	CRU Potassium Sulphates and Potassium Nitrate Market Outlook Report - January 2019 CRU Potassium Sulphates and Potassium Nitrate Market Outlook Report - January 2021
Danakali	Danakali Limited
Danakali's Interest	Danakali's interest in the Colluli Potash Project
EMW	Earth Moving Worldwide
ENAMCO	Eritrean National Mining Corporation
EPCM	Engineering, Procurement, Construction Management
EuroChem	EuroChem Trading GmbH
Facility, the	The fully underwritten US\$200 million senior debt facility, equally provided by the Secured Parties
FEED	Front End Engineering Design
FSG	The Financial Services Guide
FY	Financial year or 12-month period ended on 31 December
HY	6-month period ended on 30 June
JORC	Australian Joint Ore Resources Committee
ktpa	Kilo-tonnes per annum
LSE	London Stock Exchange
Management	The management team of Danakali
Meeting, the	The annual general meeting of Danakali's shareholders to be held on or around 28 July 2021
Mining Agreement, the	Mining Agreement between CMSC and the Government of the State of Eritrea
Module I	The first module of the Project
Module II	The second module of the Project
MOP	Muriate of Potash
Non-Associated Directors, the	The directors of Danakali who are not associated with AFC

Reference	Definition
Non-Associated Shareholders, the	Danakali shareholders who are not associated with AFC
Notice of Meeting, the	The notice of meeting and explanatory memorandum dated on or around 25 June 2021 provided to the Non-Associated Shareholders in relation to the Meeting
NPK	Nitrogen Phosphorous Potassium
Offtake Agreement, the	Offtake Agreement between CMSC and EuroChem Trading GmbH
Project, the	The Colluli Potash Project
Project Financial Completion	The satisfaction of a number of conditions including the project completion tests, payment of six consecutive principal repayments, an updated base case model, and the balances of certain Facility accounts being at the required amounts.
Regulations, the	The Corporation Regulations 2001
Report, the	This independent expert's report prepared by BDOCF and dated 16 June 2021
RG 111	ASIC Regulatory Guide 111 <i>Content of Expert Reports</i>
RGs	Regulatory guides published by ASIC
Secured Liabilities, the	Any amounts due, owing or incurred under the terms of the Facility
Secured Parties, the	AFC and Afreximbank
Secured Property, the	The assets over which security for the Facility is granted
Security Transaction, the	The proposed granting of security over Danakali's assets to AFC in relation to the Facility
SEIP	Strategic equipment investment process
Shareholders' Agreement, the	CMSC Shareholders' Agreement between STB Eritrea and ENAMCO
SOP	Sulphate of Potash
STB Eritrea	STB Eritrea Pty Ltd, a wholly owned subsidiary of Danakali
Substantial Asset	An asset that is 5% or more of the value of equity interests of an entity
Substantial Holder	A person who has relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the voting power of the company
US\$	American dollars
VWAP	Volume Weighted Average Price
We, us, our	BDO Corporate Finance Ltd
\$	Australian dollars

PART I: ASSESSMENT OF THE SECURITY TRANSACTION

The Non-Associated Shareholders
C/- The Non-Associated Directors
Danakali Limited
Level 11, 125 St George's Terrace
Perth WA 6000

16 June 2021

Dear Non-Associated Shareholders,

1.0 Introduction

BDO Corporate Finance Ltd ('BDOCF') has been engaged to provide an independent expert's report ('this Report') to the non-associated shareholders of Danakali Limited in relation to the proposed granting of security over certain assets of Danakali and its associated entities to Africa Finance Corporation ('AFC') in relation to a senior debt facility with AFC and African Export and Import Bank ('Afreximbank').

On 23 December 2019, Danakali announced that Colluli Mining Share Company ('CMSC') had executed binding documentation for AFC and Afreximbank to provide fully underwritten debt facilities of US\$200 million ('the Facility'), with each party providing US\$100 million. The Facility is to assist in funding construction and development of Danakali's sulphate of potash project in Eritrea ('the Project'), in which Danakali has a 50% interest through CMSC. As security for the Facility, CMSC has agreed to grant security over substantially all of its assets ('the Security Transaction').

A more detailed description of the Security Transaction is set out in Section 4 of this Report.

The shareholders of Danakali who are not associated with AFC (the 'Non-Associated Shareholders') are requested by the directors of Danakali who are not associated with AFC (the 'Non-Associated Directors') to vote in favour of or against the Security Transaction at the annual general meeting of Danakali's shareholders to be held on or around 28 July 2021 ('the Meeting').

In this Report we provide our opinion on whether the Security Transaction is fair and reasonable to the Non-Associated Shareholders. The scope and purpose of this Report are detailed in Sections 3.3 and 3.4, respectively.

This Report, including Part I and Part II, should be read in full along with all other documentation provided to the Non-Associated Shareholders including the notice of meeting and explanatory memorandum prepared by Danakali and dated on or around 25 June 2021 ('the Notice of Meeting').

2.0 Assessment of the Security Transaction

This section is set out as follows:

- ▶ Section 2.1 sets out the methodology for our assessment of the Security Transaction;
- ▶ Section 2.2 sets out our assessment of the fairness of the Security Transaction;
- ▶ Section 2.3 sets out our assessment of the reasonableness of the Security Transaction; and
- ▶ Section 2.4 provides our assessment of whether the Security Transaction is Fair and Reasonable to Non-Associated Shareholders.

2.1 Basis of Evaluation of the Security Transaction

This Report has been prepared for the purpose of meeting various requirements of the Corporations Act and ASX Listing Rules (refer Section 4.4 below).

Neither the Corporations Act nor the ASX Listing Rules provide guidance in relation to the definition of 'fair and reasonable'. In determining whether the Security Transaction is considered fair and reasonable we have had regard to the guidance provided by Regulatory Guide 111: Content of Expert Reports ('RG 111'). RG 111 provides guidance as to what matters an independent expert should consider to assist security holders to make an informed decision about transactions.

RG 111 suggests that where an expert is to assess whether a related party transaction is 'fair and reasonable' for the purpose of complying with ASX Listing Rule 10.1, the assessment should not be applied as a composite test. That is, the expert should assess separately whether the transaction is 'fair' and 'reasonable'. The expert's report should explain how the particulars of the transaction were evaluated as well as the results of the examination and evaluation.

We have assessed the fairness and reasonableness of the Security Transaction in Sections 2.2 and 2.3 below and concluded on our opinion of the Security Transaction in Section 2.4 below.

2.2 Assessment of Fairness of the Security Transaction

2.2.1 Basis of Assessment

RG 111 states that a related party offer is fair if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made:

- ▶ Assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and
- ▶ If the transaction is considered to be a control transaction, assuming 100% ownership of the target irrespective of whether the consideration is scrip or cash.

The purpose of this Report is summarised in Section 3.4.2 below and notes that using an asset as collateral in a related party transaction is considered a disposal under the ASX Listing Rules. Our fairness assessment considers the circumstance where there is a default and the security for the Facility is called by AFC and Afreximbank ('the Secured Parties') through enforcement action taken by the Secured Parties, such as the appointment of a receiver. We do not consider other terms associated with the Facility, including interest rates and the quantum of security provided (pursuant to the Common Terms Agreement, Danakali provides a financial guarantee for 100% of CMSC's obligations under the Facility, with unlimited recourse until Project Financial Completion).

Under RG 111, in the case of the Security Transaction, the proceeds flowing from the sale of the assets over which security is granted ('the Secured Property') in the event of a default pursuant to the terms of the Facility constitutes the financial benefit provided to the Secured Parties. The consideration provided by the Secured Parties to CMSC (as an associated entity of Danakali) is the outstanding amount on the Facility that will be reduced/satisfied from the sale of the Secured Property in the event of a default in relation to the Facility.

Having regard to the above, the Security Transaction is 'fair' if the value of the security provided to the Secured Parties (i.e. the value of the proceeds flowing to the Secured Parties from the sale of the Secured Property) is equal to or less than the value of the liabilities to be settled by the security (i.e. the balance of the Facility drawn down and associated interest and costs) in the event of a default on the Facility.

Under the terms of the Facility, as set out in the relevant documents, the Secured Parties' entitlement in the event of default is limited to the outstanding amount under the terms of the Facility, including principal, interest, fees, charges, and enforcement and preservation costs and all and any amounts due, owing or incurred ('the Secured Liabilities'). Danakali has provided a financial guarantee for 100% of CMSC's obligations under the Facility, with unlimited recourse until Project Financial Completion.

If the proceeds received from the sale of the Secured Property through the enforcement process are greater than the Secured Liabilities and any amounts that have priority at law (such as taxes), then the Secured Parties will only receive the amount necessary to satisfy the Secured Liabilities at the time the Secured Property is sold. Any surplus is remitted to the entity that owned the Secured Property at the time it was sold and to which the surplus relates (i.e. the relevant mortgagor/ guarantor/ pledger or an insolvency officer¹ if one is appointed to the relevant entity). Once any amounts owing to other creditors have been repaid, any surplus funds that remain in that entity may be returned to that relevant entity's shareholders (depending on factors including the enforcement process undertaken by the Secured Parties).

For completeness, in Australia we note that, in the event of a default under the terms of the Facility, the Secured Parties may themselves enter into possession as a 'Controller'² or appoint a receiver to recover the Secured Liabilities, which may involve a sale of the relevant Secured Property. If appointed, a Controller/receiver has an obligation under the section 420A of the Corporations Act to take all reasonable care to sell the Secured Property at:

- ▶ Not less than that market value (if it has a market value at the time of sale); or
- ▶ Otherwise, the best price that is reasonably obtainable having regard to the circumstances existing when the Secured Property is sold.

In Eritrea, the Civil Code of Eritrea provides at Article 2854 that pledged property is to be sold by public auction and outlines the sale process. In addition, the Civil Proclamation Code Article 422(2) provides that the Court can make orders that allow a sale by public auction or authorising a sale by private contract at the request or with the consent of the judgement debtor and after hearing the decree holder. In relation to mortgaged assets, these may be enforced pursuant to procedures set out in Article 3059-3063 of the Eritrean Civil Code, and follow a public auction process in accordance with Article 428 of the Civil Procedure Code of Eritrea.

Having regard to the above, in our view, it is appropriate to assume for the purposes of our analysis in this Report that, in the event of a default in relation to the Facility, any sales process pursued to divest the Secured Property is legally required to be conducted in a manner which is bound by statute and common law to realise market value (if there is one) as at the time of the sale, having regard to the existing state of the assets and the market.

2.2.2 Opinion on Fairness

To assess whether the Security Transaction is fair, we have compared the value of the proceeds flowing to the Secured Parties from the sale of the Secured Property to the value of the Secured Liabilities owing to the Secured Parties in the event of a default on the Facility under several scenarios. In considering the various possible scenarios, we note the following:

- ▶ In the scenario where the value of the proceeds from the sale of the Secured Property (after payment of amounts that have priority at law, such as taxes) is greater than the value of the Secured Liabilities, the Secured Parties are only entitled to receive sale proceeds equal to the Secured Liabilities;
- ▶ In the scenario where the value of the proceeds from the sale of the Secured Property (after payment of amounts that have priority at law, such as taxes) is equal to the Secured Liabilities, the Secured Parties are entitled to receive all of the sale proceeds; and
- ▶ In the scenario where the value of the proceeds from the sale of the Secured Property is less than the Secured Liabilities (after payment of amounts that have priority at law, such as taxes), the Secured Parties are entitled to receive all of the sale proceeds. To the extent the Secured Liabilities exceed the proceeds received from the sale of the Secured Property, the Secured Parties are an unsecured creditor of the mortgagor and grantor, under the terms of the Facility, for the shortfall. If the mortgagor and guarantors have no other assets or capacity to pay, the Secured Parties may suffer a loss equal to the shortfall.

Table 2.1 below summarises the potential outcomes from the settlement of the Facility under a default scenario whether the Secured Property is sold by an enforcement action.

Table 2.1: Potential Settlement Scenarios for the Secured Liabilities in the Event of Sale by Enforcement Action

Scenario	Consequence	Fairness
Proceeds from Secured Property > Secured Liabilities ¹	Security provided = Liabilities settled	Fair
Proceeds from Secured Property = Secured Liabilities ¹	Security provided = Liabilities settled	Fair
Proceeds from Secured Property < Secured Liabilities ¹	Security provided < Liabilities owing	Fair

Source: BDOCF Analysis

1. After payment of amounts that have priority at law, such as taxes.

¹ In accordance with the terms of the Facility documents, an insolvency officer may include any liquidator, provisional liquidator, trustee in bankruptcy, controller judicial or manager, compulsory manager, receiver, receiver and manager, administrative receiver, administrator or other similar officer, in each case, appointed in any jurisdiction.

² The Corporations Act 2001 defines 'controller', in relation to property of a corporation, to mean:

- (a) a receiver, or receiver and manager, of that property; or
- (b) anyone else who (whether or not as agent for the corporation) is in possession, or has control, of that property for the purpose of enforcing a security interest.

Having regard to the potential settlement scenarios summarised above, in all circumstances the Secured Parties are entitled to receive a maximum amount equal to the Secured Liabilities, in circumstances where the Secured Property are sold in an enforcement action.

After considering the information above, it is our view that in the absence of any further information, the Security Transaction is Fair to the Non-Associated Shareholders as at the date of this Report.

2.3 Assessment of Reasonableness of the Security Transaction

2.3.1 Basis of Assessment

Under RG 111, a transaction is considered reasonable if it is fair. It may also be reasonable, despite not being fair, if after considering other significant factors the interests of the shareholders are reasonably balanced.

In addition to our fairness assessment set out in Section 2.2 above, to assess whether the Security Transaction is 'reasonable' we consider it appropriate to examine other significant factors to which the Non-Associated Shareholders may give consideration, prior to forming a view on whether to vote in favour of or against the Security Transaction. This includes comparing the likely advantages and disadvantages of approving the Security Transaction with the position of a Non-Associated Shareholder if the Security Transaction is not approved, as well as a consideration of other significant factors.

Our assessment of the reasonableness of the Security Transaction is set out as follows:

- ▶ Section 2.3.2 sets out the potential advantages and disadvantages of the Security Transaction to the Non-Associated Shareholders;
- ▶ Section 2.3.3 sets out the position of the Non-Associated Shareholders if the Security Transaction is not approved; and
- ▶ Section 2.3.4 provides our opinion on the reasonableness of the Security Transaction to the Non-Associated Shareholders.

2.3.2 Potential Advantages and Disadvantages of the Security Transaction

Table 2.2 below outlines the potential advantages of the Security Transaction to the Non-Associated Shareholders.

Table 2.2: Potential Advantages of the Security Transaction

Advantage	Explanation
The Security Transaction is Fair	In our view, the Security Transaction is fair to the Non-Associated Shareholders as at the date of this Report. In accordance with RG 111, a transaction is considered reasonable if it is fair. Refer to Section 2.2 of this Report for our assessment of the fairness of the Security Transaction.
Assuming all other conditions precedents to the Facility are satisfied or waived, CMSC will be able to draw down on the Facility	If all of the conditions precedent to the initial drawdown of the Facility are satisfied the Project will gain access to US\$200 million in debt funding, representing a significant portion of the overall funding required to develop the Project. Management, on behalf of CMSC, have sought alternative senior debt funding options from third parties, but consider the Facility to be the best option available to assist with funding the Project.
AFC may be incentivised to support exceptions or waivers due to its indirect equity interest in CMSC	In the event of default and/or financial distress, CMSC may seek exceptions or waivers from the Secured Parties. As AFC is both a Secured Party and holds an indirect equity interest in CMSC (via its shareholding in Danakali), AFC may be incentivised to support such requests to protect the value of this indirect equity participation.
It is common for companies to grant security over their assets across the life of the loan when raising debt finance	It is common for companies to grant security over their assets across the life of the loan when raising debt finance. In many cases, the granting of security assists a company to obtain the funding on terms that are more favourable than they otherwise would have acquired (if at all) if no security was granted. This is because the granting of security assists to reduce the risk to the financier of the borrower defaulting on their obligations.

Source: BDOCF Analysis

Table 2.3 below outlines the potential disadvantages of the Security Transaction to the Non-Associated Shareholders.

Table 2.3: Potential Disadvantages of the Security Transaction

Disadvantage	Explanation
Danakali may lose control over its assets	<p>In the event of default, the security providers (being Danakali, STB Eritrea, Eritrean National Mining Corporation and CMSC) may have those assets, which they have provided as security, enforced against and sold in order to settle the Secured Liabilities.</p> <p>In this circumstance, Danakali could lose the potential future profits that may otherwise accrue to them from the Project (via distributions received from STB Eritrea) from having ownership of the assets it has secured in favour of the Secured Parties, other than as realised in the sale proceeds from the enforcement of the security.</p> <p>For completeness, we note that where a borrower defaults on a facility which is unsecured, a liquidator or receiver is likely to be appointed and they may still sell the assets of the borrower to repay priority creditors and then unsecured creditors.</p>
Danakali's and CMSC's ability to raise additional debt funding may be reduced	<p>Granting of security under the Security Transaction may reduce Danakali's and CMSC's ability to raise any additional debt financing in the future as any security CMSC is able to give would likely only be permitted by the Secured Parties if it ranks below the security provided for the Facility.</p> <p>In the case of Danakali, in accordance with the terms of the Facility, restrictions on debt incurrence and granting security cease to apply upon Project Financial Completion.</p> <p>For completeness, we note the capital to be provided from the Facility would not be available if CMSC, STB Eritrea and Danakali were not willing to secure the Facility. By securing the Facility, CMSC is able to access a portion of the funding it requires for the completion of the Project.</p>
Enforcement of security may not be proportionate with the Company's equity interest in CMSC	<p>Where an event of default on the Facility is existing, the Secured Parties may enforce the security at their discretion, which may include an enforcement strategy which is not proportionate to the 50/50 nature of the underlying ownership interests of Danakali (through its wholly owned subsidiary, STB Eritrea) and Eritrean National Mining Corporation ('ENAMCO') in CMSC. Although ENAMCO has granted security over its shares in CMSC, this strategy may include the enforcement of the sale of all of STB Eritrea's shares in CMSC (50%) to satisfy 100% of the Secured Liabilities, at the Secured Parties' discretion, in accordance with the terms of the security documents set out in Section 4.1.2.</p>
Security provided may hinder Danakali's ability to generate revenues outside of the Project	<p>In the event that Danakali takes on additional revenue generating activities outside of the Project (i.e. a new project or tenement) the cash flows and assets associated with these endeavours may be used to satisfy the Secured Liabilities in the event of a default on the Facility. For completeness, we note that as at the date of this Report, the sole focus of Danakali is the greenfield development of the Project and the Company is not currently pursuing any other endeavours, nor is there any guarantee that the Company will pursue other endeavours in the future.</p>
Danakali's bargaining position in relation to future negotiations with the Secured Parties, may be adversely affected	<p>As the Facility is secured, there is a greater likelihood funds will be returned to the Secured Parties in the event of default. In the circumstance CMSC is approaching financial distress and requires exceptions or waivers from Secured Parties, the Secured Parties may be less inclined, relative to an unsecured facility, to provide them (and assist CMSC in not becoming insolvent) as the Secured Parties' position is secured in the event CMSC defaults.</p> <p>Notwithstanding this, AFC's indirect equity interest in CMSC (via its shareholding in Danakali) may mitigate this risk, as AFC may be incentivised to support such requests to protect the value of this indirect equity participation.</p>

Source: BDOCF Analysis

2.3.3 Position of Shareholders if the Security Transaction is Not Implemented

Table 2.4 below outlines the potential position of the Non-Associated Shareholders if the Security Transaction is not approved.

Table 2.4: Position of the Non-Associated Shareholders if the Security Transaction is Not Approved

Position	Explanation
Additional funding will be required	<p>In the event Danakali does not successfully obtain shareholder approval for the Security Transaction, CMSC's ability to finalise the security arrangement for the Facility will be adversely affected, and will likely result in the requirement for alternative debt funding to be obtained. In these circumstances, additional sources of debt and/or equity funding (beyond the additional amount still required) may be required to develop the Project, which may be on terms more or less favourable than those agreed for the Facility and the Security Transaction, and may result in significant delays for the Project.</p>
Risks of delay for the Project will increase	<p>If the Security Transaction is not approved, and no alternative security arrangements are agreed with the Secured Parties, the Project may be delayed while Danakali seeks to source and agree terms with an alternative provider of funding. As set out in Section 5.2.4, Danakali's process to evaluate options, on behalf of CMSC, for debt funding and agree the terms of the Facility extended over several years to reach the current agreed terms for the Facility.</p>
Non-recoverable costs	<p>Danakali has incurred costs, on behalf of CMSC, in relation to the Facility and the Security Transaction. Danakali may not be able to recover the costs that it has incurred in relation to the Facility and the Security Transaction irrespective of whether or not the Security Transaction is approved.</p>

Source: BDOCF analysis

2.3.4 *Assessment of the Reasonableness of the Security Transaction*

In our opinion, after considering the advantages and disadvantages set out in this Report, in the absence of any other information, the Security Transaction is **Reasonable** to the Non-Associated Shareholders as at the date of this Report.

2.4 **Our Opinion of the Security Transaction**

Under RG 111, the Security Transaction is considered to be 'reasonable' if it is 'fair'. It may also be possible to conclude that the Security Transaction is 'reasonable' if there are sufficient valid reasons for the approval, notwithstanding that the Security Transaction may not be 'fair' to the Non-Associated Shareholders.

In our opinion, in the absence of any other information, the Security Transaction is **Fair and Reasonable** to the Non-Associated Shareholders as at the date of this Report.

We strongly recommend that the Non-Associated Shareholders also have regard to the information set out in the balance of this Report, including the appendices and the Important Information set out in Section 3, before deciding whether to vote in favour of or against the Security Transaction.

3.0 Important Information

3.1 Read this Report, and Other Documentation, in Full

This Report, including Part I and Part II, should be read in full to obtain a comprehensive understanding of the purpose, scope, basis of evaluation, limitations, information relied upon, analysis, assumptions underpinning our work and our findings.

Other information provided to the Non-Associated Shareholders in conjunction with this Report should also be read in full, including the Notice of Meeting.

3.2 Shareholders' Individual Circumstances

Our analysis has been completed and our conclusions expressed at an aggregate level having regard to the Non-Associated Shareholders as a whole. BDOCF has not considered the impact of the Security Transaction on the particular circumstances of individual Non-Associated Shareholders. Individual Non-Associated Shareholders may place a different emphasis on certain elements of the Security Transaction relative to the emphasis placed in this Report. Accordingly, individual Non-Associated Shareholders may reach different conclusions as to whether or not the Security Transaction is fair and reasonable in their individual circumstances.

The decision of an individual Non-Associated Shareholder to vote in favour of or against the Security Transaction is likely to be influenced by their particular circumstances and accordingly, Non-Associated Shareholders are advised to consider their own circumstances and seek their own independent advice.

Voting in favour of or against the Security Transaction is a matter for individual Non-Associated Shareholders based on their expectations as to the expected value and future prospects and market conditions together with their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Non-Associated Shareholders should carefully consider the Notice of Meeting. Non-Associated Shareholders who are in doubt as to the action they should take in relation to the Security Transaction should consult their professional adviser.

With respect to taxation implications of the Security Transaction, it is strongly recommended that Non-Associated Shareholders obtain their own taxation advice, tailored to their own particular circumstances.

3.3 Scope

In this Report we provide our opinions on whether or not the Security Transaction is fair and reasonable to the Non-Associated Shareholders.

This Report has been prepared at the request of the Non-Associated Directors for the sole benefit of the Non-Associated Shareholders entitled to vote, to assist them in their decisions to vote in favour of or against the Security Transaction. This Report is to accompany the Notice of Meeting to be sent to the shareholders to consider the Security Transaction and was not prepared for any other purpose. Accordingly, this Report and the information contained herein may not be relied upon by anyone other than the Non-Associated Directors and the Non-Associated Shareholders without our written consent. We accept no responsibility to any person other than the Non-Associated Directors and the Non-Associated Shareholders in relation to this Report.

This Report should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

We have consented to the inclusion of this Report with the Notice of Meeting. Apart from this Report, we are not responsible for the contents of the Notice of Meeting or any other document associated with the Security Transaction. We acknowledge that this Report may be lodged with regulatory authorities to obtain the relevant approvals prior to it being made available to the Non-Associated Shareholders.

The scope of procedures we have undertaken has been limited to those procedures required in order to form our opinions. Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards. In preparing this Report we considered a range of matters, including the necessary legal requirements and guidance of the Corporations Act, ASIC regulatory guides, the listing requirements of the relevant exchanges (where relevant) and commercial practice.

In forming our opinion, we have made certain assumptions and outline these in this Report including:

- ▶ We have performed our analysis on the basis that the conditions precedent to the initial drawdown of the Facility, in accordance with the relevant agreements, are satisfied;
- ▶ That matters such as title to all relevant assets, compliance with laws and regulations and contracts in place are in good standing, and will remain so, and that there are no material legal proceedings, other than as publicly disclosed;
- ▶ All information which is material to the Non-Associated Shareholders' decisions on the Security Transaction has been provided and is complete, accurate and fairly presented in all material respects;
- ▶ Australian Securities Exchange ('ASX') announcements and other publicly available information relied on by us are accurate, complete and not misleading;

- ▶ If the Security Transaction is approved, that it will be implemented in accordance with the stated terms;
- ▶ The legal mechanism to implement the Security Transaction is correct and effective;
- ▶ There are no undue changes to the terms and conditions of the Security Transaction, or complex issues unknown to us; and
- ▶ Other assumptions, as outlined in this Report.

In this Report we have not provided any taxation, legal or other advice of a similar nature in relation to the Security Transaction. Other advisers have provided advice in relation to those matters to Danakali in relation to the Security Transaction.

Danakali has acknowledged that the Company's engagement of BDOCF is as an independent contractor and not in any other capacity, including a fiduciary capacity.

The statements and opinions contained in this Report are given in good faith and are based upon our consideration and assessment of information provided by the Company, its executives and management of all the entities.

3.4 Purpose of this Report

An independent expert, in certain circumstances, must be appointed to meet the requirements set out in the Corporations Act 2001 ('the Corporations Act'), the Corporation Regulations 2001 ('the Regulations'), the regulatory guides ('RGs') published by the Australian Securities and Investments Commission ('ASIC') and in some cases the listing requirements of the relevant exchanges. These requirements have been set out in Sections 3.4.1 and 3.4.2 below.

3.4.1 Requirements of the Corporations Acts

This Report has not been prepared for the purpose of complying with any requirements of the Corporations Act.

3.4.2 Listing Requirements

Chapter 10 of ASX Listing Rules

ASX Listing Rule 10.1 states that an entity must ensure that neither it, nor any of its subsidiaries, acquires a substantial asset from, or disposes of a substantial asset to, a substantial holder or a related party without the approval of non-associated shareholders.

ASX Listing Rule 10.2 defines an asset as substantial if its value or the consideration for it is, or in ASX's opinion is, 5% or more of the value of the equity interests of the entity, as set out in the latest accounts given to the ASX in accordance with the ASX listing rules ('Substantial Asset'). Based on ASX Listing Rule 10.1.3, a substantial holder is a person who has relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the voting power of the company ('Substantial Holder').

According to ASX Listing Rule 19, the definition of 'dispose' includes using an asset as collateral and disposing of part of an asset. To secure a liability against a company's assets creates an obligation to dispose of the company's assets in the event the company default on the liability.

The Security Transaction involves the granting of security over the assets of Danakali and its associates for all monies and obligations that may become due to the AFC and Afreximbank under the terms of the Facility. As the Security Transaction involves using a Substantial Asset as collateral for the Facility with a Substantial Holder, being AFC, pursuant to ASX Listing Rule 10.1, the Security Transaction requires approval of the Non-Associated Shareholders.

ASX Listing Rule 10.5

Under ASX Listing Rule 10.5, where shareholder approval is sought for the purpose of complying with ASX Listing Rule 10.1, the notice of meeting distributed to shareholders in relation to the transaction must include a report prepared by an independent expert, which states the expert's opinion as to whether the transaction is fair and reasonable to the non-associated shareholders.

This Report has been prepared to comply with the requirements of ASX Listing Rules 10.1, 10.2 and 10.5, having regard to the Security Transaction.

3.5 Current Market Conditions

Our opinions and the analysis set out in this Report are based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time and may have a material impact on the results presented in this Report and result in any valuation or other opinion becoming quickly outdated and in need of revision (particularly as the full impact of the COVID-19 outbreak continues to evolve as at the date of this Report).

In circumstances where we become aware of and believe that a change in these conditions, prior to the Meeting, results in a material statement in this Report becoming misleading, deceptive or resulting in a material change in valuation, we will provide supplementary disclosure to Danakali. BDOCF is not responsible for updating this Report following the Meeting or in the event that a change in prevailing circumstance does not meet the above conditions.

3.6 Reliance on Information

Danakali recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDOCF, BDO Services Pty Ltd or any of the partners, directors, agents or associates (together 'BDO Persons'), will be using and relying on publicly available information and on data, material and other information furnished to BDO Persons by Danakali, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

Unless the information we are provided suggests the contrary, we have assumed that the information provided was reliable, complete and not misleading, and material facts were not withheld. The information provided was evaluated through analysis and inquiry for the purpose of forming opinions as to whether or not the Security Transaction is fair and reasonable.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.

Where we relied on the views and judgement of management, the information was evaluated through analysis, inquiry and review to the extent practical. Where we have relied on publicly available information, we have considered the source of the information and completed our own analysis to assist us to determine the reliability of the information. However, in many cases, the information we have relied on is often not capable of external verification or validation and on that basis we provide no opinion or assurance on the information.

The Non-Associated Directors represent and warrant to us, for the purpose of this Report, that all information and documents furnished by Danakali (either by management directly or through advisors) in connection or for use in the preparation of this Report do not contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements therein. We have received representations from the Non-Associated Directors in relation to the completeness and accuracy of the information provided to us for the purpose of this Report.

Under the terms of our engagement, Danakali has agreed to indemnify BDO Persons against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

3.7 Glossary

Capitalised terms used in this Report have the meanings set out in the glossary. A glossary of terms used throughout this Report is set out immediately following the Table of Contents at the start of this Report.

All dollar ('\$') references in this Report are in Australian dollars unless otherwise stated.

3.8 Sources of Information

This Report has been prepared using information obtained from sources including the following:

- ▶ Danakali annual report for the year ended 31 December 2017;
- ▶ Danakali annual report for the year ended 31 December 2018;
- ▶ Danakali financial report for the year ended 31 December 2019;
- ▶ Danakali financial report for the year ended 31 December 2020;
- ▶ Danakali ASX announcements;
- ▶ CMSC Shareholders' Agreement, November 2013;
- ▶ Colluli FEED Study, January 2018;
- ▶ Danakali Prospectus, July 2018;
- ▶ CRU Potassium Sulphates and Potassium Nitrate Market Outlook Report - January 2019
- ▶ CRU Potassium Sulphates and Potassium Nitrate Market Outlook Report - January 2021
- ▶ CRU Potash Price Analysis Report, dated 12 March 2020;
- ▶ Capital IQ;
- ▶ MergerMarket;
- ▶ Transaction documents provided in the virtual data room;

- ▶ Other research publications and publicly available data as sourced throughout this Report; and
- ▶ Discussions and correspondence with Danakali, management and their advisers.

3.9 APES 225 Valuation Services

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 *Valuation Services* ('APES 225'). A Valuation Engagement is defined by APES 225 as 'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

3.10 Forecast Information

Any forecast financial information referred to in this Report has originated from the Company's management ('Management') and is adopted by the Company's directors in order to provide us with a guide to the potential financial performance of Danakali. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the forecast financial information since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation between actual results and those forecast may be material.

The directors' best-estimate assumptions on which the forecast is based relate to future event(s) and/or transaction(s) that Management expect to occur and actions that Management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of Danakali. Evidence may be available to support the directors' best-estimate assumptions on which the forecast is based however, such evidence is generally future-oriented and therefore speculative in nature. In certain circumstances, we may adjust the forecast assumptions provided by Management to complete our valuation work. In this instance, the forecasts we have adopted for our valuation work will not be the same as the forecasts provided by Management.

BDOCF cannot and does not provide any assurance that any forecast is representative of results or outcomes that will actually be achieved. While we have considered the forecast information to the extent we considered necessary to complete the analysis set out in this Report, we have not been engaged to provide any form of assurance conclusion on any forecast information set out in this Report. We disclaim any assumption of responsibility for any reliance on this Report, or on any forecast to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of Management, that all material information concerning the prospects and proposed operations of Danakali have been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

3.11 Qualifications

BDOCF has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDOCF holds an Australian Financial Services Licence issued by ASIC for preparing expert reports pursuant to the ASX Listing Rules of the ASX and the Corporations Act.

BDOCF and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Mark Whittaker and Scott Birkett have prepared this Report with the assistance of staff members. Mr Whittaker, BCom (Hons), CA, CFA, and Mr Birkett, BCom/BBusMan, CFA, are directors of BDOCF. Both Mr Whittaker and Mr Birkett have extensive experience in corporate advice and the provision of valuation and professional services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations. Mr Whittaker and Mr Birkett are considered to have the appropriate experience and professional qualifications to provide the advice offered within this Report.

BDO Corporate Finance Ltd



Mark Whittaker
Director



Scott Birkett
Director

PART II: INFORMATION SUPPORTING OUR OPINION ON THE SECURITY TRANSACTION

4.0 Overview of the Security Transaction

This section sets out an overview of the Security Transaction and is structured as follows:

- ▶ Section 4.1 summarises the Security Transaction and its key terms;
- ▶ Section 4.2 details the strategic rationale for the Security Transaction.

This section is a summary only and should not be treated as a complete description of the Security Transaction. The Non-Associated Shareholders should refer to the Notice of Meeting for detailed and additional information relating to the Security Transaction and the key parties involved.

4.1 Summary of the Security Transaction

On 6 December 2018, Danakali announced that CMSC had entered a non-binding indicative term sheet with AFC and Afreximbank for the Facility. AFC and Afreximbank fully underwrote debt facilities totalling US\$200 million, with each party providing US\$100 million, to assist to fund construction and development of the Project.

AFC is an independent, majority private sector owned, multi-lateral African development financial institution providing project structuring expertise and risk capital to address Africa's infrastructure development needs. AFC provides project development, technical advisory, principal investing and financial advisory services. AFC's members currently comprise 26 African member states and two multilateral organisations.

Afreximbank is a Pan-African multilateral financial institution established to finance and promote African trade.

On 23 December 2019, Danakali announced that final binding documentation in relation to the Facility had been executed.

4.1.1 Key Terms and Conditions Precedent

We understand the key terms of the Facility agreement include, but are not limited to, the following:

- ▶ Conditions precedent to the initial drawdown of the Facility, including:
 - The remaining funding required to develop the Project having been secured by additional equity contributions. As at the date of this Report, we understand additional equity capital of at least US\$90 million is required to develop the Project, as set out in Section 5.2.4; and
 - Obtaining other customary approvals, including project development approvals;
- ▶ A term of seven years from financial close, with quarterly repayments;
- ▶ An interest rate of 8.5% per annum above the three month US dollar LIBOR;
- ▶ Restrictions preventing any CMSC shareholder distributions occurring before the satisfaction of the project completion tests or the sixth consecutive repayment has been made to AFC and Afreximbank and subject to compliance with other financial tests; and
- ▶ Project financial completion occurring following the satisfaction of a number of conditions including, the project completion tests, payment of six consecutive principal repayments, an updated base case model and the balances of certain accounts being at the required amounts ('Project Financial Completion').

4.1.2 Security Arrangements

In accordance with the terms of the Facility, Danakali is required to enter into a specific security agreement in relation to its shares in STB Eritrea, which holds the 50% interest in CMSC, and provide security over a cost overrun reserve account to the Secured Parties. Danakali is also required to enter into a featherweight security agreement, which is an all asset security agreement, which secures a nominal amount to avoid administration risk to the Secured Parties where they otherwise would have security over less than all of the assets of an Australian company. In addition, Danakali will guarantee CMSC's obligations to the Secured Parties under the terms of the Facility up until Project Financial Completion occurs.

In accordance with the terms of the Facility, STB Eritrea is required to enter into a security agreement to secure all of its assets to the Secured Parties.

Additionally, in accordance with the terms of the Facility, CMSC is required to enter into certain security agreements to secure all of its assets to the Secured Parties.

Table 4.1 below summarises the key documents comprising this security arrangement in accordance with the terms of the Facility.

Table 4.1: Summary of the Security Arrangement

Document	Parties	Status	Security
Common Terms Agreement	CMSC, Danakali, STB Eritrea, Secured Parties	Executed	► Includes a guarantee from Danakali for CMSC's obligations under the Facility with unlimited recourse until Project Financial Completion has occurred
General Security Agreement	STB Eritrea, Secured Parties	Executed	► Grants all asset security over STB Eritrea's assets
Specific Security Agreement	Danakali, Secured Parties	Final, unexecuted, subject to Danakali shareholder approval	► Grants security over Danakali's shares in STB Eritrea plus a cost overrun account and all of STB Eritrea's assets as security
Featherweight Security Agreement	Danakali, Secured Parties	Executed	► Grants all asset security over the assets in Danakali to a nominal amount in order to avoid administration risk for the Secured Parties
Danakali Account Charge	Danakali, Secured Parties	Executed	► Grants security over the cost overrun account held by Danakali
CMSC Account Charge	CMSC, Secured Parties	Final signed, subject to perfection due to delivery of English Law Securities	► Charge over CMSC's bank accounts
Security Assignment	CMSC, Secured Parties	Final signed, subject to perfection due to delivery of English Law Securities	► Assignment of CMSC's contracts, hedging (if any) and insurance policies, etc.
Onshore Security Agreement	CMSC, STB Eritrea ¹ , ENAMCO ² , Secured Parties	Final, unexecuted, subject to finalisation of key contracts, insurance and hedging agreement	► CMSC pledges or mortgages (as applicable) all Eritrean assets, contracts, etc. as security to the Secured Parties ► STB Eritrea, ENAMCO and associates pledge all shares and future shares in CMSC as security to the Secured Parties

Source: Management, Facility documents

2. Includes Seamus Cornelius, Paul Donaldson and Andre Liebenberg as representatives of STB Eritrea. Refer to Section 5.2.1 for further detail.

3. Includes Hagos Ghebrehiwet and Berhane Habtemariam as representatives of ENAMCO. Refer to Section 5.2.1 for further detail.

With reference to Table 4.1 above, we note the following:

- Pursuant to the Common Terms Agreement, Danakali provides a financial guarantee for 100% of CMSC's obligations under the Facility, with unlimited recourse until Project Financial Completion; and
- ENAMCO has separately provided a financial guarantee for CMSC's obligations under the Facility, with recourse limited at 50% of CMSC's obligations until Project Financial Completion.

4.2 Strategic Rationale for the Security Transaction

The Security Transaction comprises a part of the overall funding package required for the development and construction of the Project. The proceeds from the Security Transaction will be used to commence development and construction of the Project, as well as for general working capital requirements.

The Non-Associated Directors believe the African investment expertise, network and capacity of AFC position them as a strong investment partner for Danakali, providing a platform to attract further investment.

The Non-Associated Directors have advised that they unanimously recommend that the Non-Associated Shareholders vote in favour of the Security Transaction.

5.0 Background of Danakali

This section is set out as follows:

- ▶ Section 5.1 provides an overview and background information on Danakali;
- ▶ Section 5.2 summarises the corporate structure of Danakali;
- ▶ Section 5.3 summarises the equity structure of Danakali;
- ▶ Section 5.4 summarises the share market trading data of Danakali; and
- ▶ Section 5.5 summarises the historical financial information of Danakali.

5.1 Overview of Danakali

5.1.1 Overview

Danakali is an Australian mineral company headquartered in Perth, Western Australia. Founded in 2001, Danakali is focussed on the greenfield development of the Project, a sulphate of potash ('SOP') deposit located in Eritrea, Northeast Africa, and operated as a 50/50 joint venture with ENAMCO, which is owned by the Eritrean Government. SOP contains highly valuable crop nutrients that can be used to promote growth of high value crops including fruits, vegetables and other chloride intolerant crops.

The Company has been listed on the ASX since October 2003, and has held a dual listing on the LSE since July 2018. The Company trades on both exchanges under the code 'DNK'. The Company's rationale for the dual listing was to increase Danakali's profile, liquidity and potential investor reach as it approaches the proposed construction of the Project.

Table 5.1 below provides a summary of the SOP mineral resources and reserves previously publicly reported in accordance with the Australian Joint Ore Resources Committee's ('JORC') code of Reporting Exploration Results, at the Colluli deposit.

Table 5.1: Summary of Resources and Reserves at the Colluli Deposit

Rock unit	SOP Mineral Resources (Mt)				SOP Ore Reserves (Mt)		
	Measured resources	Indicated resources	Inferred resources	Total resources	Proved	Probable	Total reserves
Sylvinitite	90	160	15	265	77	173	250
Carnallitite	80	303	15	398	77	279	356
Kainitite	133	488	5	626	131	363	494
	303	951	35	1,289	285	815	1,100

Source: AMC independent Competent Person's Report, July 2018

5.1.2 The Project

The Project is located in the Danakil Depression region of Eritrea. Colluli is 75km from the Red Sea Coast, 230km from the established port of Massawa and 350km from Eritrea's capital city of Asmara. In addition to the open-pit SOP mine, the Project is planned to consist of the following components:

- ▶ Ore processing facilities;
- ▶ Evaporation ponds;
- ▶ Storage and transport facilities; and
- ▶ An accommodation camp and administration facility.

A front-end engineering design ('FEED') study was completed in January 2018 for the development of the Project across two modules, each with an annual expected production of 472 kilo-tonnes per annum ('ktpa') of high-grade SOP. The second module ('Module II') is planned to commence in the sixth year of production.

As detailed in Table 5.1, the deposit has 1,100 Mt of ore reserves. This enables a mine life of approximately 200 years, assuming average annual production of 944 ktpa.³ The deposit represents the largest known unexploited potash basin and the shallowest evaporite deposit in the world.⁴

³ Danakali Prospectus, July 2018

⁴ Danakali Prospectus, July 2018

5.2 Corporate Structure

5.2.1 The Colluli Joint Venture Agreement

The Project is a joint venture between Danakali's wholly-owned subsidiary, STB Eritrea, and ENAMCO. Each entity ultimately owns 50% of the joint venture company, CMSC. Table 5.2 below sets out the shareholdings of CMSC as at the date of this Report.

Table 5.2: CMSC Shareholdings

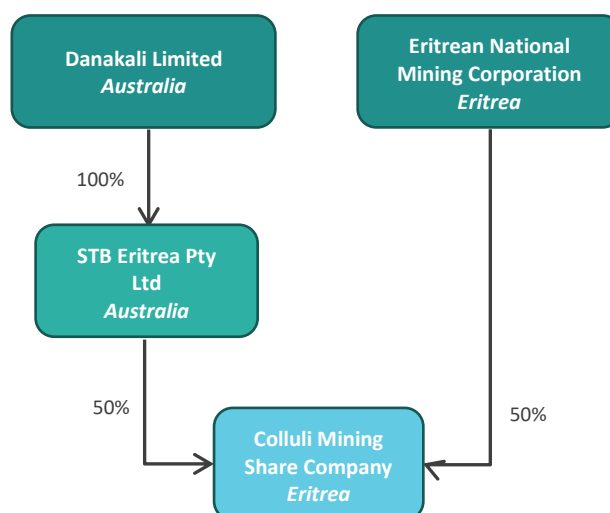
Registered shareholder	Number of Shares	Ultimate owner
Mr. Seamus Cornelius (on behalf of STB Eritrea)	153,943	STB Eritrea
Mr. Andre Liebenberg	1	STB Eritrea
Mr. Paul Donaldson	1	STB Eritrea
Mr. Berhane Habtemariam	1	ENAMCO
Mr. Hagos Ghebrehiwet (on behalf of ENAMCO)	153,944	ENAMCO
Total shares on issue	307,890	

Source: Danakali management

In accordance with the terms of CMSC's shareholders' agreement and memorandum of association (the 'Shareholders' Agreement'), the shares in CMSC registered to Mr. Cornelius, Mr. Liebenberg and Mr. Donaldson are ultimately owned by STB Eritrea, and the shares registered to Mr. Habtemariam and Mr. Ghebrehiwet are ultimately owned by ENAMCO.

Figure 5.1 below summarises the ultimate ownership structure of CMSC.

Figure 5.1: Joint Venture Structure



Source: Management

The Shareholders' Agreement sets out the agreed upon CMSC board composition, which comprises five directors including, three directors appointed by Danakali through STB Eritrea, and two appointed by ENAMCO.

All estimates of mineral resources and ore reserves, schedules of production, future revenue, cost schedules and other qualitative information relating to the Project set out in this Report are based on 100% ownership.

5.2.2 Mining Agreement and Licences

In January 2017, CMSC and the Government of the State of Eritrea entered into a mining agreement ('the Mining Agreement'), which obliges CMSC to spend US\$200 million on infrastructure and development within 36 months of giving formal notice to Eritrea's Ministry of Energy and Mines of the commencement of the Project's development. Formal notice for the commencement of development has been submitted following the receipt of Tranche 1 and acceptance was received from Eritrea's Ministry of Energy and Mines in July 2020.

The Mining Agreement provides CMSC with exclusive rights to exploit an array of salts within the entire 1.3 billion tonne mineral resource. Seven mining licences have been awarded to CMSC, spanning 60 square kilometres of the 100 square kilometre Mining Agreement area.

5.2.3 The EuroChem Offtake Agreement

In June 2018 Danakali announced that CMSC had entered into a binding offtake agreement ('the Offtake Agreement') with EuroChem Trading GmbH ('EuroChem'). The terms of the Offtake Agreement require EuroChem to purchase, market and distribute at least 87% and up to 100% of the SOP product produced in Module I of the Project.

The Offtake Agreement has a term of 10 years from the date of commissioning of the Colluli SOP processing plant, with the option to extend for an additional three years if mutually agreed. EuroChem may terminate the Offtake Agreement if the Project's commercial production has not commenced by 1 July 2022. Either CMSC or EuroChem may terminate the Offtake Agreement if the first debt drawdown has not occurred within 14 months of signing the Offtake Agreement. As at the date of this Report, this 14 month period has lapsed, enabling either party to terminate the Offtake Agreement at their discretion (though we are instructed this has not occurred).

5.2.4 Joint Venture Funding

The Shareholders' Agreement enables CMSC to borrow up to 70% of initial development capital from third parties, prior to the first product shipment under an offtake agreement. To the extent that 70% of initial development capital cannot be sourced from external parties, STB Eritrea will provide interest bearing debt to CMSC up to this 70% level. The remaining 30% of initial development capital is to be funded by STB Eritrea via an interest-free loan from STB Eritrea (15%) and equity contribution (15%) from STB Eritrea. The equity contribution from STB Eritrea will be allocated as between STB Eritrea and a deemed contribution by ENAMCO on a 50/50 basis for the initial development capital. ENAMCO is not obliged to provide any funding for the equity contribution. Subsequent to first production, any shareholder contributions will be provided based on shareholding.

The total capital expected to be required for the development of Module I is US\$322 million, as set out in Table 5.3 below. Assuming the Security Transaction is successfully completed, CMSC will require a further US\$90 million to secure sufficient funding to finalise construction (based on current estimates). Management have advised that this shortfall is expected to be funded through a mix of debt and equity instruments.

Table 5.3: Development Capital Sources and Uses (US\$, millions)

Sources	Uses	
The Facility	200 CMSC development capital	302
The Placement	20 CMSC working capital	20
Cash Reserves	4 (Sunk Costs)	(8)
Unfunded	90	
Total	315 Total	314

Source: Management

Debt Funding

Danakali's process for obtaining third party debt funding for CMSC to finance the construction and development of Module I included the following:

- ▶ In June 2015, Danakali appointed Endeavour Financial as its debt advisor to evaluate potential funding options and cited ongoing discussions with potential strategic investors;
- ▶ Upon completion of the definitive feasibility study in January 2016, Danakali announced engagements with a number of interested parties with the objective of commencing construction by the end of 2016;
- ▶ Commencing in the June 2016 quarter, Danakali worked towards a procurement strategy to support funding discussions and in January 2017, announced the appointment of Fluor to assist. Fluor is a global engineering company with experience in arranging procurement-based financing for mining projects. Information from the procurement package was to be used to explore potential export credit loans and loan guarantees;
- ▶ During the March 2017 quarter, the Project become fully permitted following the award of the requisite mining licenses and the signing of the mining agreement between CMSC and the Eritrean Ministry of Energy and Mines;
- ▶ During the June 2017 quarter, Endeavour identified potential Export Credit Agencies and development fund institutions. Concurrent to this, Danakali maintained discussions with selected lenders regarding a procurement based solution;

- ▶ Following the September 2017 quarter, Danakali announced a shift in focus to securing funding following signing of mining agreements and licenses. Meanwhile, discussions with potential financiers progressed into non-disclosure agreements;
- ▶ In the March 2018 quarter, Danakali announced the completion and released the results of the FEED study, which has allowed the Project to advance into engineering and construction upon securing funding;
- ▶ Danakali announced a formal commencement of the funding process during the March 2018 quarter through the provision of a debt information memorandum to potential financiers;
- ▶ The mandate for a fully underwritten US\$200 million senior debt facility was executed in December 2018 following the signing of a non-binding indicative term sheet. At the same time, Danakali announced that it was still working towards obtaining the remaining funding required to reach financial close of Module I; and
- ▶ In August 2019, CMSC received formal credit approval for the Facility, equally funded by AFC and Afreximbank.

Final debt documentation was executed in December 2019, with the funds to be provided for seven years and available for up to 24 months from financial close, subject to satisfaction of conditions precedent. Further information relating to the Facility is set out in Section 4.1 of this Report.

Equity Funding

In its consideration of various funding options, the directors of Danakali recognised a strategic equity investment as an important step in achieving project financing. Accordingly, this was determined to be a key focus area for Management and a strategic equity investment process ('SEIP') was launched.

The below timeline ensued:

- ▶ A formal launch of the SEIP commenced in January 2018, following the release of the Project's FEED study, initially targeting completion of the SEIP during 2018;
- ▶ Danakali was unable to establish an agreement with prospective parties during 2018, however, the SEIP continued with ongoing engagement with potential strategic equity partners;
- ▶ Danakali engaged Standard Chartered Bank in early 2019 as its corporate adviser to assist with the SEIP;
- ▶ Throughout 2019, Danakali and Standard Chartered Bank held discussions with potential strategic equity partners and assessed a range of funding options; and
- ▶ On 3 December 2019, Danakali announced that it had entered into a subscription agreement with AFC Equity relating to a placement, being the proposed issue of fully paid ordinary shares in Danakali to raise US\$50 million. The placement was to comprise two tranches, as follows:
 - Tranche 1: 52,958,908 new shares issued to AFC Equity at an issue price of \$0.60 per share to raise US\$21.5 million (\$31.8 million). On 10 December 2019, Danakali announced that it had successfully raised \$31.8 million via the issue of the Tranche 1 shares, representing an ownership interest in Danakali of 14.42%; and
 - Tranche 2: 70,042,323 new shares at the same issue price as Tranche 1 to raise the remaining US\$28.5 million (\$42.0 million). We understand that Tranche 2 has not been issued as at the date of this Report and that Management no longer expect Tranche 2 to complete.

5.3 Equity Structure of Danakali

5.3.1 Ordinary Shares

As at 11 June 2021, Danakali had 367,254,346 ordinary shares on issue. The top 10 shareholders are set out on an individual entity basis in Table 5.4 as at 11 June 2021.

Table 5.4: Top 10 Shareholders

Shareholders	Number of Shares	Percentage Holding
1 AFC Equity Investments Limited	52,958,908	14.42%
2 Citicorp Nominees Pty Limited	47,791,261	13.01%
3 J P Morgan Nominees Australia Pty Limited	28,904,198	7.87%
4 HSBC Custody Nominees (Australia) Limited	18,195,743	4.95%
5 Mr Liam Raymond Cornelius	13,312,515	3.62%
6 BNP Paribas Noms Pty Ltd <Drp>	10,621,064	2.89%
7 BNP Paribas Nominees Pty Ltd Six Sis Ltd <DRP A/C>	8,691,304	2.37%
8 BNP Paribas Nominees Pty Ltd <IB AU Noms Retail client DRP>	7,359,085	2.00%
9 Merrill Lynch (Australia) Nominees Pty Limited	7,174,165	1.95%
10 Element 25 Limited	6,001,331	1.63%
Other Shareholders	166,244,772	45.27%
Total shares on issue	367,254,346	100.00%

Source: Share register as at 11 June 2021

Having regard to the information set out in Table 5.4 above, we note:

- ▶ As at 11 June 2021, Danakali has 367,254,346 fully paid ordinary shares outstanding, of which the top ten shareholders hold 54.73%; and
- ▶ AFC Equity is the Company's largest shareholder, with a 14.42% interest in the Company. AFC Equity became a substantial shareholder on 10 December 2019 after acquiring 52,958,908 Danakali shares. Prior to this, AFC Equity held no interest in Danakali.

5.3.2 Unlisted Securities on Issue

As at 6 May 2021, Danakali has 5,624,112 total unlisted securities on issue, including 360,000 performance rights and 5,264,112 options.

Performance Rights

Long-term share-based incentives in the form of performance rights have been made available to Danakali's key management personnel and employees, which entitles them to receive ordinary shares upon achieving project milestones within certain timeframes. Danakali has 360,000 performance rights on issue, exercisable subject to the vesting conditions set out in Table 5.5 below.

Table 5.5: Danakali Performance Rights

Performance Rights Class	Number Outstanding	Vesting Conditions
Class 1	280,000	▶ Completion of securing finance for the development of the Project.
Class 5	80,000	<ul style="list-style-type: none"> ▶ 60,000 at the 6-month construction mark if safety, costs and the schedule are on target; and ▶ 20,000 upon completion of commissioning and performance testing to meet contractual requirements.
Total	360,000	

Source: Appendix 2A - (6 May 2021), 2020 Annual Report, Management

With reference to Table 5.5 above, we note that Class 2, 3, 4, 6, 7, 8 and 9 performance rights were either exercised or cancelled between issue and the date of this Report.

Options

Options over ordinary Danakali shares are issued to key management personnel as remuneration, convertible into one ordinary share each when exercised. Danakali's options outstanding are subject to the continued employment of the relevant key management personnel, and some tranches are subject to certain vesting conditions.

Table 5.6 summarises the options outstanding.

Table 5.6: Danakali Remuneration Options

Expiration Date	Number Outstanding	Exercise Price
24 January 2022	1,168,272	\$1.031
24 January 2022	301,040	\$1.031

Expiration Date	Number Outstanding	Exercise Price
13 March 2022	583,000	\$1.108
28 March 2022	561,800	\$1.119
30 May 2022	1,450,000	\$1.114
8 July 2023	200,000	\$0.664
3 December 2023	250,000	\$0.501
29 January 2023	500,000	\$0.527
24 March 2023	250,000	\$0.780
Total	5,264,112	

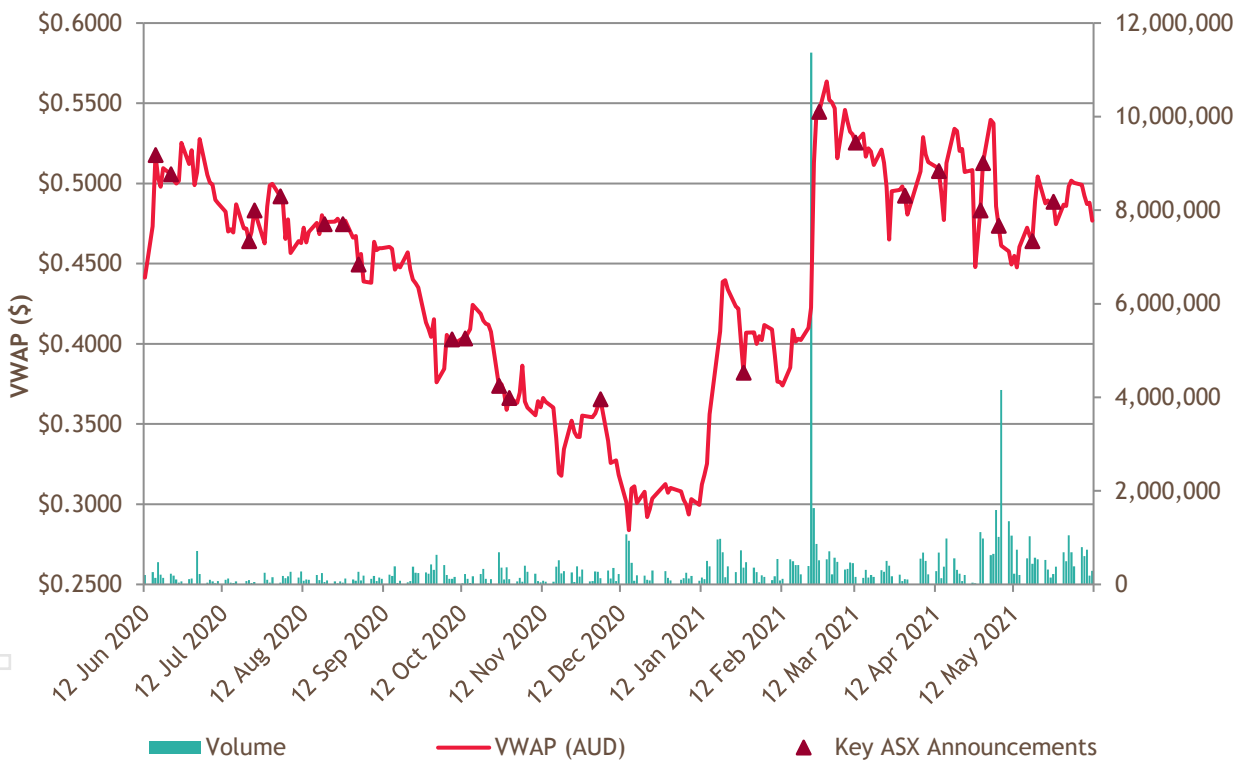
Source: Appendix 2A - (6 May 2021), Appendix 3B - (29 April 2021), Management

5.4 Share Performance of Danakali

5.4.1 Share Price Performance

Danakali shares are traded on the ASX, LSE and Chi-X Australia ('CHIA'). Figure 5.2 displays the daily VWAP in Australian dollars, total daily volume of Danakali shares traded on the ASX, LSE and CHIA, and Danakali's ASX announcements over the period from 12 June 2020 to 11 June 2021.

Figure 5.2: Daily VWAP and Volume of Danakali Shares Traded from 12 June 2020 to 11 June 2021



Source: Capital IQ as at 11 June 2021

Over the period graphed in Figure 5.2 above, Danakali's daily VWAP displays a period low of \$0.2838 on 15 December 2020 and a period high of \$0.5636 on 1 March 2021.

In addition to the share price and volume data of Danakali shown above, we have also summarised Danakali's key ASX announcements in Table 5.7 below to assist readers to understand the possible reasons for the movement in Danakali's share price over the period analysed. The selected ASX announcement references in Table 5.7 below correspond to those displayed in Figure 5.2 above.

Table 5.7: Selected Danakali ASX Announcements from 12 June 2020 to 11 June 2021

Date	Announcement
16/06/2020	Danakali releases its first Sustainability Report for the Project, which outlines ongoing and planned contributions of the Project to Sustainable Development in Eritrea.
22/06/2020	Danakali announces that draft EPCM Phase 2 deliverables, including Capital Estimate and Project Schedule, have been received from DRA Global and the test work necessary to advance the project has commenced.
22/07/2020	Danakali announces that the Notice of Commencement of Mine Development which was lodged with the Eritrean Ministry of Energy and Mines ('MoEM') has been accepted and approved by the MoEM.

Date	Announcement
24/07/2020	Danakali releases activities report for the quarter ending 30 June 2020 announcing the completion of EPCM Phase 2 by DRA Global subject to additional test work having commenced and that AFC remains committed to its US\$150m funding of the Project. Key activities planned include ongoing monitoring of the recovery of the financial markets to focus on the execution of project financing and to complete the additional identified test work to advance the Project.
24/07/2020	Danakali announces the appointment of Canaccord Genuity Limited ('Canaccord') as the Company's sole broker in the United Kingdom. Canaccord will support Danakali's equity raising strategy aimed at closing the funding gap for the financing of the Project.
03/08/2020	Danakali announces the appointment of Neil Gregson as a Director and the retirement of Non-executive Directors Paul Donaldson and Andre Liebenberg, with Paul Donaldson remaining actively engaged with the Company as a Senior Consultant.
20/08/2020	Danakali appoints RA International Group PLC as the Preferred Contractor to Danakali for the construction of camp accommodation, administration and service facilities as well as the provision of integrated facilities management services in support of the Project.
27/08/2020	Danakali reports earnings results for the half year ended 30 June 2020, announcing a \$1.68 million loss for the half year and a cash position of \$15.77 million.
02/09/2020	Danakali announces the completion of EPCM Phase 2, with additional test work identifying optimisation opportunities whilst also providing an updated FEED and Project Schedule.
08/10/2020	Danakali appoints Aggreko as the preferred power supply contractor for the Project.
13/10/2020	Danakali appoints industry expert Rod McEachern as Chief Operating Officer.
26/10/2020	Danakali announces that AFC's Tranche 2 equity investment is unlikely to satisfy all conditions precedent prior to the 21 November 2020 deadline and will not complete in accordance with the terms of the subscription agreement. Danakali maintains that discussions are continuing in good faith with a view to finding a funding structure that will suit both parties
30/10/2020	Danakali releases activities report for the quarter ending 30 September 2020 announcing the approval of mine development, recommencement of on-site activities and completion of EPCM Phase 2. Key activities planned include the advancement of project funding and further testing to discover optimisation opportunities.
04/12/2020	Danakali releases the 2020 Chairman's Letter to shareholders.
28/01/2021	Danakali releases activities report for the quarter ending 31 December 2020 announcing that project test work continues to be undertaken before EPCM Phase 3 (Detailed Design) commences. Key activities planned include ongoing sourcing and negotiations to achieve full project funding and the continuance of testing to discover optimisation opportunities with planned completion late in Q1.
26/02/2021	Danakali announces the re-appointment of current Non-executive Chairman, Seamus Cornelius, as Executive Chairman. As a result, the current CEO, Niels Wage, has been made redundant as part of the reallocation of responsibilities.
12/03/2021	S&P Dow Jones Indices announces that Danakali has been removed from the All Ordinaries Index, effective 22 March 2021.
31/03/2021	Danakali reports earnings results for the full year ended 31 December 2020, announcing an \$8.259 million loss for the year and a decreased cash position from \$33.800 million in 2019 to \$9.739 million in 2020.
13/04/2021	Danakali announces that current CFO Stuart Tarrant has resigned. The current Head of Finance, Greg MacPherson will take on the majority of Stuart's responsibilities with the balance being assumed by the Executive Chairman and existing external accounting support at Bellatrix Corporate.
29/04/2021	Danakali announces the successful completion of a A\$20.3m institutional placement, with certain directors indicating their intention to subscribe for an additional 1,080,000 and 269,768 shares. The proceeds of the placement will be applied towards early works at the Company's Colluli SOP Project, including site road development, geotechnical optimisation, reverse osmosis plant completion and installation, exploration camp relocations, RA International mine camp installation and general working capital requirements.
30/04/2021	Danakali releases activities report for the quarter ending 31 March 2021 announcing that process test work, which is necessary to determine final process equipment selection, is currently underway. Additionally, the Company have commenced an investigation to compress the Project development schedule, have completed negotiations with Aggreko for the supply of a 12MW power plant and negotiations with the preferred camp provider have materially completed. Key activities planned include finalising process test work and the contracts for the supply of the power plant and for the supply of accommodation and other infrastructure.
30/04/2021	Danakali releases its annual report to shareholders for the year ended 31 December 2020.
06/05/2021	Danakali confirms that it has issued 47,565,999 new fully paid shares pursuant to the placement announced by the Company on 29 April 2021.
19/05/2021	Danakali announces that the early works program have commenced, with manufacturing of final sections of the Reverse Osmosis Plant, which is expected to be ready for shipment in three to four months.
27/05/2021	Danakali announces that extensive test work has confirmed significant economic, construction, operational and environmental optimisations at the Water Intake Treatment Area using filtered sea water. This test work has confirmed that filtered sea water is a reliable, unlimited and economic option in Colluli's SOP production process and will reduce capital, operating and sustaining expenditures over the life of the mine.

Source: Capital IQ, Danakali ASX Announcements from 12 June 2020 to 11 June 2021

5.4.2 Share Liquidity

The rate at which equity instruments are traded is generally referred to as the 'liquidity' of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, particularly depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

In the 12 months prior to 11 June 2021, 86.54% of Danakali's trading volume occurred through the ASX, 11.15% through CHIA and 2.32% through the LSE.

Table 5.8 summarises the monthly liquidity of Danakali shares as traded on the ASX, LSE and CHIA from 12 June 2020 to 11 June 2021. Liquidity has been summarised by considering the following:

- ▶ Volume of Danakali share trades per month;
- ▶ Value of total trades in Danakali shares per month;
- ▶ Number of Danakali shares traded per month as a percentage of total Danakali shares outstanding at the end of the month; and
- ▶ Volume weighted average price per month.

Table 5.8: Liquidity of Danakali Shares

Month	Volume	Turnover (A\$)	Shares Outstanding	Volume / Shares Outstanding	Monthly VWAP (A\$)
June 2021 (to 11th)	5,233,340	2,585,271	367,254,350	1.42%	\$0.4940
May 2021	17,007,930	8,074,705	360,459,200	4.72%	\$0.4748
April 2021	8,062,030	4,105,478	319,688,350	2.52%	\$0.5092
March 2021	7,229,170	3,801,303	319,688,350	2.26%	\$0.5258
February 2021	18,892,130	8,186,425	319,214,830	5.92%	\$0.4333
January 2021	7,009,290	2,694,821	318,741,310	2.20%	\$0.3845
December 2020	5,746,060	1,797,884	318,741,310	1.80%	\$0.3129
November 2020	4,120,080	1,427,849	318,741,310	1.29%	\$0.3466
October 2020	4,959,390	1,937,414	318,741,310	1.56%	\$0.3907
September 2020	4,038,830	1,774,855	318,741,310	1.27%	\$0.4394
August 2020	2,575,760	1,214,150	318,741,310	0.81%	\$0.4714
July 2020	2,387,730	1,177,339	318,741,310	0.75%	\$0.4931
June 2020 (from 20)	2,291,460	1,139,461	318,741,310	0.72%	\$0.4973
Total	89,553,200	39,916,955	324,142,070	27.63%	\$0.4457

Source: Capital IQ as at 11 June 2021

Assuming a weighted average number of 324,142,070 Danakali shares on issue over the period, 27.63% of the total shares on issue were traded from 12 June 2020 to 11 June 2021. In our view, this indicates that Danakali shares display a relatively low level of liquidity.

5.5 Historical Financial Information of Danakali

This section sets out the historical financial information of Danakali. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in Danakali's annual reports, including the full statements of profit or loss and other comprehensive income, statements of financial position and statements of cash flows.

Danakali's financial statements have been audited by Ernst and Young. BDOCF has not performed any audit or review of any type on the historical financial information of Danakali and we make no statement as to the accuracy of the information provided. However, we have no reason to believe that any of the information provided is false or misleading.

All financial information set out in this Section 5.5 is displayed in Australian dollars.

5.5.1 Uncertainty Related to Going Concern Assumption

Ernst and Young's audit report for the financial year ended 31 December 2017, 2018, 2019 and 2020 include emphasis of matter paragraphs emphasising the existence of material uncertainty in relation to Danakali's ability to continue as

a going concern. Danakali's ability to continue as a going concern as at the date of the respective audit and review reports was dependent on the Company raising additional capital.

5.5.2 Statements of Profit or Loss and Other Comprehensive Income

Table 5.9 summarises the consolidated statement of profit or loss and other comprehensive income of Danakali for the financial years ended 31 December 2017 ('FY17'), 2018 ('FY18'), 2019 ('FY19') and 2020 ('FY20').

Table 5.9 Summarised Danakali Statements of Profit or Loss and Other Comprehensive Income

	12 Months Ended 31-Dec-17 Audited (\$'000)	12 Months Ended 31-Dec-18 Audited (\$'000)	12 Months Ended 31-Dec-19 Audited (\$'000)	12 Months Ended 31-Dec-20 Audited (\$'000)
Interest income	221	172	81	72
Accretion relating to unwinding of discount on joint venture loan	1,363	-	-	-
Net profit on financial assets at fair value through profit or loss	-	-	4,401	-
Share of net gain of joint venture	-	-	-	15
Other income	4	983	2	118
Total revenue and other income	1,588	1,155	4,484	205
Depreciation expense	(4)	(8)	(6)	(4)
Administration expense	(1,684)	(2,748)	(2,780)	(3,493)
Loss on disposal of plant and equipment	-	-	(3)	(3)
Share based payment expense	(989)	(91)	(730)	(420)
Loss on re-measurement of loan to joint venture carried at amortised cost	(217)	-	-	-
Net loss on financial assets at fair value through profit or loss	-	(4,863)	-	(2,670)
Share of net loss of joint venture	(5,111)	(389)	(2,957)	-
Other expenses	(424)	-	(1,156)	(1,873.5)
Total expenses	(8,428)	(8,099)	(7,633)	(8,464)
Loss before income tax	(6,840)	(6,944)	(3,149)	(8,259)
Income tax expense	-	-	-	-
Loss for the period	(6,840)	(6,944)	(3,149)	(8,259)
Share of foreign currency translation reserve relating to equity accounted investment	(934)	874	(18)	(1,550)
Comprehensive loss for the period	(7,774)	(6,070)	(3,167)	(9,809)

Source: Danakali 2017, 2018, 2019 and 2020 Annual Reports

With reference to Table 5.9 above, we note the following:

- ▶ Danakali has not generated revenue from operations to date, given that SOP production from the Project has not yet commenced;
- ▶ Interest income relates to interest generated on cash and cash equivalents;
- ▶ Danakali provides loans to CMSC to fund its operations. During FY17, these loans were measured at amortised cost. From 1 January 2018 onwards, Danakali adopted AASB 9 *Financial Instruments*, resulting in the recognition of its loans to CMSC at fair value through profit or loss. The impact of these loans on Danakali's statements of profit or loss and other comprehensive income included:
 - Accretion relating to the unwinding of the discount on loans receivable (discounted at 25%) of approximately \$1.36 million in FY17;
 - Losses on the re-measurement of loans of \$0.22 million in FY17, resulting from changes to loan repayment profiles following feasibility and FEED study results and expected construction timing;
 - A net loss of \$4.86 million in FY18 relating to an update of the loan repayment profile to reflect the timing of project financing, completion of construction and alignment to indicative debt financing terms;
 - A net gain of \$4.40 million in FY19 relating to the unwinding of the discount on loans receivable (discounted at 21%);
 - A net loss of \$2.67 million in FY20 relating to the unwinding of the discount on loans receivable (discounted at 21%)

- ▶ Administration expenses increased from \$0.39 million in FY17 to \$1.39 million in FY18 due to an increase in compliance and regulatory expenses as a result of the LSE listing and corporate transactions. Other administration expenses include employee benefits, director fees and operating lease payments;
- ▶ Danakali's 50% share of CMSC, which is accounted for using the equity method, contributed a \$5.1 million loss in FY17 and a \$2.96 million loss in FY19. This represents a significantly higher loss than FY18 and FY20, due to increased exploration and evaluation expenditure in FY17 and FY19;
- ▶ Other income refers to foreign exchange gains and sundry income. Danakali recorded a foreign exchange gain of \$0.98 million in FY18 relating primarily to the loan to CMSC; and
- ▶ Other expenses include foreign exchange losses of \$0.42 million (FY17), \$1.16 million (FY19) and \$1.87 million (FY20) relating primarily to the loan to CMSC, and other sundry items.

5.5.3 Statements of Financial Position

Table 5.10 summarises Danakali's statements of financial position as 31 December 2017, 2018, 2019 and 2020.

Table 5.10: Summarised Danakali Consolidated Statements of Financial Position

	As at 31-Dec-17 Audited (\$'000)	As at 31-Dec-18 Audited (\$'000)	As at 31-Dec-19 Audited (\$'000)	As at 31-Dec-20 Audited (\$'000)
ASSETS				
Current assets				
Cash and cash equivalents	15,560	9,551	33,800	9,739
Trade and other receivables	174	108	282	103
Prepayments	50	17	270	412
Total current assets	15,784	9,677	34,352	10,254
Non-current assets				
Receivables	12,217	9,284	15,205	12,504
Investment in joint venture	13,812	19,829	27,976	34,194
Plant and equipment	15	23	14	12
Total non-current assets	26,044	29,136	43,195	46,711
TOTAL ASSETS	41,828	38,813	77,546	56,965
LIABILITIES				
Current liabilities				
Trade and other payables	1,097	224	11,795	726
Provisions	166	86	81	73
Total current liabilities	1,263	310	11,875	799
Non-current liabilities				
Provisions	28	59	45	66
Total non-current liabilities	28	59	45	66
TOTAL LIABILITIES	1,291	369	11,921	865
NET ASSETS	40,537	38,444	65,626	56,100
EQUITY				
Issued capital	75,415	79,576	109,195	109,058
Reserves	12,522	13,211	13,923	12,793
Accumulated losses	(47,399)	(54,344)	(57,492)	(65,752)
TOTAL EQUITY	40,537	38,444	65,626	56,100

Source: Danakali 2017, 2018, 2019 and 2020 Annual Reports

With reference to Table 5.10 above, we note the following:

- ▶ Cash and cash equivalents have fluctuated each period depending on the timing of capital raising and CMSC's funding requirements for the Project;
- ▶ Non-current assets, primarily comprising loans receivable and investments in the CMSC joint venture, have steadily increased since 2015 as Danakali provides increased funding to CMSC in preparation for the Project's development;
- ▶ Provisions relate to employee entitlements for annual leave and long service leave;
- ▶ Danakali issued equity capital with proceeds totalling \$13.66 million (FY17), \$4.16 million (FY18) and \$32.29 million (FY19) to fund its operations and progress towards commencement of the Project; and
- ▶ Reserves include share-based payment reserves, specifically employee and contractor share options and performance rights recognised at fair value, and foreign currency translation reserves, which arise due to the foreign nature of the CMSC joint venture.

5.5.4 Statements of Cash Flows

Table 5.11 summarises Danakali's statement of cash flows for FY17, FY18, FY19 and FY20.

Table 5.11: Summarised Danakali Consolidated Statements of Cash Flows

	12 Months Ended 31-Dec-17 Audited (\$'000)	12 Months Ended 31-Dec-18 Audited (\$'000)	12 Months Ended 31-Dec-19 Audited (\$'000)	12 Months Ended 31-Dec-20 Audited (\$'000)
Cash flow from operating activities				
Interest received	232	172	82	72
Realised foreign exchange gain/(loss)	72	39	-	-
Payments to suppliers and employees	(1,583)	(3,641)	(2,620)	(2,953)
Net cash used in operating activities	(1,280)	(3,430)	(2,539)	(2,882)
Cash flows used in investing activities				
Funding of joint venture	(7,711)	(6,448)	(4,408)	(17,566)
Payments for plant and equipment	(11)	(16)	-	(6)
Net cash used in investing activities	(7,722)	(6,465)	(4,408)	(17,572)
Cash flows from/(used in) financing activities				
Proceeds from issues of ordinary shares	14,328	3,886	32,413	-
Costs of capital raised	(671)	-	(127)	(3,302)
Net cash flows from financing activities	13,657	3,886	32,286	(3,302)
Net increase/(decrease) in cash and cash equivalents	4,655	(6,009)	25,340	(23,756)
Cash and cash equivalent at the beginning of the financial year	10,905	15,560	9,551	33,800
Net foreign exchange differences	-	-	(1,090)	(305)
Cash and cash equivalent at the end of the financial year	15,560	9,551	33,800	9,739

Source: Danakali 2017, 2018, 2019 and 2020 Annual Reports

With reference to Table 5.11 above, we note the following:

- ▶ Cash flows from operating activities are negative across all periods as Danakali is yet to generate revenue via the Project. Cash outflows are partially offset by interest income and realised foreign exchange gains. Payments to suppliers and employees in FY18 and subsequent years increased due to increased administrative expenses and the higher trade payables balance as at 31 December 2017, which relates to the timing of expenses incurred for the FEED study and other sundry items;
- ▶ The net decrease in cash and cash equivalents of \$6.01 million in FY18 and \$23.76 million in FY20 is primarily due to increased joint venture funding as Danakali ramps up preparation for Project construction. Less capital was raised to offset the deficit in FY18 and FY20 compared to FY17 and FY19;
- ▶ Joint venture funding comprises Danakali's additional loans to and equity investments in CMSC. Danakali loaned additional funds to CMSC totalling approximately \$1.88 million in FY17, \$0.99 million in FY18, \$1.59 million in FY19 and \$1.54 million in FY20. Danakali made additional investments in CMSC of approximately \$6.35 million in FY17, \$5.53 million in FY18, \$11.12 million in FY19 and \$7.75 million in FY20;
- ▶ In FY17, Danakali raised gross proceeds of \$12.35 million in May via a placement at \$0.62 per share and received the balance of share proceeds for the year from exercised options. No capital raises were undertaken in FY18, with all share proceeds received from exercised options, performance rights and share-based fee expense payments;
- ▶ In FY19, Danakali raised gross proceeds of \$31.78 million in December via a placement at \$0.60 per share and received the balance of share proceeds for the year from exercised options. Danakali received no cash inflows from ordinary share issues in FY20; and
- ▶ Net cash outflow from financing activities of \$3.30 million in FY20 is attributable to costs of capital accrued in the previous financial year as a result of the funds received in respect of the placement of shares and the exercise of options.

6.0 Industry Overview

Danakali operates within the global industry of potash exploration and development. This section sets out an overview of these industries.

The information presented in this section has been compiled from a range of publicly available sources, specific subscription data, together with information taken from various databases to which we subscribe. BDOCF has not independently verified any of the information and we recommend that users of this Report refer to the original source of any information listed in this section. This section should be referred to as a broad guide only.

6.1 Potash Overview⁵

6.1.1 Potash Properties and Uses

Potash is a water-soluble potassium bearing salt. Potassium is one of three macronutrients, along with nitrogen and phosphorous, required for plant life and is therefore a key ingredient in crop fertilisers. Potassium improves crop quality, increases nitrogen absorption, increases water use efficiency and improves resistance to parasites and infection.

Sylvinite, known as Muriate of Potash ('MOP'), is the most predominant naturally occurring soluble potassium salt and MOP is responsible for 90% of the global potash market and used on relatively low value chloride tolerant carbohydrate crops, such as wheat and oats.

SOP is a premium potash fertiliser that represents roughly 10% of global potash demand and is distinguishable from MOP by its higher sulphur content and lower chloride content. SOP is preferred for application to chloride sensitive crops such as fruits, vegetables, tobacco and coffee. More profitable crops, known as "cash crops", generally have some level of chloride insensitivity, which is intensified by high application rates and dry, poorly drained soils. Other benefits of SOP include improvements in yield, taste, nutritional value and crop strength.

SOP is typically purchased in three key forms, including:

- ▶ Standard: used in Nitrogen Phosphorous Potassium ('NPK') products;
- ▶ Granular: preferred for bulk blended NPK products; and
- ▶ Soluble: used in liquid fertilisers and fertigation systems due to its high solubility.

6.1.2 Production of SOP

SOP can be produced from primary and secondary sources.

Secondary production is the most common production method and follows the Mannheim process, which involves reacting MOP with sulphuric acid at high temperatures to produce SOP. The process has large energy requirements and high costs associated with purchasing feed products. Chemical reactions in the process produce hydrochloric acid, which is expensive to dispose of and can make secondary production unprofitable. In Europe, the Middle East and East Asia, production volume is limited by the producer's ability to dispose of hydrochloric acid. As a result, secondary producers outside of China are often unable to service the SOP market's demand.

Primary production of SOP occurs directly from natural resources and can involve either:

- ▶ Evaporation and crystallisation from natural salt brines; or
- ▶ Processing of ore containing sylvinite and sulphate salts.

Production from natural brines is currently the most cost effective method, but as it depends on the abundance and economic viability of potassium and sulphate rich brine resources, accounts for roughly one third of global SOP production. The evaporation and crystallisation production method is exposed to the risk of changing weather conditions; solar evaporation operations are hindered by cloudy or cool conditions and brine pools are diluted by rain.

6.2 Global Demand and Supply of SOP

6.2.1 Global Supply⁶

Global production capacity of SOP was estimated to total 11.3 Mt in 2020. The Mannheim process was the most common production method, accounting for 50% of global production in 2020. Natural brine capacity represented 35% of global production in 2020.

The SOP supplier market is relatively fragmented. Despite its popularity, the Mannheim process offers limited potential benefits from economies of scale, as it is a batch process using individual reaction furnaces with limited capacity. In contrast, sulphate rich natural brines are rare, and evaporation operations are typically undertaken on a large scale.

⁵ Danakali Prospectus, July 2018

⁶ CRU Market Outlook Reports

China was responsible for 6.8 Mt of capacity in 2020, and produces SOP in approximately equal proportions via natural brines and the Mannheim process, which involves reacting MOP with sulphuric acid to produce SOP. China is the world's largest producer and consumer with its current production more than ample to meet its domestic demand. Notwithstanding, the country relies on imports for roughly half of the MOP required for Mannheim SOP production and as such, is not self-sufficient in producing potash.

6.2.2 Global Demand

Global SOP demand in 2020 was estimated at 7.1 Mt, implying a global utilisation rate of approximately 63% of the 11.3Mt capacity.⁷

With global population anticipated to reach 9.7 billion by 2050, SOP demand is expected to grow in line with increasing requirements for crop volume and quality.⁸ Global demand is forecast by CRU to reach 7.5 Mt in 2025, implying a compound annual growth rate ('CAGR') of 1.2% from 2020, however, CRU project global demand to grow from 2.99 Mt to 3.26 Mt over the same time period, at a faster CAGR of 1.8%, if China were excluded. Key drivers of SOP demand are outlined in Table 6.1 below.

Table 6.1: Key Demand Drivers in the Potash Industry

Driver	Impact on Demand
Global population growth	As the world's population grows, food requirements intensify and arable land per capita continues to decrease. Given the reduced area, crop characteristics must improve to maximise yields. Potassium, the key nutrient contained in SOP, reduces a plant's susceptibility to disease and improves its ability to be mechanically crushed, thus improving its ability to be processed efficiently.
Dietary preferences shifting towards high value crops	Higher real household disposable income enables consumers to increase spending on a broader range of food products, including high value crops, prompting a shift towards a middle class diet. Increased demand for high value crops such as fruit, vegetables and meat (requiring further crops to feed livestock) necessitates the use of potassium-rich fertilisers, such as SOP. Potassium improves a plant's uptake of nitrogen and thus aids the conversion of nitrogen into protein, ultimately maximising a crop's nutritional value. A large portion of high value foods are chloride intolerant, hence SOP demand is likely to increase in line with dietary preferences.
Increasingly scarce water supply	Global demand for water is forecasted to increase by 55% between 2000 and 2050, with 70% attributable to agriculture. Simultaneously, food production must grow by 69% by 2035. The potassium within SOP plays a key role in ensuring efficient circulation of water within plants, thus improving a plant's resistance to drought and high temperatures.
Under-application of SOP in developing countries	Global chloride intolerant crop area has increased at a CAGR of 0.7% from 2013 to 2018, driven primarily by growth in developing nations. The rates of SOP utilisation in these regions, including India and Africa, have historically been below scientifically recommended levels, resulting in crop potassium deficiencies. This presents potential for expansion of the SOP market, subject to competitive pricing.

Source: Danakali Prospectus, June 2018, Potash Development Association 'The Role of Potash in Plants', May 2015, BBC 'Is the world running out of fresh water?' April 2017, FEED Study, January 2018, CRU Market Outlook Reports

India and China are the world's largest producers of chloride-sensitive crops, however, China is by far the world's largest consumer of SOP, representing on average 58% of global SOP demand from 2018 to 2020. Growth in Chinese demand slowed during 2019 following a sharp increase attributable to large investment in domestic production capacity between 2013 and 2016, but quickly recovered in 2020 to a record high demand of 4.09 Mt, up 15% on the prior year. Studies by CRU anticipate that China is to remain the key driver of global SOP consumption, with good growth prospects in Latin America, the Middle East, Southeast Asia and Africa.

At 18% of global demand, Europe is the second largest consumer of SOP, applied either directly as fertiliser in Mediterranean countries or in the manufacture of chloride-free NPKs at facilities in countries such as Belgium, Norway and Finland. Chloride-free fertilisers are less important in North America, accounting for 5% of global demand. Most demand stems from western part of the United States where the majority of nut, fruit and vegetable farming takes place.

Estimates by CRU indicate that standard grade SOP dominates demand in Europe and Asia, accounting for 77% of global demand. Granular SOP is more popular in American markets and represents approximately 15% of global demand, with soluble grade SOP representing 8% and the market concentrated around the Mediterranean basin.⁹

⁷ CRU Market Outlook Reports

⁸ United Nations 'World Population Prospects 2019', June 2019

⁹ CRU Research

6.2.3 Potash Pricing

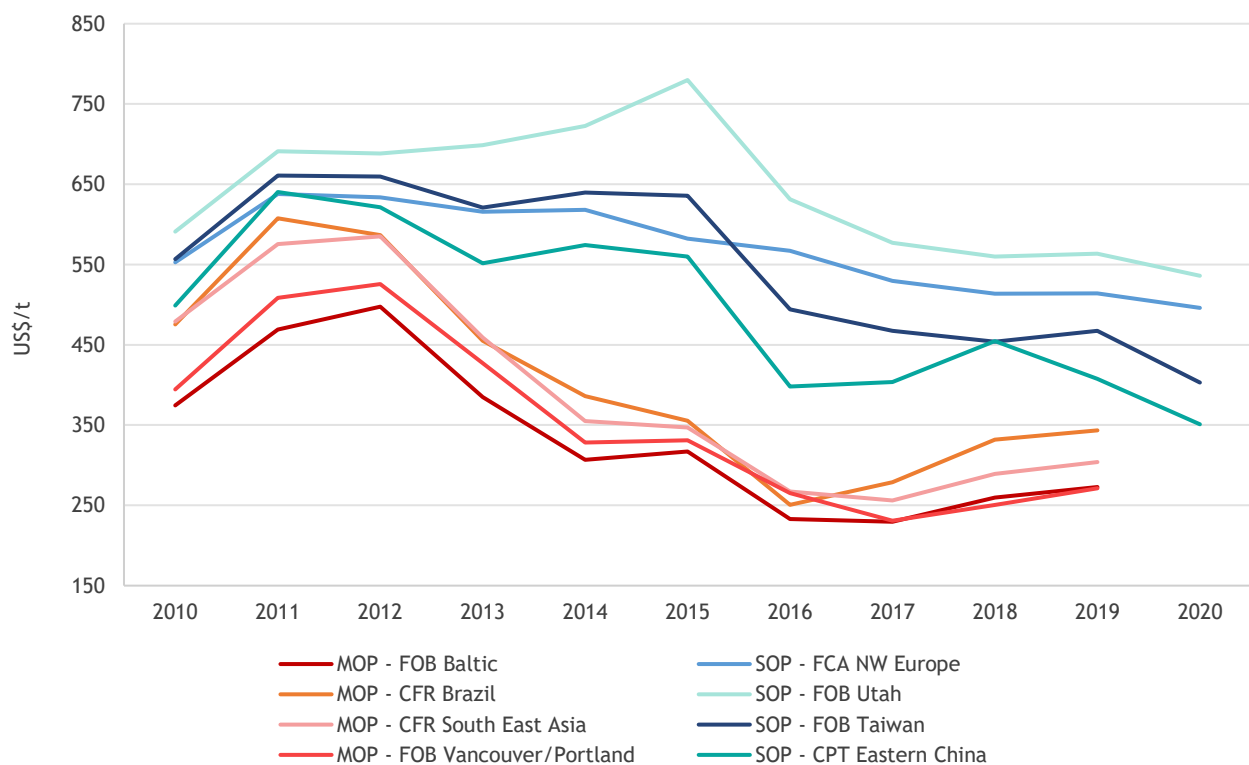
Potash pricing can differ between products based on differences in the potassium mineral form, processing methods and capacity and number of economic potassium resources. MOP pricing represents the price floor of the global potash market. The reasons for the price premium of SOP over MOP include:

- ▶ SOP product is relatively scarce;
- ▶ Primary SOP production methods are insufficient to meet market demand, thus MOP must be chemically converted at higher costs to produce SOP; and
- ▶ SOP is used in the premium crop sector, where crop margins offset the cost of high value fertilisers.

As such, the spread between MOP and SOP pricing is an indicator of the profitability and conversion costs of secondary producers.

SOP prices have historically remained resilient in the face of deteriorating MOP prices due to limited supply and robust demand based on chloride intolerant crop requirements. Figure 6.1 below sets out historical SOP and MOP pricing from 2010 through to 2020 for various regions.

Figure 6.1: Historical SOP and MOP Prices (US\$/t)¹⁰



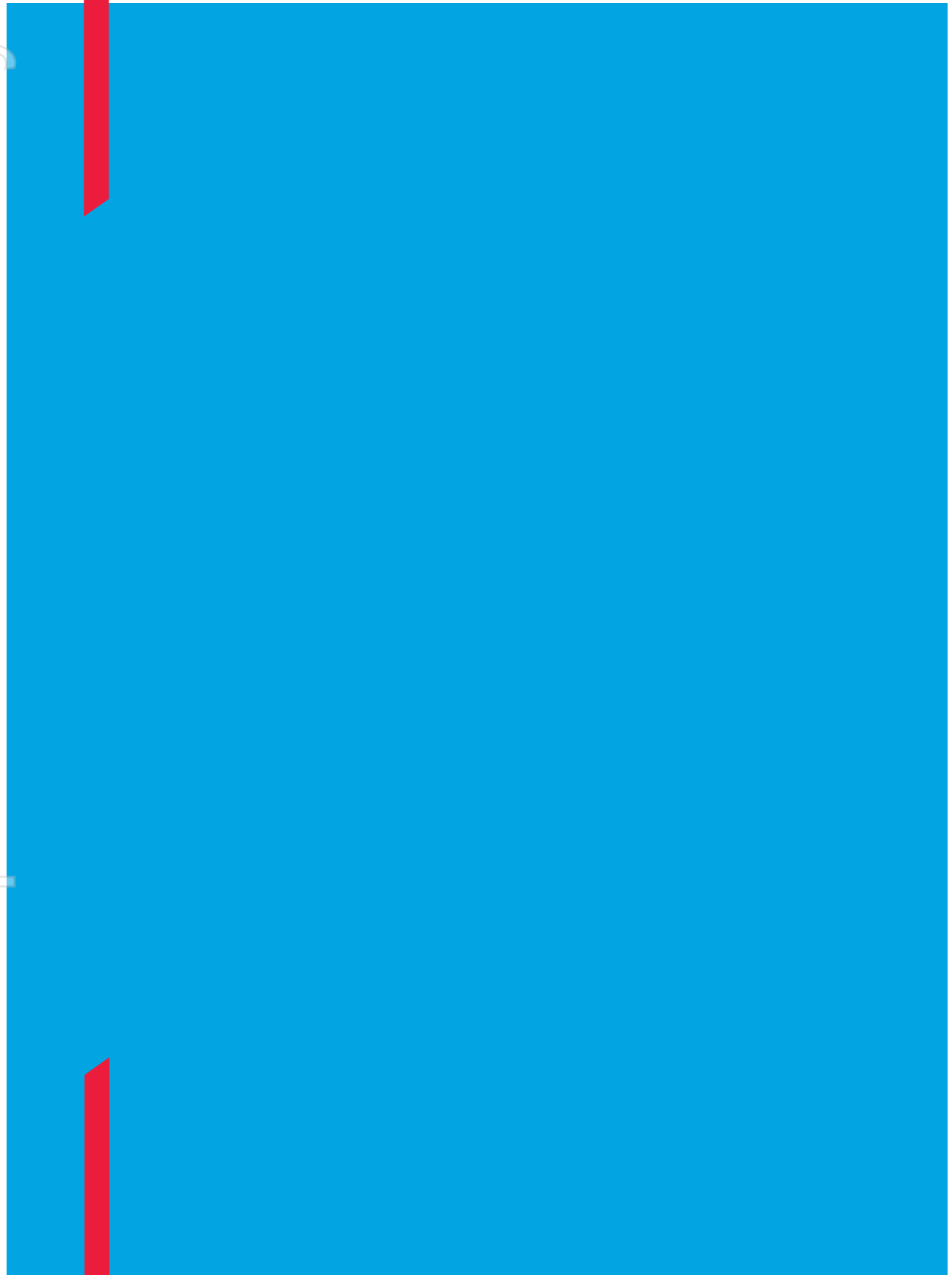
Source: CRU Potash Price Analysis Report and supporting documents

Production economics favour the primary method, as most secondary producers must purchase MOP feedstock to produce SOP and are therefore exposed to market price fluctuations. Secondary producers are also highly susceptible to variations in energy utility costs and sulphuric acid pricing. However, mineral extraction and processing costs associated with the primary method can be significant, diminishing the cost benefits of primary over secondary SOP production at lower MOP prices.

CRU research has highlighted that the relative stability of SOP pricing since 2010 has created growing interest in the development of new primary production facilities. Whilst global capacity is expected to increase, demand and supply dynamics suggest a tightening environment with positive pricing movement. Growth in demand outside of China is anticipated to play a key role in raising utilisation rates, and will require intensive marketing and education of SOP to encourage consumption.

¹⁰ 2010-2019 pricing data is reported in real US\$ and 2020 pricing data is reported in nominal US\$. 2020 MOP pricing data is unavailable.

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+61 3 9415 4000 (outside Australia)



Online:
www.investorcentre.com/contact



YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **10:00 AM (AWST)** on **Wednesday, 28 July 2021**.

Proxy Form

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

PARTICIPATING IN THE MEETING

Corporate Representative

If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Lodge your Proxy Form:

XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is



Control Number: 999999
SRN/HIN: I9999999999
PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
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SAMPLE ESTATE
SAMPLEVILLE VIC 3030



Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark ☒ to indicate your directions

Step 1

Appoint a Proxy to Vote on Your Behalf

XX

I/we being a member/s of Danakali Limited hereby appoint

☐

the Chairman
of the Meeting

OR

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Danakali Limited to be held at The Celtic Club, Presidents Room, 48 Ord Street, West Perth, Western Australia on Friday, 30 July 2021 at 10:00 AM (AWST) and at any adjournment or postponement of that meeting.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Resolutions 1 and 11 (except where I/we have indicated a different voting intention in step 2) even though Resolutions 1 and 11 are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

Important Note: If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Resolutions 1 and 11 by marking the appropriate box in step 2.

Step 2

Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain			For	Against	Abstain
1	Non-Binding Resolution to adopt Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10	Approval of the grant of Security to AFC under the Senior Debt Facility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Election of Neil Gregson as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11	Issue of Options to Related Party - Seamus Cornelius	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Re-election of Robert Connochie as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>					
4	Ratification of Prior Issue of 15,597,165 Shares – Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>					
5	Ratification of Prior Issue of 31,968,834 Shares - Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>					
6	Issue of Shares to Related Party - Seamus Cornelius	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>					
7	Issue of Shares to Related Party - Neil Gregson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>					
8	Amendment to Constitution (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>					
9	Approval of 7.1A Mandate (Special Resolution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>					

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3

Signature of Securityholder(s)

This section must be completed.

Individual or Securityholder 1

Sole Director & Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

/ /

Date

Update your communication details (Optional)

Mobile Number

Email Address

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

DNK

999999A



Computershare

