

Tuesday 1 March 2022

OPERATIONAL AND CORPORATE ACTIVITIES UPDATE

Kalium Lakes Limited (ASX:KLL) (**Kalium Lakes** or the **Company**) provides an update with respect to its operational status at the Beyondie SOP Project (**Beyondie** or **BSOPP**) and broader corporate activities.

- Aggregate brine production and quality maintained, 120Ktpa expansion bore drilling and brine supply program advancing steadily. Brine filling of the third primary evaporation train commenced during February, with all five primary evaporation trains forecast to be back in production by the end of May.
- Sufficient 'start-up grade' harvested potassium salt (KTMS) expected to be accumulated by June. SOP purification plant re-start expected in June with targeted commercial SOP sales from July.
- Deferred plant start-up significantly reduces logistical and operational risks associated with near-term anticipated window of peak Omicron induced disruptions in Western Australia, providing greater certainty for mobilising international equipment specialists, EBTEC personnel and experts with SOP processing experience to site for start-up.
- BSOPP is expected to be operating at an approximate 80Ktpa SOP production run rate by Q1 CY2023, with the targeted 120Ktpa run rate established by Q3 CY2024.
- SOP pricing macro-economic outlook currently very positive, with Beyondie likely to commence production in a very strong pricing environment.
- As at 28 February 2022, Kalium Lakes has approximately A\$48 million in cash and A\$176 million of drawn senior debt facilities with NAIF and KfW.
- As a result of the revised production ramp-up schedule, Kalium Lakes expects that it will have a requirement for further external funding by Q3 CY2022 and has now commenced discussions with its financiers to address this requirement.
- Cutfield Freeman & Co has been engaged to investigate potential financing options in relation to the BSOPP.

Kalium Lakes' Chief Executive Officer, Len Jubber, said: *"The review conducted over the past three months has confirmed the inherent quality of the Beyondie SOP Project. This quality spans across the in-situ brine JORC resource and ore reserve, the fully lined ponds and the world leading purification plant technology.*

"We are implementing plans to overcome the difficulties we have encountered to date and expect to re-start the processing plant in the next quarter as soon as sufficient 'start-up grade' of KTMS has been accumulated. We are confident that the revised commissioning plan will be successful.

"The Beyondie SOP Project is fully constructed incorporating industry leading technology, has a defined pathway to 120Ktpa SOP production and the potential to be further expanded in a very favourable potash market outlook. In addition, we are well supported by the debt financing provided by NAIF and KfW, the bankability and surety provided by the offtake agreement with K+S, and the technical support arrangement and performance guarantee provided by EBTEC, all of which place Kalium Lakes in an industry leading position.

"Our key immediate focus is to maintain ongoing safe operations during the anticipated dramatic escalation in Covid-19 cases in WA, complete the preparation for the resumption of commissioning and subsequent ramp-up activities, and then move into production to benefit from the strong SOP market."

BSOPP Operational Update

Borefield & Trenching Operations and Brine Production

As previously announced (refer KLL ASX release dated 25 January 2022), aggregate brine flow rate from the borefield and trenching operations to the pre-concentration ponds has now been restored to near the 90Ktpa SOP target level. Aggregate brine supply also continues to deliver potassium grades above design targets.

The 120Ktpa expansion drilling program has commenced with twenty-five new production bores planned to be progressively brought online by November this year. The drilling program is scheduled for completion by August, with 9 out of 27 exploration holes and 4 out of 25 new production bores completed to date.

Pond Operations and KTMS Production

As previously announced (refer KLL ASX releases dated 3 November 2021, 22 December 2021 and 25 January 2022), prior impacts to brine production rates ahead of the peak summer solar evaporation period are expected to result in less harvested potassium salt (KTMS) being produced during CY2022 than initially targeted.

Blockages of the Sunshine transfer pipeline (from the Sunshine preconcentration pond to the primary evaporation ponds) have been substantially cleared and flow rates restored to 83% of design capacity. This is sufficient to meet brine transfer requirements for March and April as evaporation rates start to decline. Works have commenced on procurement and preparation for installation of the second transfer pipeline. Installation is set to commence in early March and scheduled to be completed during April. This is expected to provide ample brine transfer capacity to bring all primary evaporation ponds back online and progress brine supply for the eventual 120Ktpa SOP production target.

Brine filling of a third primary evaporation train commenced during February, with all five primary evaporation trains forecast to be back in production by the end of May. Pre-concentration ponds are still being operated at approximately 50% capacity and will continue to do so until all primary evaporation ponds are back in production.

As previously announced (refer KLL ASX release dated 25 January 2022), it has been confirmed that a consistently higher-grade KTMS supply ('start-up grade'), higher than for normal operations, is required during commissioning. This higher salt feed grade is required to enable the schoenite conversion, flotation, cooling crystallisation, centrifuges and fluid bed dryer to be commissioned at nameplate capacity.

Diligence is being exercised in ensuring that a sufficient quantity of the required start-up-grade KTMS is harvested before the SOP purification plant is re-started to complete commissioning and commence commercial SOP production. This diligence requires careful grade control sampling, selective KTMS harvesting practices and robust ROM stockpile management. While most harvested KTMS is expected to eventually be processed through the SOP purification plant during steady state operations, the level of selectivity required for start-up grade KTMS means that sufficient stocks of this particular specification are only expected to be accumulated by June, being predominantly generated from new KTMS produced specifically for this purpose during the next four months.

Current processable KTMS inventories (as at 10 February 2022) are estimated at approximately 131kt, of which 30kt at between 8-9% K ('medium grade') is harvested and stockpiled on the ROM pad, with the balance being in the evaporation ponds and scheduled for harvesting during the next four months. An additional 44kt of lower grade KTMS is stockpiled on the ROM pad which may be used for future blending during steady state operations.

Kalium Lakes continues to work with international potash industry experts to strengthen operating capability and increase understanding of pond chemistry dynamics and harvesting techniques. Forecast long term harvested potassium salt output is not expected to be affected.

Purification Plant and SOP Production

The SOP purification plant is expected to remain idled as the BSOPP establishes a sufficient inventory of start-up grade and processable KTMS before recommencing feed to the plant by June, with commercial SOP sales expected to commence in July 2022.

Equipment rectification and optimisation works on the SOP purification plant is 77% complete. These works include rectification of manufacturer defects, as well as changes to key process equipment to improve efficiencies or operability based on lessons learned from initial commissioning efforts. These works are expected to be completed during March, followed by controlled test runs to verify effectiveness and allow further upgrades, if necessary, prior to the planned plant re-start in June. Some risk remains that equipment performance testing cannot be completed until targeted commercial scale SOP production commences.

While the delay in commencement of SOP production and associated sales is disappointing, it is important to note that overall SOP production for CY2022 calendar year is already limited by available KTMS inventory. This means that any acceleration to the plant start-up date would be expected to offer little benefit to total SOP production and sales for CY2022.

Deferring plant start-up until June also brings significant logistical and other risk mitigation benefits in terms of critical commissioning works associated with the plant re-start, which will now take place after the anticipated late March peak of Omicron wave disruptions in Western Australia, providing greater certainty in being able to mobilise international equipment specialists and EBTEC GbR personnel to site.

Kalium Lakes continues to be supported, both on site and remotely, by EBTEC through its leading SOP production technical expertise. The systematic recommencement of SOP purification plant operations as part of the commissioning process is being jointly planned by the Kalium Lakes and EBTEC teams, in conjunction with international experts with SOP processing operations experience. Full nameplate operation of the plant is expected to be facilitated technically by EBTEC in accordance with the performance guarantees it has provided.

Commissioning of the compaction plant is expected to follow immediately after successful commissioning of the SOP purification plant.

Updated Ramp-Up and Production Schedule

Given the above and subject to the availability of ongoing working capital, the BSOPP is expected to be operating at an approximate 80Ktpa SOP production run rate by Q1 CY2023, with the targeted 120Ktpa run rate established by Q3 CY2024.

This revised ramp-up schedule incorporates capital investment for the 120Ktpa program continuing through CY2022 with respect to the additional upstream facilities (bores, trenches, pipelines and ponds). As a result of the revised ramp-up schedule, investment with respect to the SOP purification plant and power station expansion works are not required to be made until CY2023.

SOP Market

Potash markets (both SOP and MOP) remain strong with current pricing at their highest levels for over a decade as geopolitical tensions, weather, energy prices and other macro factors influence supply and demand.

Corporate and Financial Update

As at 28 February 2022, Kalium Lakes has approximately A\$48 million in cash and A\$176 million of drawn senior debt facilities with NAIF and KfW / Euler Hermes. Undrawn debt is A\$3.1 million under Facility A provided by KfW / Euler Hermes, in addition to the A\$20 million liquidity facility provided by the senior lenders which remains fully undrawn and is in place until 12 April 2022. The liquidity facility may be extended for a further 6 months to 12 October 2022 at the discretion of the senior lenders.

The Company's senior debt facilities have no measurable financial covenants requiring satisfaction before CY2024. The facility agreements contain material adverse change (MAC) clauses typical for facilities of this nature.

As a result of the revised production ramp-up schedule, Kalium Lakes expects that it will have a requirement for further external funding by Q3 CY2022. The extent of this additional funding requirement is naturally dependent on a range of physical and commercial factors that are still being assessed.

The Company has now commenced discussions with its financiers in connection with the revised production ramp-up schedule and funding requirements.

The Company also advises that it has retained leading resources strategic and financial adviser, Cutfield Freeman & Co, which advised on the successful debt restructure and equity raising completed in 2021, to investigate potential financing options in relation to the BSOPP.

Kalium Lakes has also commenced discussions with its key offtake partner, K+S, with respect to rescheduling of SOP deliveries.

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*** ENDS ***

This announcement was approved and authorised for release by the Board of Kalium Lakes Limited.

Kalium Lakes Limited



ABN: 98 613 656 643
ASX: KLL



Board of Directors

Stephen Dennis
Mark Sawyer
Brent Smoothy
Sam Lancuba

Non-Executive Chairman
Non-Executive Director
Non-Executive Director
Non-Executive Director



Contact Details:
Kalium Lakes Limited
Unit 1, 152 Balcatta Road
BALCATTWA WA 6021

PO Box 610
BALCATTWA WA 6914

Email: info@kaliumlakes.com.au
Web: www.kaliumlakes.com.au
Tel: +61 (0)8 9240 3200



Chief Executive Officer

Len Jubber

Chief Financial Officer

Jason Shaw

Company Secretaries

Gareth Widger Jason Shaw

Share Registry

Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Terrace Perth, WA 6000
Tel: (within Australia): 1300 850 505
Tel: (outside Australia): +61 3 9415 4000