DANAKALI

DANAKALI LIMITED

ABN 56 097 904 302

FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2020

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2019 and any public announcements made by Danakali Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Corporate Information

Directors

Seamus Cornelius	(Non-Executive Chairman)	Zhang Jing	(Non-Executive Director)
John Fitzgerald	(Non-Executive Director)	Robert Connochie	(Non-Executive Director)
Taiwo Adeniji	(Non-Executive Director)	Samaila Zubairu	(Non-Executive Director)
Neil Gregson	(Non-Executive Director)		

Executive Management

Niels Wage (Chief Executive Officer)
Stuart Tarrant (Chief Financial Officer)

Joint Company Secretaries

Catherine Grant-Edwards
Melissa Chapman

Registered Office & Principal Place of Business

Level 11, Brookfield Place, 125 St Georges Terrace
PERTH WA 6000
Telephone: +61 (0)8 6189 8635

Bank

National Australia Bank
Level 12, 100 St Georges Terrace
PERTH WA 6000

Auditors

Ernst & Young
11 Mounts Bay Road
PERTH WA 6000

Share Register (Australia)

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
PERTH WA 6000
Telephone: 1300 850 505 (Inside Australia)
Telephone: +61 (0)3 9415 4000 (Outside Australia)
Facsimile: +61 (0)3 9473 2500
www.computershare.com

Share Register (United Kingdom)

Computershare Investor Services Pty Limited
The Pavilions, Bridgwater Road
Bristol BS13 8AE, United Kingdom
Telephone: +44 (0) 370 702 0003
www.computershare.com

To facilitate trading of Danakali's shares on the Standard Segment of the London Stock Exchange (**LSE**) Main Market, Danakali has established a Depositary Interest (**DI**) facility, under which it has appointed Computershare Investor Services Plc as the depositary. Securities of Australian issuers such as Danakali cannot be directly registered, transferred or settled through CREST (which is the electronic settlement system in the UK). The DI facility overcomes this by creating entitlements to Danakali's shares (the DIs), which are deemed to be UK securities and therefore admissible to CREST. The underlying shares are listed and traded on the Standard Segment of the LSE Main Market, while the DIs are transferred in CREST to settle those trades.

Website

www.danakali.com.au

Stock Exchange Listing

Danakali Limited Shares are listed on the Australian Stock Exchange (ASX:DNK) and the London Stock Exchange (LSE:DNK).

American Depository Receipts

The Bank of New York Mellon sponsors DNK's Level 1 American Depository Receipts Program (ADR) in the United States of America. DNK's ADRs are traded on the over-the-counter (OTC) securities market in the US under the symbol DNKLY and CUSIP: 23585T101. One ADR represents one ordinary share in DNK.

US OTC Market information is available here: http://www.otcmarkets.com/stock/DNKLY/quote
DNK's ADR information can also be viewed here: http://www.adrbnymellon.com//?cusip=23585T101

ADR Holders seeking information on their shareholding should contact: shrrelations@bnymellon.com OR

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Directors' Report

Your directors submit their report together with the condensed financial statements of the consolidated entity, being Danakali Limited (**Danakali** or the **Company**) and its controlled entities (the **Group**) for the half year ended 30 June 2020.

DIRECTORS

The names of the directors who held office during or since the end of the half year are:

- Seamus Cornelius (Non-Executive Chairman)
- John Fitzgerald (Non-Executive Director)
- Zhang Jing (Non-Executive Director)
- Robert Connochie (Non-Executive Director)
- Taiwo Adeniji (Non-Executive Director) (Appointed 23 April 2020)
- Samaila Zubairu (Non-Executive Director) (Appointed 23 April 2020)
- Neil Gregson (Non-Executive Director) (Appointed 3 August 2020)
- Paul Donaldson (Non-Executive Director) (Resigned 3 August 2020)
- Andre Liebenberg (Non-Executive Director) (Resigned 3 August 2020)

The Directors held their positions throughout the entire half year period and up to the date of this report unless stated otherwise.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the half-year ended 30 June 2020 was advancing the Colluli Potash Project (**Colluli**, or the **Project**) in Eritrea, East Africa. There was no significant change in the nature of the Group's activities during the six months to 30 June 2020.

REVIEW AND RESULTS OF OPERATIONS

The net loss after tax of the Group for the half-year ended 30 June 2020 amounted to $1,677,355 (30 June 2019: $1,540,083). Total consolidated cash on hand at the end of the period was $15,771,118 (31 December 2019: $33,800,104).

REVIEW OF OPERATIONS

PROJECT OVERVIEW

The Colluli Potash Project (**Colluli**, or the **Project**) is located in the Danakil Depression region of Eritrea, East Africa. Colluli is approximately 177km south-east of the capital, Asmara, and 180km from the port of Massawa, which is Eritrea's key import/export facility. The Project is a joint venture between the Eritrean National Mining Corporation (**ENAMCO**) and Danakali with each having 50% ownership of the joint venture company, the Colluli Mining Share Company (**CMSC**). CMSC is responsible for the development of the Project.

The Danakil Depression is an emerging potash province, which commences in Eritrea and extends south across the border into Ethiopia. It is one of the largest unexploited potash basins globally; over 6Bt of potassium bearing salts suitable for production of potash fertilisers have been identified in the region to date (*DNK announcement 19 February 2018 and circumminerals.com/resources*).

Colluli is located approximately 75km from the Red Sea coast providing unrivalled future logistics potential. The Project resides on the Eritrean side of the border, giving Colluli a significant advantage relative to all other potash development projects in the Danakil Depression, which need to ship from the Tadjoura Port in Djibouti – over 600km by road from the closest project on the Ethiopian side of the border.

Colluli boasts the shallowest mineralisation in the Danakil Depression. Mineralisation commences at just 16m below surface. In addition, the potassium bearing salts are present in solid form (in contrast with production of SOP from brines). Shallow access to salts in solid form provides Colluli with significant mining, logistics and, in turn, capital and operating cost advantages over other potash development projects globally. The Project also carries a significantly lower level of complexity as a consequence of predictable processing plant feed grade and predictable production rates due to low reliance on ambient conditions.

Shallow mineralisation makes the resource amenable to open cut mining: a proven, high productivity mining method. Open cut mining provides higher resource recoveries relative to underground and solution mining methods, is generally safer, and can be more easily expanded.

The Colluli resource comprises three potassium bearing salts in solid form: Sylvinite, Carnallitite and Kainitite. These salts are suitable for high yield, low energy production of Sulphate of Potash (**SOP**), which is a high-quality potash fertiliser carrying a price premium over the more common Muriate of Potash (**MOP**). SOP is chlorine free and is commonly applied to high value crops such as fruit, vegetables, nuts, and coffee. Economic resources for primary production of SOP are geologically scarce and there are few current primary producers.

The JORC-2012 compliant Mineral Resource for Colluli is estimated at 1.289Bt @ 11% K_2O for 260Mt of contained SOP equivalent (*DNK announcement 19 February 2018*). The JORC-2012 compliant Ore Reserve estimate for Colluli is estimated at 1,100Mt @ 10.5% K2O for 203Mt of contained SOP equivalent (*ASX announcement 19 February 2018*). The

Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves.

Colluli will be developed to its full potential by adopting the principles of risk management, resource utilisation and modularity, using the first module as a platform for growth. The Colluli Front-End Engineering Design (**FEED**) modules are:

- Module I – 472ktpa SOP production; and
- Module II – Additional 472ktpa SOP production commencing in year 6.

The massive Colluli Ore Reserve has significant capacity to underpin further expansions and support decades of growth beyond Modules I and II.

Colluli has significant diversification potential beyond SOP, including the option to produce additional potash and salt products such as MOP, SOP-M, Kieserite ($MgSO_4.H_2O$), Gypsum ($CaSO_4.2H_2O$), Magnesium Chloride ($MgCl_2$), and Rock Salt (NaCl). The Colluli SOP Mineral Resource also comprises an 85Mt Kieserite (Magnesium Sulphate) Mineral Resource (*DNK announcement 15 August 2016*). Kieserite is a suitable fertiliser for magnesium deficient soils. A 347Mt Rock Salt (Sodium Chloride) Mineral Resource (*DNK announcement 23 September 2015*) has also been established at Colluli. Unprocessed Rock Salt can be used for de-icing, processed Rock Salt can be used as table salt.

The FEED for Colluli was undertaken to provide offtakers and funders with a high level of study detail and accuracy and was the final study stage before project execution. Subsequent to the release of FEED, Colluli secured Offtake (*ASX announcement 12 June 2018)* and begun the search for senior debt which culminated in the execution of documentation for $200M Senior Debt facilities with African Finance Corporation (**AFC**) and African Export Import Bank (**Afreximbank**) (*ASX announcement 23 December 2019*). In addition to the Senior Debt, AFC committed to invest US$50M in Danakali in equity (*ASX announcement 3 December 2019)*.

FEED firmly established Colluli as an economically attractive greenfield SOP development project (*ASX announcement 29 January 2018*). The FEED results reaffirm the outstanding project economics of Colluli with industry leading capital intensity. This, combined with forecast first quartile operating costs, resulted in a Project Net Present Value (**NPV_{10}**) of US$902M and Internal Rate of Return (**IRR**) of 29.9%. The Danakali economic outcomes were an NPV_{10} of US$439M and IRR of 31.3%.

Project execution commenced in December 2019.

Mining Agreement Executed and Mining Licenses Awarded

CMSC is fully permitted, having entered into a mining agreement (**Mining Agreement**) with the Eritrean Ministry of Energy and Mines (**MoEM**) and was awarded mining licenses (**Mining Licenses**) for the exploitation of mineral resources within the Colluli tenements (*ASX announcement 1 February 2017*).

The project is progressing to construction as evidenced by the submission of the Notice of Mine Development by CMSC and the subsequent acceptance by the MoEM (*ASX announcement 22 July 2020)*.

The Mining Agreement is applicable to the entire 1.3Bt JORC-2012 compliant Mineral Resource and provides exclusive rights to CMSC to apply for mining licenses to exploit the potassium, magnesium, calcium and sodium salts within the resource, as well as bromine.

The award of the Mining Licenses follows the completion of a series of pre-requisites including the completion and submission of the DFS, submission of a comprehensive social and environmental impact assessment and associated management plans, a series of pre and post DFS stakeholder engagements with local and regional communities and stakeholders, and the signing of the Mining Agreement.

A Social and Environmental Impact Assessment (**SEIA**) and associated Social and Environmental Management Plans (**SEMPs**) have been completed to ensure consistency with the Equator Principles. Stakeholder engagements have been completed throughout the study phases, and the Project has strong support from local communities. Following a period of consultation and further works, between the Eritrean Ministry of Land, Water & Environment and CMSC, the SEMPs finalised by CMSC were signed off in August 2018 following an extensive review process. The SEMPs are a cornerstone of the environmental, social and safety management system being developed by CMSC and provide the foundation for compliance.

MARKETING AND PROJECT FINANCE UPDATE

Offtake

A binding take-or-pay offtake agreement has been reached with EuroChem Trading GmbH (**EuroChem**) for up to 100% of Module I SOP production from the Colluli Potash Project. EuroChem will take, pay, market and distribute up to 100% (minimum 87%) of Colluli Module I SOP production. The term of the agreement is 10 years from the date of commissioning of the Colluli SOP processing plant, with an option to extend for a further 3 years if agreed by EuroChem and CMSC. EuroChem is an outstanding partner with global reach and extensive fertiliser expertise and experience, and the agreement is instrumental in unlocking project funding.

Project Financing

Development finance institutions, Africa Finance Corporation (**AFC**) and African Export Import Bank (**Afreximbank**, together the **Mandated Lead Arrangers**), have executed documentation for the provision of US$200M in senior debt finance to CMSC (each Mandated Lead Arranger providing US$100M). The facility allows drawdown of CMSC senior debt on satisfaction of customary conditions precedent (*refer ASX announcement 23 December 2019*) for a project financing facility of this kind and includes all project approvals required to develop the project, and the balance of the equity contribution having been raised.

AFC executed a Subscription Agreement to make a US$50M strategic equity investment in Danakali. The Placement is being conducted in two tranches. The first tranche consisted of approximately 53M new Shares issued at A$0.60 per Share to raise A$31.8M (US$21.5M),and was completed on 10 December 2019. The second tranche totals US$28.5M (**Tranche 2**).

As previously announced, in light of the rapid spread of COVID-19 and its significant impact on global financial markets, Tranche 2 of AFC's equity funding has been be deferred to allow for the stabilisation of market and global conditions. Prior to the advance of Tranche 2, AFC requires satisfaction of certain conditions precedent relating to CMSC's debt financing and execution of certain documents ancillary to that debt financing, in addition to the senior debt agreements already executed.

The deferment of Tranche 2 allows the parties to work through satisfying many of the remaining conditions precedent to Danakali's debt financing, and give Danakali additional time to reassess its overall funding strategy and review a range of options appropriate to the Project's funding requirements beyond the completion of EPCM Phases 1 and 2. Danakali and AFC are working in good faith to agree the extent of AFC's requirements, and determine which of these require satisfaction before Tranche 2 is advanced. AFC extended the deadline for satisfaction of remaining conditions precedent for Tranche 2 of its investment to 21 November 2020. Approval of Danakali's shareholders remains a further condition precedent.

The Company is currently progressing with a range of options for funding the balance required to bring Colluli into production.

PROJECT UPDATE

In response to the COVID-19 pandemic, the Company has prioritised the safety and wellbeing of all its employees. With on-site activities temporarily suspended until restrictions are lifted, the desk-based nature of the majority of the work that was already underway has enabled the Company to focus all available remote-working resources on the EPCM workstreams and to investigate optimisation opportunities. Geotechnical investigation works have been temporarily deferred pending the lifting of travel restrictions. Project spend is continually assessed and restricted to those areas critical to the long-term success, as Colluli remains on track for production during 2022.

EPCM progress

Whilst on-site activities were suspended, desk-based work continued allowing Danakali to make significant progress on the EPCM testing and planning workstreams, and to further analyse potential optimisation opportunities in environmental and capital management, in preparation for the Detailed Design stage.

During the period, Phases 1 and 2 of the EPCM scope were completed.

The EPCM Phase 2 materials have been delivered by DRA Global (**DRA**), including:

- Capital Estimate and Project Schedule, and
- identifying focus areas in design and process.

These materials allow advancement to the Detailed Design Phase of Project Development and identify focus areas to manage the risks during this phase. The CMSC Project Team are in the process of reviewing the deliverables.

Environmental and Capital optimisation opportunities identified during EPCM Phase 2 include the:

- use of filtered sea water in the processing plant, and
- use of beach wells as the water intake system alternative for the Water Intake Treatment Area (WITA).

Environmental and Social Governance (ESG)

During the period Danakali published the inaugural Sustainability Report highlighting Colluli's potential to positively impact Eritrea. The report outlined the following:

- Significant commitment to responsible business;
- Strong alignment with 13 of the 17 UN Sustainable Development Goals (**SDGs**);
- Operational management systems under development will align with Equator Principles, IFC standards for Environmental and Social Performance and the World Bank Group Environment, Health and Safety Guidelines;
- Commission an independent human rights due diligence scoping exercise for the Colluli project and engage with key stakeholders; and
- Prior to our formal obligation to comply with the Act, we will proactively disclose our efforts to address human rights risks, including risks related to modern slavery, through an ongoing human rights impact assessment scoping study and our annual sustainability reporting process.

Once developed, it is expected operational management systems will satisfy the requirements under the Modern Slavery Act 2018 (Cth) (Commonwealth Act) to which the company is not currently required to comply with.

RESERVE AND RESOURCE OVERVIEW

Colluli has a JORC-2012 compliant resource of 1.289 billion tonnes as shown in Table 1 as at 30 June 2020. Apart from the inclusion of Kieserite (announced 15 August 2016), there have been no changes to the Mineral Resource since 25 February 2015.

The Colluli JORC-2012 compliant mineral resource estimate as at 30 June 2020 is as follows:

Table 1: Colluli Mineral Resource Estimate announced on 25 February 2015 with Kieserite added (announced on 15 August 2016)

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

Within the JORC-2012 compliant, 1.289 billion tonnes, Mineral Resource Estimate, the JORC-2012 compliant Ore Reserve Estimate for Colluli's potassium sulphate potash fertiliser is approximately 1.1 billion tonnes comprising 285 million tonnes of Proved and 815 million tonnes of Probable Ore Reserve and is shown below in Table 2. The Ore Reserve was updated in line with FEED and this update is included below (*ASX announcement 19 February 2018*).

The Colluli JORC-2012 compliant Ore Reserve estimate by potash mineral as at 30 June 2020 is as follows:

Table 2: JORC-2012 Colluli Potassium Sulphate Ore Reserve announced on 29 January 2018 and 19 February 2018

Occurrence	Proved		Probable		Total			
	Mt	K_2O Equiv %	Mt	K_2O Equiv %	Mt	K_2O Equiv %	K_2SO_4 Equiv %	K_2SO_4 Equiv Mt[1]
Sylvinite ($KCl.NaCl$)	77	15.0%	173	12.1%	250	13.0%		
Carnallitite ($KCl.MgCl_2.H_2O$)	77	6.9%	279	7.8%	356	7.6%		
Kainitite ($KCl.MgSO_4.H_2O$)	131	11.8%	363	11.2%	494	11.4%		
Total	**285**	**11.3%**	**815**	**10.3%**	**1,100**	**10.5%**	**18.5**	**203**

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

In addition to potassium sulphate, substantial quantities of rock salt exist. A JORC-2012 compliant Rock Salt Mineral Resource Estimate of over 300 million tonnes has been completed for the area considered for mining in the DFS as shown in Table 3. There have been no changes to the Mineral Resource estimate since 23 September 2015.

As at 30 June 2020, the JORC-2012 compliant Rock Salt Mineral Resource is as follows:

Table 3: JORC 2012 Colluli Rock Salt Mineral Resource announced on 23 September 2015

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

CORPORATE

Board appointments

AFC President and CEO, Samaila D. Zubairu, and AFC Senior Director for Investment Operations & Execution, Taiwo Adeniji, joined Danakali's Board as Non-Executive Directors on 23 April 2020. These appointments are in accordance with the terms of AFC's US$50M Subscription Agreement which provides AFC the right to appoint two nominees to the Board of Danakali provided AFC's Danakali ownership remains above certain thresholds.

Refer to events occurring after 30 June 2020 for details of further board changes made in August 2020.

Shares

The following shares were issued during the period:

- 195,000 shares issued upon vesting of performance rights

At 30 June 2020, there were a total of 318,741,306 fully paid ordinary shares on issue.

Options

There were no unlisted options issued or exercised during the period.

The following unlisted options lapsed during the period:

- 500,000 unlisted options exercisable at $0.912 expired on 11 May 2020
- 1,440,000 unlisted options exercisable at $0.940 expired on 19 May 2020

At 30 June 2020, there were a total of 4,064,112 unlisted options on issue at various exercise prices and expiry dates.

Performance Rights

There were no performance rights issued during the period.

The following performance rights were cancelled during the period:

- 15,000 Class 7 performance rights[1]
- 15,000 Class 8 performance rights

The following performance rights vested and converted into shares during the period:

- 25,000 Class 6 performance rights[2]
- 50,000 Class 8 performance rights[3]
- 100,000 Class 9 performance rights[4]
- 20,000 Class 5 performance rights

At 30 June 2020, there were a total of 2,060,000 performance rights on issue in the following classes:

- 280,000 Class 1 performance rights
- 800,000 Class 4 performance rights
- 80,000 Class 5 performance rights
- 900,000 Class 9 performance rights

[1]Relates to 15,000 performance rights that were subject to cancellation at 31 December 2019 and removed from the register 13 January 2020.

[2]Relates to 25,000 performance rights in respect of which the performance hurdle had been met at 23 December 2019. Issue of the shares following conversion occurred 13 January 2020.

[3]Relates to 50,000 performance rights in respect of which the performance hurdle had been met at 3 December 2019. Issue of the shares following conversion occurred 13 January 2020.

[4]Relates to 100,000 performance rights in respect of which the performance hurdle had been met at 20 December 2019. Issue of the shares following conversion occurred 28 January 2020.

INTERESTS IN MINING TENEMENTS

The exploration license for the Colluli Potash Project covers approximately 30.4km^2 and the seven mining licenses awarded to CMCS span over 63km^2 of the 99km^2 Agreement area. Further details are provided below. There was no change in tenement holding during the period.

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no other significant changes in the Company's state of affairs other than that referred to in the financial statements or notes thereto.

RISK MANAGEMENT

RISK MANAGEMENT

The Company has established a Risk Management Policy which outlines the Board's expectations in relation to risk management, responsibilities, risk management objectives, and the principles of its risk management framework.

The Board, through the Audit and Risk Committee (previously through the Technical and Risk Committee until 23 January 2020) is responsible for overseeing the establishment and implementation of effective risk management and internal control systems to manage the Company's material business risks and for reviewing and monitoring the Company's application of those systems.

The Audit and Risk Committee continues to work closely with management to assess, monitor and review business risks and to carry out assessments of internal controls and processes for improvement opportunities. In support of this, the Committee receives reports from management on new and emerging risks and related controls and mitigation measures that management have implemented.

A summary of the material business risks of the Company is set out in the below table.

RISK	MITIGATION / CONTROL
Strategic Risks	
The Group is reliant on the success of a single asset located in a remote region in Eritrea. Any adverse event affecting the Colluli Potash Project (Project), either during its development or following the commencement of production, would have a material adverse effect on the value of the business Changes to government, existing applicable laws and regulations, more stringent interpretations of existing laws or inconsistent interpretation or application of existing laws by relevant authorities have the potential to adversely impact business activities. Eritrea has limited local resources, infrastructure and skills, has a less tested legislative and regulatory framework compared to more established mining jurisdictions and is generally perceived as a jurisdiction where there is a high risk of corruption.	The Group has implemented a comprehensive risk management framework to early detect and manage adverse events that would affect the Project. The Group maintains a strong relationship with a broad base of government and community stakeholders to monitor the political environment in Eritrea and to stay ahead of any legislative and regulatory changes. The Group's public relations and investment strategies promote the international awareness of the benefits of doing business in Eritrea. As further investment is made into the country further infrastructure can be developed. The commencement of training programmes in conjunction with Government and other mining companies is planned to increase the number of skilled and semi-skilled persons in Eritrea. Whilst the Group has not experienced any corruption in Eritrea, the Anti-Bribery & Corruption Policy provides the framework for the appropriate conduct when dealing with government officials. The Groups' values further promote the proper behaviour of its employees and contractors.
Financial Risks	
The Group is yet to commence production and is in its development phase, therefore the company has no cash generating assets which could put a strain on long -term cash flows.	The Group has adopted robust financial management practices to ensure that cashflow are closely governed and that future requirements remain adequate to continue as a going concern. The Group continues to execute its fund raising strategies to obtain the required capital to fully fund the Project and working capital of the business.
The Group is aware that the economics for the development of the Project is strongly linked to the market price of SOP and its ability to sell the product.	The Group continuously monitors the SOP market and forecast demand to ensure that the economics of the project remain favourable. A natural hedge exists against lower SOP prices in the form of an industry cost curve, of which Colluli is expected to be in the bottom quartile. An offtake agreement with Eurochem has been concluded for up to 100% of the production for the first 10 years of the project. There is an ongoing engagement with Eurochem to continue to build the future partnership.
The Group is aware of the requirement to raise additional funding to finance the Project. Without the required raise, the business will not be able to develop the Project and long-term cashflow will become a concern. The effect of COVID-19 on international travel and capital markets has	The Group has established a funding strategy to fund the project through debt and equity sources. A US$200m debt facility has been secured with African Finance Corporation (AFC) and African Export-Import Bank (Afreximbank). Drawdown on this facility is subject

RISK	MITIGATION / CONTROL
increased funding risk.	to a number of conditions precedent. A detailed plan is in-progress to close out these conditions to enable drawdown as required by the project. Various strategies have been put in place to raise the balance of the funding for the project. AFC has committed US$50m to the company and the company continues to identify and engage further strategic and institutional investors through its advisers and brokers. Management continue to engage potential investors and AFC have extended the deadline to satisfy Tranche 2 conditions precedent to 21 November 2020.
The Group is aware that foreign exchange movements and interest rate changes could affect the financial performance of the company.	The Group implements appropriate treasury management processes and procedures to monitor and manage its foreign exchange exposures. The Group seeks to pursue natural foreign exchange hedges through the negotiation, where appropriate, of USD denominated commercial contracts. The senior debt funding facility is linked to the Libor rate which is relatively stable and does not fluctuate significantly.
Compliance Risks	
The Group is aware that the mining industry is subject to a number of laws and governmental regulations which need to be complied with. Non-compliance could result to the loss of the Groups' mining licence.	The Group has regular and effective engagement with the Eritrean Ministry of Energy and Mines to ensure that it remains compliant with regulatory requirements and that the government is made aware of the company's commitments to develop the project.
The Group is aware of its Environmental & Social responsibilities and the impact it would have on the company if regulatory compliance requirements have not been met.	The Group has appointed sustainability professionals to develop the management systems to ensure that the environment and social compliance requirements are achieved.
Operation/ Project Risks	
The Group is reliant on a number of key personnel. The loss of one or more of its key personnel could have an adverse impact on the business of the Group	The Group has developed succession plans to reduce the exposure to the loss of any key personnel. In addition, long and short-term incentive plans have been implemented.
The Group is in the early stages of development and therefore is exposed to various development risks.	The Group has identified a number of controls to reduce its exposure to development risks. As part of the initial phase of development, risk reviews are undertaken and collated in a project risk register.
The Group is reliant on third parties to develop and operate the Project, including mining, EPCM, and power contracts.	The Group has awarded contracts or preferential status to reputable third-party contractors to develop and operate the project. The company continues to engage these parties as the Project develops.
The Project is reliant on developing its own infrastructure including, processing plant, water and roads.	The Group has detailed plans to develop these infrastructures and continue to engage with reputable contractors.
Project delay due to restriction on international travel due to global pandemic (COVID-19).	Management continue to monitor and update the project schedule based on changing international travel restrictions. As part of the COVID-19 response a continuity plan was developed and put into action. These actioned are incorporated into the overall Business Continuity Plan. Where appropriate, EPCM and other project activities are undertaken where these are not impacted by travel restrictions.

RISK	MITIGATION / CONTROL
Reputational Risks	
The Group is aware of the risk that Community and Government support could deteriorate if the Colluli project does not commence in the near term.	The Group continues to employ an in-country manager to regularly engage with the government and community to provide regular feedback on the development of the project. The strategies to complete the funding package to develop the project are key to maintaining the Groups reputation.
The Group is aware of the external perception of Eritrea with respect to political or economic instability. Specifically, allegations of Human Rights violations.	The Group intends to comply with IFC Performance Standards and Equator Principles. The business is undertaking an independent human rights due diligence study and will be implementing a number of policies, procedures, and safeguards to ensure national and international compliance with fair work and human rights practices.
Health & Safety	
Physical development of the Project has not yet commenced, however the Group is aware of the activities and the environments in which the project is located presents inherent hazards, including the risk of serious injury or fatality while working on site.	In recognition of the physical remoteness of the Project, a well-equipped medical clinic is planned for on-site. The business has engaged with an internationally recognised health and safety consultant to assist in to further develop these plans.
The physical remoteness of Project increases the risk of commuting to site and the availability of medical assistance in the event of an incident.	Emergency response plans and travel safety strategies have been implemented.

EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Mine Development Approval

On 22 July 2020, the Company announced that the Notice of Commencement of Mine Development (the **Notice**) which CMSC lodged with the Eritrean Ministry of Energy & Mines (**MoEM**) had been accepted by the MoEM. Additionally, upon acceptance of the Notice the MoEM has granted time to commence commercial production to be within 36 months from submission of the Notice (mid-December 2022).

Board Changes

On 3 August 2020, Mr Neil Gregson was appointed as a Non-Executive Director. Mr Paul Donaldson and Mr Andre Liebenberg resigned as Non-Executive Directors on 3 August 2020. Mr Paul Donaldson will remain actively engaged with Danakali as a Senior Consultant.

AFC Mandate Letter

On 14 July 2020, the Company executed a mandate with AFC for the provision of capital raising advisory services. Pursuant to the mandate, AFC will be entitled to receive an industry standard transaction fee on capital raising funds receipted by the Company in respect of equity investors identified within the mandate with AFC. Refer to Note 14 for further details.

There are no other events subsequent to 30 June 2020 and up to the date of this report that would materially affect the operations of the Group or its state of affairs which have not otherwise been disclosed in this financial report.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out separately in this report.

RESPONSIBILITY STATEMENT

The Directors (as listed under Corporate Information) confirm to the best of their knowledge:

- the Directors' Report, the financial statements and notes, includes a fair review of the information required by:
  a) DTR4.2.7 of the Disclosure and Transparency Rules in the United Kingdom, being an indication of important events during the first six months of the current financial year and their impact on the half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b) DRT4.2.8 of the Disclosure and Transparency Rules in the United Kingdom, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period, and any changes in the related party transactions described in the last annual report that could have such a material effect.

This report is made in accordance with a resolution of directors.

Seamus Cornelius
NON-EXECUTIVE CHAIRMAN

Perth, 27 August 2020

COMPETENT PERSONS AND RESPONSIBILITY STATEMENT

Competent Persons Statement (Sulphate of Potash and Kieserite Mineral Resource)

Colluli has a JORC-2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 1,289Mt @11% K_20 Equiv. and 7% Kieserite. The Mineral Resource contains 303Mt @ 11% K_20 Equiv. and 6% Kieserite of Measured Resource, 951Mt @ 11% K_20 Equiv. and 7% Kieserite of Indicated Resource and 35Mt @ 10% K_20 Equiv. and 9% Kieserite of Inferred Resource.

The information relating to the Colluli Mineral Resource estimate is extracted from the report entitled "Colluli Review Delivers Mineral Resource Estimate of 1.289Bt" disclosed on 25 February 2015 and the report entitled "In excess of 85 million tonnes of Kieserite defined within Colluli Project Resource adds to multi agri-commodity potential" disclosed on 15 August 2016, which are available to view at www.danakali.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Competent Persons Statement (Sulphate of Potash Ore Reserve)

Colluli Proved and Probable Ore Reserve is reported according to the JORC Code and estimated at 1,100Mt @ 10.5% K_2O Equiv. The Ore Reserve is classified as 285Mt @ 11.3% K_2O Equiv. Proved and 815Mt @ 10.3% K_2O Equiv. Probable. The Colluli SOP Mineral Resource includes those Mineral Resources modified to produce the Colluli SOP Ore Reserves.

The information relating to the January 2018 Colluli Ore Reserve is extracted from the report entitled "Colluli Ore Reserve update" disclosed on 19 February 2018 and is available to view at www.danakali.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Competent Persons Statement (Rock Salt Mineral Resource)

Colluli has a JORC-2012 compliant Measured, Indicated and Inferred Mineral Resource estimate of 347Mt @ 96.9% NaCl. The Mineral Resource estimate contains 28Mt @ 97.2% NaCl of Measured Resource, 180Mt @ 96.6% NaCl of Indicated Resource and 139Mt @ 97.2% NaCl of Inferred Resource.

The information relating to the Colluli Rock Salt Mineral Resource estimate is extracted from the report entitled "+300M Tonne Rock Salt Mineral Resource Estimate Completed for Colluli" disclosed on 23 September 2015 and is available to view at www.danakali.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

AMC Consultants Pty Ltd (AMC) independence

In reporting the Mineral Resources and Ore Reserves referred to in this public release, AMC acted as an independent party, has no interest in the outcomes of Colluli and has no business relationship with Danakali other than undertaking those individual technical consulting assignments as engaged, and being paid according to standard per diem rates with reimbursement for out-of-pocket expenses. Therefore, AMC and the Competent Persons believe that there is no conflict of interest in undertaking the assignments which are the subject of the statements.

Quality control and quality assurance

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

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

Halite blanks and duplicate samples are submitted with each hole. Chemical analyses were conducted by Kali-Umwelttechnik GmBH, Sondershausen, Germany, utilising flame emission spectrometry, atomic absorption spectroscopy and ion chromatography. Kali-Umwelttechnik (KUTEC) has extensive experience in analysis of salt rock and brine samples and is certified according by DIN EN ISO/IEC 17025 by the Deutsche Akkreditierungsstelle GmbH (DAR). The laboratory follows standard procedures for the analysis of potash salt rocks chemical analysis (K^+, Na^+, Mg^{2+}, Ca^{2+}, Cl^-, SO_4^{2-}, H_2O) and X-ray diffraction (XRD) analysis of the same samples as for chemical analysis to determine a qualitative mineral composition, which combined with the chemical analysis gives a quantitative mineral composition.

Forward looking statements and disclaimer

The information in this document is published to inform you about Danakali 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.

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Auditor's independence declaration to the directors of Danakali Limited

As lead auditor for the review of the half-year financial report of Danakali Limited for the half-year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Danakali Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
27 August 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE HALF YEAR ENDED 30 JUNE 2020

	Notes	Half Year Ended 30 June 2020 $	30 June 2019 $
REVENUE			
Interest revenue calculated using the effective interest rate method		63,091	53,675
Net gain on financial assets at fair value through profit or loss	5	159,654	521,661
Foreign exchange gain		1,205,348	63,117
Sundry		50,000	1,897
EXPENSES			
Depreciation expense		(2,337)	(3,290)
Loss on disposal of assets		(231)	(3,074)
Administration expenses	4	(1,730,452)	(1,268,649)
Share based payment expense	11	(654,710)	(197,473)
Share of net loss of joint venture	6	(767,718)	(707,947)
LOSS BEFORE INCOME TAX		**(1,677,355)**	**(1,540,083)**
Income tax expense		-	-
NET LOSS FOR THE PERIOD		**(1,677,355)**	**(1,540,083)**
OTHER COMPREHENSIVE (LOSS) / INCOME			
Items that may be reclassified to profit and loss			
Share of foreign currency translation reserve relating to equity accounted investment	6, 9	153,665	(7,061)
TOTAL OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		**153,665**	**(7,061)**
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		**(1,523,690)**	**(1,547,144)**
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic loss per share (cents per share)		(0.53)	(0.58)
Diluted loss per share (cents per share)		(0.53)	(0.58)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2020

	Notes	30 June 2020 $	31 December 2019 $
CURRENT ASSETS			
Cash and cash equivalents		15,771,118	33,800,104
Receivables	5	99,847	281,804
Prepayments		469,105	269,878
TOTAL CURRENT ASSETS		**16,340,070**	**34,351,786**
NON-CURRENT ASSETS			
Receivables	5	16,403,972	15,204,815
Investment in joint venture	6	32,367,959	27,975,738
Plant and equipment		17,271	13,998
TOTAL NON-CURRENT ASSETS		**48,789,202**	**43,194,551**
TOTAL ASSETS		**65,129,272**	**77,546,337**
CURRENT LIABILITIES			
Trade and other payables	7	368,972	11,794,757
Provisions		86,678	80,623
TOTAL CURRENT LIABILITIES		**455,650**	**11,875,380**
NON-CURRENT LIABILITIES			
Provisions		53,453	45,229
TOTAL NON-CURRENT LIABILITIES		**53,453**	**45,229**
TOTAL LIABILITIES		**509,103**	**11,920,609**
NET ASSETS		**64,620,169**	**65,625,728**
EQUITY			
Issued capital	8	109,058,372	109,194,951
Reserves	9	14,731,646	13,923,271
Accumulated losses	10	(59,169,849)	(57,492,494)
TOTAL EQUITY		**64,620,169**	**65,625,728**

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 30 JUNE 2020

	Notes	Issued Capital $	Reserves: Share Based Payments $	Reserves: Foreign Currency Translation $	Accumulated Losses $	Total Equity $
BALANCE AT 1 JANUARY 2020		**109,194,951**	**11,962,019**	**1,961,252**	**(57,492,494)**	**65,625,728**
Loss for the period	10	-	-	-	(1,677,355)	(1,677,355)
Other comprehensive income	6	-	-	153,665	-	153,665
Total comprehensive income/(loss) for the period		**-**	**-**	**153,665**	**(1,677,355)**	**(1,523,690)**
Transactions with owners in their capacity as owners:						
Capital raising costs		(136,579)	-	-	-	(136,579)
Share based payments expense	11	-	654,710	-	-	654,710
BALANCE AT 30 JUNE 2020		**109,058,372**	**12,616,729**	**2,114,917**	**(59,169,849)**	**64,620,169**
BALANCE AT 1 JANUARY 2019		**79,576,117**	**11,231,923**	**1,979,430**	**(54,343,760)**	**38,443,710**
Loss for the period		-	-	-	(1,540,083)	(1,540,083)
Other comprehensive income		-	-	(7,061)	-	(7,061)
Total comprehensive income/(loss) for the period		**-**	**-**	**(7,061)**	**(1,540,083)**	**(1,547,144)**
Transactions with owners in their capacity as owners:						
Share based payments expense		-	197,473	-	-	197,473
BALANCE AT 30 JUNE 2019		**79,576,117**	**11,429,396**	**1,972,369**	**(55,883,843)**	**37,094,039**

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 30 JUNE 2020

		Half Year Ended	
		30 June 2020	30 June 2019
	Notes	$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		62,762	53,020
Payments to suppliers and employees		(1,752,608)	(1,324,295)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(1,689,646)	(1,271,275)
CASH FLOWS FROM INVESTING ACTIVITIES			
Funding of joint venture		(14,007,357)	(1,996,645)
Payments for plant and equipment		(5,840)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(14,013,197)	(1,996,645)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of capital raising costs		(3,302,478)	-
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(3,302,478)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(19,005,321)	(3,267,920)
Cash and cash equivalents at the beginning of the financial period		33,800,104	9,550,585
Realised foreign exchange gain/(loss) on cash		976,335	(2,803)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**15,771,118**	**6,279,862**

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

Danakali Limited (**Danakali** or the **Company**) is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange (**ASX**) and the London Stock Exchange (**LSE**). The consolidated half year financial report of the consolidated group as at, and for the six months ended 30 June 2020 comprises the Company and its subsidiaries (together referred to as the **Group**).

The financial report of Danakali for the half year ended 30 June 2020 was authorised for issue by the Directors on 27 August 2020.

The nature of the operations and principal activities of the consolidated entity are described in the Directors' Report.

2. BASIS OF PREPARATION

(a) Basis of preparation

This condensed general purpose financial report for the half year ended 30 June 2020 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. It is recommended that the half year financial report be read in conjunction with the annual financial report for the financial year ended 31 December 2019 and considered together with any public announcements made by the Company during the half year ended 30 June 2020 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The half year financial report has been prepared on a historical cost basis and is presented in Australian dollars.

(b) New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the new standards and interpretations effective as of 1 January 2020. Adoption of these standards and interpretations did not have any effect on the statements of financial position or performance of the Group. The Group has not elected to early adopt any new standards or amendments.

The following standards and interpretations apply for the first time for entities with a year ending 31 December 2020:

Reference	Title	Summary
Conceptual Framework AASB 2019-1	Conceptual Framework for Financial Reporting and relevant amending standards	The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities, and clarifies some important concepts. It is arranged in eight chapters, as follows: • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance *AASB 2019-1* has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying IFRS 3 and developing accounting policies for regulatory account balances using IAS 8, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework.
AASB 2018-7	Definition of Material (Amendments to AASB 101 and AASB 108)	This Standard amends AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could

Reference	Title	Summary
		reasonably be expected to influence decisions made by the primary users.

(c) Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

At balance date, the Group had cash and cash equivalents of $15,771,118 (31 December 2019: $33,800,104) and a net working capital surplus of $15,884,420 (31 December 2019: $22,476,406). Whilst the existing cash reserves are sufficient to cover the working capital requirements of the Group for the next 12 months, the Group has commenced execution of the project development and as such, additional funding will be necessary to carry out these planned activities.

Under the mining agreement entered into between the Government of the State of Eritrea and Colluli Mining Share Company (**CMSC**) dated 31 January 2017 (**Mining Agreement**), CMSC is obliged to spend US$200 million on infrastructure and mine development within the area of the Colluli project mining licences in the 36 months following the provision of formal Notice of Commencement of Mine Development (the **Notice**) to the Ministry of Energy and Mines (**MoEM**). The Notice, lodged on 17 December 2019, was accepted by MoEM in July 2020 (*ASX announcement 22 July 2020*). The granted time to commence commercial production by the MoEM is 36 months from submission of the Notice (mid-December 2022).

At the date of this report, the directors are satisfied there are reasonable grounds to believe that the Group will be able to continue its planned activities and the Group will be able to meet its obligations as and when they fall due. The directors are confident that the Group will be able to obtain the additional funding requirement to continue with the development of the project as evidenced by the execution of documentation for a conditional US$200M debt facility and a conditional equity subscription agreement with AFC for an amount of US$28.5M – refer to notes 6 and 8 respectively for further details on the status of these arrangements. Where such financing was likely to be delayed, the directors would seek to defer its planned capital expenditure on the project.

Should the Group not achieve the matters set out above, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

3. SEGMENT INFORMATION

The Group operates in the mining industry in Eritrea. For management purposes, the Group is organised into one main operating segment which involves the exploration of minerals in Eritrea. All of the Group's activities are interrelated and discrete financial information is reported to the Board (Chief Operating Decision Maker) as a single segment.

Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

With the exception of fixed assets which are located in Australia, the Group's non-current assets are geographically located in Eritrea.

4. EXPENSES

	30 June 2020 $	30 June 2019 $
Employee benefits (net of recharges)	270,226	194,842
Director fees	245,694	271,015
Lease payments relating to operating leases	55,584	71,081
Compliance, regulatory and other administration expenses	1,158,948	731,711
	1,730,452	1,268,649

5. TRADE AND OTHER RECEIVABLES

	30 June 2020 $	31 December 2019 $
Current		
Net GST receivable	44,107	225,023
Accrued interest	443	114
Other receivables at amortised cost	297	1,667
Security bonds at amortised cost	55,000	55,000
	99,847	281,804
Non-Current		
Loan to Colluli Mining Share Company - at fair value	16,403,972	15,204,815

Danakali's wholly owned subsidiary, STB Eritrea Pty Ltd, is presently funding the Colluli Mining Share Company (**CMSC**) for the development of the Colluli Potash Project and 50% of the funding is represented in the form of a shareholder loan.

Repayment of this loan, as defined in the CMSC Shareholders Agreement, will be made preferentially from future operating cash flows. The shareholder loan is denominated in USD, non-interest bearing, unsecured and subordinate to any loans from third party secured lenders, under which CMSC may enter into in order to fund the Project Development Capital. For accounting purposes, the value of the loan has been discounted by applying a market effective interest rate of 21% (31 December 2019: effective interest rate of 21%).

During the period ended 30 June 2020 and the year ended 31 December 2019, the repayment profile of the receivable was updated to consider the timing of the completion of construction, timing of project financing and alignment to the indicative debt financing terms. The remeasurement of the receivable at fair value results in a gain of $159,654 through profit or loss (31 December 2019: $4,400,730).

The undiscounted underlying loan balance at 30 June 2020 is $43,602,112 (USD 30,192,056) (31 December 2019: $40,053,560 (USD 28,061,524)).

	Half Year to 30 June 2020 $	Financial Year to 31 December 2019 $
Reconciliation of movement in loan to Colluli Mining Share Company:		
Carrying amount at the beginning of the period	15,204,815	9,283,670
Additional loans during the period	810,491	1,586,388
Foreign exchange gain/(loss)	229,012	(65,973)
Net gain/(loss) on financial assets at fair value through profit or loss	159,654	4,400,730
Carrying amount at the end of the period	16,403,972	15,204,815

6. INVESTMENT IN JOINT VENTURE

The Group has an interest in the following joint arrangement:

		Equity Interest		Carrying Value	
Project	Activities	30 June 2020 %	31 December 2019 %	30 June 2020 $	31 December 2019 $
Colluli Potash	Mineral Exploration	50	50	32,367,959	27,975,738

The Group acquired an interest in Colluli Mining Share Company (**CMSC**) at the date of its incorporation on 5 March 2014. This acquisition was in accordance with a shareholders agreement entered into with the Eritrean National Mining Corporation (**ENAMCO**) and executed in November 2013 (**Shareholders Agreement**). CMSC was incorporated in Eritrea, in accordance with the Shareholders Agreement, to hold the Colluli project with Danakali (through its wholly owned subsidiary STB Eritrea Pty Ltd) and ENAMCO holding 50% of the equity each.

Under the terms of the Shareholders Agreement, at the date of incorporation of CMSC, consideration for the acquisition of shares in CMSC equates to half of the allowable historical exploration costs transferred to CMSC by STB Eritrea Pty Ltd, a wholly owned subsidiary of Danakali. The balance of the allowable historic exploration costs transferred to CMSC are recoverable via a shareholder loan account (see note 5).

Notes to the Consolidated Financial Statements

The Group's 50% interest in CMSC is accounted for as a joint venture using the equity method. The following tables summarise the financial information of the Group's investment in CMSC at 30 June 2020.

	Half Year to 30 June 2020 $	Financial Year to 31 December 2019 $
Reconciliation of movement in investments accounted for using the equity method:		
Carrying amount at the beginning of the period	27,975,738	19,829,489
Additional investment during the period	5,006,274	11,121,696
Share of net profit / (loss) for the period	(767,718)	(2,957,269)
Other comprehensive income / (loss) for the period	153,665	(18,178)
Carrying amount at the end of the period	32,367,959	27,975,738

Summarised financial information of joint venture:

	30 June 2020 $	31 December 2019 $
Financial position (Aligned to Danakali accounting policies)		
Current assets:		
Cash and cash equivalents	1,167,091	81,067
Other current assets	147,786	109,984
	1,314,877	191,051
Non-current assets:		
Fixed assets	116,988	114,708
Development costs capitalised	3,675,363	204,109
Prepaid finance costs	12,046,633	12,046,633
Mineral property	31,924,731	31,302,663
	47,763,715	43,668,113
Current liabilities:		
Trade & other payables and accruals	(5,230,591)	(4,786,610)
	(5,230,591)	(4,786,610)
Non-current liabilities:		
Loan from Danakali Limited – at amortised cost	(13,898,651)	(12,901,373)
	(13,898,651)	(12,901,373)
NET ASSETS	29,949,350	26,171,181
Group's share of net assets	14,974,675	13,085,590
Reconciliation of Equity Investment:		
Group's share of net assets	14,974,675	13,085,590
Share of initial contribution on establishment of the Joint Venture not recognised by Danakali	(4,305,107)	(4,305,107)
Outside shareholder interest in equity contributions by Danakali	21,698,391	19,195,255
Carrying amount at the end of the period	32,367,959	27,975,738

	Half Year to 30 June 2020 $	Half Year to 30 June 2019 $
Financial performance		
Interest expense relating to the unwinding of discount on joint venture loan	(1,476,974)	(1,096,626)
Gain on re-measurement of loan to joint venture carried at amortised cost	1,654,755	574,965
Expenses recorded through profit and loss	(1,713,217)	(894,233)
LOSS FOR THE PERIOD	(1,535,436)	(1,415,894)
Group's share of total loss for the period	(767,718)	(707,947)

During the period ended 30 June 2020 no dividends were paid or declared (31 December 2019: Nil).

Colluli Mining Share Company has the following commitments or contingencies at 30 June 2020:

COMMITMENTS

Government

Under the mining agreement entered into between the Government of the State of Eritrea and Colluli Mining Share Company (CMSC) dated 31 January 2017 (Mining Agreement), CMSC is obliged to spend US$200 million on infrastructure and mine development within the area of the Colluli project mining licences in the 36 months following the provision of formal Notice of Commencement of Mine Development (the Notice) to the Ministry of Energy and Mines (MoEM). The Notice, lodged on 17 December 2019, was accepted by MoEM in July 2020 (ASX announcement 22 July 2020). The granted time to commence commercial production by the MoEM is 36 months from submission of the Notice (mid-December 2022).

Development

At 30 June 2020, CMSC had commitments of $1.2M in respect to the Reverse Osmosis (**RO**) plant contract.

Funding

CMSC successfully executed a mandate to provide fully underwritten debt finance facilities of US$200M to fund the construction and development of the Project (**Debt**). African development financial institutions African Export-Import Bank (**Afreximbank**) and Africa Finance Corporation (**AFC**) are acting as Mandated Lead Arrangers (**MLAs**).

Under the terms of the mandate, CMSC is responsible to pay all reasonable costs and expenses related to external technical, financial, insurance, tax and legal consultants required by the MLAs to assist in the due diligence. The mandate letter includes various fees, payable by CMSC to the MLAs, based on various future outcomes, including termination by CMSC.

At 30 June 2020, CMSC has commitments of $0.4M in annual agent fees (2019: $0.4M). CMSC will be liable for facility fees of $2.9M to the MLAs on the drawdown of the facility (2019: $2.9M). This commitment is subject to the performance of additional services by the MLAs in connection with the facility.

In addition, CMSC has commitments of $3.6M to the financial advisor upon the successful drawdown of the facility.

CONTINGENCIES

There are no material contingent liabilities of CMSC at balance date.

7. TRADE AND OTHER PAYABLES

	30 June 2020 $	31 December 2019 $
Trade payables	259,646	4,213,886
Accrued expenses (a)	83,936	7,580,871
Other payables	25,390	-
	368,972	11,794,757

(a) 31 December 2019 balance includes lenders fees of USD 5,275,000 ($7,520,545) associated with the debt financing.

8. ISSUED CAPITAL

	Half Year to 30 June 2020		Financial Year to 31 December 2019	
	Number of shares	$	Number of shares	$
(a) Share capital				
Ordinary shares fully paid	318,741,306	109,058,372	318,546,306	109,194,951
(b) Movements in ordinary share capital				
Beginning of the period	318,546,306	109,194,951	264,422,398	79,576,117
Issued during the period*:*				
– Issued at $0.543 per share on option exercise	-	-	250,000	135,750
– Issued at $0.558 per share on option exercise	-	-	900,000	502,200
– Issued on vesting of performance rights (iii)	195,000	-	15,000	-
– Issued at $0.60 per share pursuant to placement (i)	-	-	52,958,908	31,775,345
– Cost of capital raised (ii)	-	(136,579)	-	(2,794,461)
End of the period	318,741,306	109,058,372	318,546,306	109,194,951

(i) On 3 December 2019, the Company announced that AFC had agreed to make a US$50M (A$74M) strategic equity investment in Danakali to fund construction and project execution for Colluli (**Placement**). The subscription price of A$0.60 per Share represented a 5% discount to Danakali's 30-day VWAP. The Placement is being conducted in two tranches. The first tranche consisted of 52,958,908 new Shares issued at A$0.60 per Share to raise A$31.8M (US$21.5M); this tranche was completed on 10 December 2019 (**Tranche 1**). The second tranche totals US$28.5M (**Tranche 2**).

As previously announced, in light of the rapid spread of COVID-19 and its significant impact on global financial markets, Tranche 2 of AFC's equity funding has been be deferred to allow for the stabilisation of market and global conditions. Prior to the advance of Tranche 2 AFC requires satisfaction of certain conditions precedent relating to CMSC's debt financing and execution of certain documents ancillary to that debt financing, in addition to the senior debt agreements already executed.

The deferment of Tranche 2 allows the parties to work through satisfying many of the remaining conditions precedent to Danakali's debt financing, and give Danakali additional time to reassess its overall funding strategy and review a range of options appropriate to the Project's funding requirements beyond the completion of EPCM Phases 1 and 2. Danakali and AFC are working in good faith to agree the extent of AFC's requirements, and determine which of these require satisfaction before Tranche 2 is advanced. AFC extended the deadline for satisfaction of remaining conditions precedent for Tranche 2 of its investment to 21 November 2020. Approval of Danakali's shareholders remains a further condition precedent.

Success fees of $2.3M will be payable to financial advisors upon completion of the Tranche 2 of the Placement.

(ii) Includes fees paid or payable to financial advisers in relation to Tranche 1 funds raised pursuant to the Placement.

(iii) Includes 175,000 shares issued upon conversion of performance rights during the period in respect of which the performance hurdle had been met during the year ended 31 December 2019. The balance of 20,000 shares relates the issue of shares upon conversion of performance rights in respect of which the performance hurdle was met in the half-year period to 30 June 2020.

9. RESERVES

	Half Year to 30 June 2020 $	Financial Year to 31 December 2019 $
(a) Reserves		
Share-based payments reserve		
Balance at beginning of the period	11,962,019	11,231,923
Employee and contractor share options & performance rights	654,710	730,096
Balance at end of the period	12,616,729	11,962,019
Foreign currency translation reserve		
Balance at beginning of the period	1,961,252	1,979,430
Currency translation differences arising during the period	153,665	(18,178)
Balance at end of the period	2,114,917	1,961,252
Total reserves	**14,731,646**	**13,923,271**

(b) Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of share options and performance rights issued.

Foreign currency translation reserve

The foreign currency translation reserve records the exchange differences arising on translation of a foreign joint arrangement.

10. ACCUMULATED LOSSES

	Half Year to 30 June 2020 $	Financial Year to 31 December 2019 $
Balance at beginning of the period	(57,492,494)	(54,343,760)
Loss for the period	(1,677,355)	(3,148,734)
Balance at end of the period	(59,169,849)	(57,492,494)

11. SHARE BASED PAYMENTS

(a) Expenses arising from share-based payment transactions

Total expenses from share-based payment transactions recognised during the period were as follows:

	Half Year to 30 June 2020 $	Half Year to 30 June 2019 $
Options issued to directors and employees	583,804	173,584
Performance rights issued to directors, employees and consultants	70,906	23,889
Expense	654,710	197,473

(b) Option movement summary

Movements in the number of unlisted options (being those the subject of share based payments) on issue during the period is as follows:

Unlisted Option	Opening balance 1 Jan 2020	Issued	Exercised	Lapsed / Expired	Closing balance 30 Jun 2020
Exercise price $0.940 expiry date 19/05/2020	1,440,000	-	-	(1,440,000)	-
Exercise price $0.912 expiry date 11/05/2020	500,000	-	-	(500,000)	-
Exercise price $1.031 expiry date 24/01/2022	1,469,312	-	-	-	1,469,312 [a]
Exercise price $1.108 expiry date 13/03/2022	583,000	-	-	-	583,000 [a]
Exercise price $1.119 expiry date 28/03/2022	561,800	-	-	-	561,800 [a]
Exercise price $1.114 expiry date 30/05/2022	1,450,000	-	-	-	1,450,000 [b]
	6,004,112	-	-	(1,940,000)	4,064,112

[a] Vested options.

[b] Balance includes 725,000 vested options and 725,000 unvested options.

(c) Options issued during the period

There were no new options granted during the period.

As detailed in the Company's 2019 Annual Report, a short-term incentive (**STI**) scheme applies to executives in the Company and is designed to link any STI payment with the achievement of specified key performance indicators (KPI's) which are in turn linked to the Company's strategic objectives and targets. In line with the recommendation from the Remuneration and Nomination Committee, the Board formally approved the results of the FY19 key performance indicators (KPIs) on 23 March 2020. In order to preserve cash reserves, STI bonuses earned will be paid in equity by way of zero exercise price options (**ZEP Options**).

On 20 August 2020, the Board approved an offer of a total of 947,041 ZEP Options expiring 31 December 2021 with no vesting conditions to eligible employees of the Company. The Company has recorded a provisional share based payment expense of $478,256 associated with the anticipated issue of ZEP Options, which has been estimated in reference to the share price of $0.505 at 30 June 2020 and on the assumption that all ZEP Options offered will be taken up under the offer. This provisional amount will be revised upon formal offer and acceptance, which is expected to occur in the FY20 period.

(d) Performance Rights

Movements in the number of performance rights on issue during the period is as follows:

Performance Rights - Class	Opening balance 1 Jan 2020	Granted	Vested	Cancelled	Closing balance 30 Jun 2020
Class 1 [a]	280,000	-	-	-	280,000
Class 4 [a]	800,000	-	-	-	800,000
Class 5 [a]	100,000	-	(20,000)	-	80,000
Class 8 [a]	15,000	-	-	(15,000)	-
Class 9	900,000	-	-	-	900,000
	2,095,000	-	(20,000)	(15,000)	2,060,000

[a] Issued under the Performance Rights Plan which was re-approved at the annual general meeting of the Company held 17 November 2014.

The 2,060,000 Performance Rights on issue at 30 June 2020 are subject to the following performance conditions:

Class 1:
- 280,000 upon completion of securing finance for the development of the Colluli Potash Project.

Class 4:
- 800,000 upon commencement of construction of the production facility.

Class 5:
- 60,000 upon 6-month construction mark if safety, costs and schedule are all on target; and
- 20,000 upon completion of commissioning and completion of performance testing (performance testing to meet contractual requirements).

Class 9:
- 300,000 when construction at Colluli is considered to be 50% complete provided construction is materially on time and on budget and Danakali are meeting safety standards;
- 500,000 when CMSC commences commercial production at Colluli provided this is materially on time and on budget, meeting safety and product quality standards; and
- 100,000 when CMSC have shipped and been paid for 100,000t of SOP provided this occurs materially on time, meeting safety and product quality standards.

12. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 30 June 2020:

		Fair value	
	At amortised cost $	through profit and loss $	through other comprehensive income $
Financial Assets:			
Trade and other receivables	99,847	-	-
Total current	99,847	-	-
Receivable	-	16,403,972	-
Total non-current	-	16,403,972	-
Total Assets	99,847	16,403,972	-
Financial liabilities:			
Trade and other payables	368,972	-	-
Total current	368,972	-	-
Total Liabilities	368,972	-	-

Fair values:

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 30 June 2020:

	Carrying amount $	Fair value $
Financial Assets:		
Trade and other receivables	99,847	99,847
Total current	99,847	99,847
Receivable	16,403,972	16,403,972
Total non-current	16,403,972	16,403,972
Total Assets	16,503,819	16,715,100
Financial liabilities:		
Trade and other payables	368,972	368,972
Total current	368,972	368,972
Total Liabilities	368,972	368,972

The current receivables carrying values and payables carrying values approximates fair values due to the short-term maturities of these instruments.

The fair value of the long-term receivable was determined by discounting future cashflows using a current market interest rate of 21% which incorporates an appropriate adjustment for credit risk. The timing of cash receipts has been updated to consider the timing of the completion of construction, timing of project financing and alignment to the indicative debt financing terms. The fair value measurement for the long-term receivable is categorised as Level 3 in the fair value hierarchy as the estimated market interest rate is an unobserved input in the valuation. The fair value of the loan is sensitive to the discount rate applied.

13. SUBSIDIARY

Interest in subsidiary

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy:

Name	Principal Activities	Country of Incorporation	Class of Shares	Equity Holding 30 June 2020 %	Equity Holding 31 December 2019 %
STB Eritrea Pty Ltd	Investment in Potash Exploration	Australia	Ordinary	100	100

The proportion of ownership interest is equal to the proportion of voting power held.

14. RELATED PARTY INFORMATION

Key Management Personnel (KMP)

With respect to new key management personnel (**KMP**) appointments during the half-year ended 30 June 2020, the Company has entered into arrangements regarding remuneration for services provided, the key terms of which are summarised below.

Mr Samaila Zubairu, Non-Executive Director (Appointed 23 April 2020):

- Entitled to receive $48,000 per annum for the provision of non-executive director services.

Mr Taiwo Adeniji, Non-Executive Director (Appointed 23 April 2020):

- Entitled to receive $48,000 per annum for the provision of non-executive director services.

Mr Neil Gregson, Non-Executive Director (Appointed 3 August 2020):

- Entitled to receive $48,000 per annum for the provision of non-executive director services.

The Company has entered into revised arrangements with the following KMP during the half-year ended 30 June 2020:

Mr Niels Wage, Chief Executive Officer:

- Effective from 1 January 2020, Mr Wage's salary was increased to €257,500 per annum plus superannuation at the Australian statutory rate

- In response to COVID-19, effective from 1 May 2020 until 31 October 2020, Mr Wage's salary has been reduced by 20% to €206,000 per annum plus superannuation at the Australian statutory rate

Mr Stuart Tarrant, Chief Financial Officer:

- Effective from 1 January 2020, Mr Tarrant's salary was increased to $306,000 per annum inclusive of superannuation
- In response to COVID-19, effective from 1 May 2020 until 31 October 2020, Mr Tarrant's salary has been reduced by 20% to $244,800 per annum inclusive of superannuation.

Mr Seamus Cornelius, Mr Paul Donaldson, Mr John Fitzgerald, Mr Robert Connochie, Ms Zhang Jing, Mr Andre Liebenberg:
In response to COVID-19, effective from 1 May 2020 until 31 October 2020, the base fees each Non-Executive Director is entitled to receive was reduced from $60,000 to $48,000 per annum (**Revised Director Fees**).

Offer of ZEP Options

On 20 August 2020, Mr Niels Wage and Mr Stuart Tarrant received an offer of 471,030 and 241,968 ZEP Options respectively (refer note 11(c) for details).

Transactions with directors, director related entities and other related parties

AFC is deemed to be a related party of the Company on the basis of significant influence. The related party status applies from 23 April 2020, being when AFC held an interest of 16.6% in the issued capital of the Company and the date that Danakali appointed two AFC nominees to its Board of Directors.

AFC and Afreximbank (together the **Mandated Lead Arrangers**), have executed documentation for the provision of US$200M in senior debt finance to CMSC (each Mandated Lead Arranger providing US$100M). The facility allows drawdown of CMSC senior debt on satisfaction of customary conditions precedent (*refer ASX announcement 23 December 2019*) for a project financing facility of this kind and includes all project approvals required to develop the project, and the balance of the equity contribution having been raised.

Additionally, AFC executed a Subscription Agreement to make a US$50M strategic equity investment in Danakali. The Placement is being conducted in two tranches. The first tranche consisted of approximately 53M new Shares issued at A$0.60 per Share to raise A$31.8M (US$21.5M) and was completed on 10 December 2019. The second tranche will consist of US$28.5M (refer to note 8(i)).

AFC President and CEO, Samaila D. Zubairu, and AFC Senior Director for Investment Operations & Execution, Taiwo Adeniji, joined Danakali's Board as Non-Executive Directors on 23 April 2020. These appointments are in accordance with the terms of AFC's US$50M Subscription Agreement which provides AFC the right to appoint two nominees to the Board of Danakali provided AFC's Danakali ownership remains above certain thresholds. As at the date of release of this report, AFC holds two out of seven board seats on the Company.

Subsequent to the half-year end, on 14 July 2020, the Company executed a mandate with AFC for the provision of capital raising advisory services. Pursuant to the mandate, AFC will be entitled to receive an industry standard transaction fee on capital raising funds receipted by the Company in respect of equity investors identified within the mandate with AFC.

15. CONTINGENCIES

AFC executed a Subscription Agreement to make a US$50M strategic equity investment in Danakali. The Placement is being conducted in two tranches. The first tranche consisted of approximately 53M new Shares issued at A$0.60 per Share to raise A$31.8M (US$21.5M), and was completed on 10 December 2019. The second tranche encompasses the remaining US$28.5M (**Tranche 2**). The Company is liable to pay success fees of $2.3M upon the completion of the Tranche 2 equity raise.

16. COMMITMENTS

	Half Year to 30 June 2020 $	Financial Year to 31 December 2019 $
Lease commitments (Group as lessee):		
Operating leases (non-cancellable)		
Minimum lease payments		
- Within one year	17,752	13,640
- Later than one year but not later than five years	-	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	17,752	13,640
Advisory fees pursuant to contracts	-	206,104
Total Commitments	17,752	219,744

Operating Leases:

The minimum future payments above relate to non-cancellable leases for offices.

17. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Mine Development Approval

On 22 July 2020, the Company announced that the Notice of Commencement of Mine Development (the **Notice**) which CMSC lodged with the Eritrean Ministry of Energy & Mines (**MoEM**) had been accepted by the MoEM. Additionally, upon acceptance of the Notice the MoEM has granted time to commence commercial production to be within 36 months from submission of the Notice (mid-December 2022).

Board Changes

On 3 August 2020, Mr Neil Gregson was appointed as a Non-Executive Director. Mr Paul Donaldson and Mr Andre Liebenberg resigned as Non-Executive Directors on 3 August 2020. Mr Paul Donaldson will remain actively engaged with Danakali as a Senior Consultant.

AFC Mandate Letter

On 14 July 2020, the Company executed a mandate with AFC for the provision of capital raising advisory services. Pursuant to the mandate, AFC will be entitled to receive an industry standard transaction fee on capital raising funds receipted by the Company in respect of equity investors identified within the mandate with AFC. Refer to Note 14 for further details.

There are no other events subsequent to 30 June 2020 and up to the date of this report that would materially affect the operations of the Group or its state of affairs which have not otherwise been disclosed in this financial report.

Directors' Declaration

In the directors' opinion:

1. the financial statements and notes of Danakali Limited for the half-year ended 30 June 2020 are in accordance with the *Corporations Act 2001*, including:

   a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   b) giving a true and fair view of the entity's financial position as at 30 June 2020 and of its performance for the half year ended on that date; and

2. there are reasonable grounds to believe that Danakali Limited will be able to pay its debts as and when they become due and payable subject to achieving the matters set out in note 2(c).

This declaration is made in accordance with a resolution of the directors.

Seamus Ian Cornelius

NON-EXECUTIVE CHAIRMAN

Perth, 27 August 2020

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Independent auditor's review report to the members of Danakali Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Danakali Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of matter – material uncertainty related to going concern

Without qualifying our conclusion, we draw attention to Note 2(c) in the financial report. The matters as set forth in Note 2(c) indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
27 August 2020