DANAKALI

Announcement | Wednesday, 2 September 2020

Colluli Project Update

EPCM Phase 2 Complete – updated FEED and Schedule; Optimisation opportunities defined

- EPCM Phase 2 deliverables from DRA review has been completed
- Project now benefits from a more defined scope and de-risked design and the robustness of the FEED results have been confirmed
- Design optimisations identified with environmental and economic improvements:
  - Beach Well intake confirmed for Water Intake Treatment Area (WITA) with lower environmental impact
  - Dry harvesting method from backend recovery ponds with less complex processing design
  - Selection of RA International as camp provider gives Colluli access to a fit for purpose, manufactured camp.

Danakali Limited (ASX: DNK, LSE: DNK, **Danakali**, or the **Company**) is pleased to provide this project update of the Colluli Potash Project (**Colluli** or the **Project**), located in Eritrea, East Africa. The Project is 100% owned by the Colluli Mining Share Company (**CMSC**), a 50:50 joint venture between Danakali and the Eritrean National Mining Corporation (**ENAMCO**).

FEED Updated: We are pleased to advise that EPCM Phase 1 and 2, which relate to the process plant and associated infrastructure work have been completed. These phases provide greater certainty of scope definition following the third-party review by DRA Global.

Optimisation: In the EPCM Phases 1 and 2 a number of optimisation opportunities were identified. Examples are:

- WITA area: A trade-off study has confirmed the use of a Beach Wells intake method is preferred in lieu of a subsea intake pipeline. This optimisation is beneficial to the environment, minimising risk to the subsea and coastal habitats by avoiding onshore pipeline construction and offshore installation. Furthermore, the design eliminates chlorine dosing and improves the quality of the discharge water as the pre-treatment feedwater requires less chemicals.
- As announced on 20 August 2020, RA International was selected as the preferred Camp provider. With a pre-manufactured, high quality camp that is containerised and ready to mobilize, it can be installed at a significant discount and immediate economic benefits are created. The short availability of this camp significantly de-risks our execution schedule and allows an earlier commencement of site activities.

Niels Wage, CEO of Danakali, commented: *"I am pleased to announce the results of this review update giving increased certainty and understanding of the Colluli Project schedule. The detail review process again validates the robustness of the project and previous technical studies. It is also pleasing to see that a number of optimisation opportunities in the process are established that will further de-risk the project".*

Tony Harrington, Project Director of Danakali, commented: "*In phases 1&2 of the EPCM work we have been working closely with DRA on the review of the 2018 FEED study; I am pleased to see that original FEED study is very robust and we have progressed to a more defined scope and de-risked design, an example of this, that I am proud of, is our WITA study results that among other things demonstrates a lower environmental impact than in our already approved Social Environmental Impact Assessment and the Social Environmental Management Plan.*

Announcement authorised for release by the Board of Danakali.

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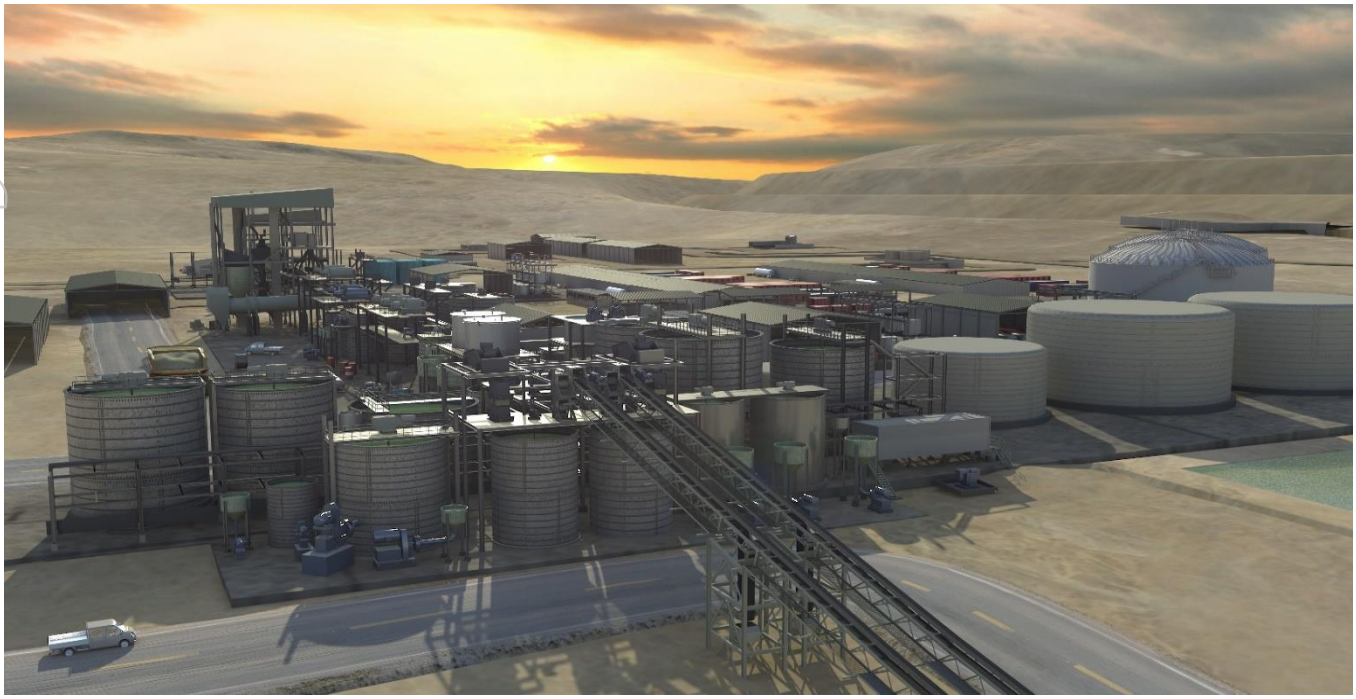

Diagrammatic Representation of Colluli SOP Plant.

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Refer to ASX Announcement on 29 Jan 2018 headed "FEED completion confirms Colluli as the most advanced and economically attractive SOP greenfield development project". All material assumptions underpinning the FEED results continue to apply and have not materially changed.

About Danakali

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

The Project is located in the Danakil Depression region of Eritrea, East Africa, and is ~75km from the Red Sea coast, making it one of the most accessible potash deposits globally. Mineralisation within the Colluli resource commences at just 16m, making it the world's shallowest known potash deposit. The resource is amenable to open cut mining, which allows higher overall resource recovery to be achieved, is generally safer than underground mining, and is highly advantageous for modular growth.

The Company has completed a Front End Engineering Design (**FEED**) for the production of potassium sulphate, otherwise known as Sulphate of Potash or **SOP**. SOP is a chloride free, specialty fertiliser which carries a substantial price premium relative to the more common potash type; potassium chloride (or **MOP**). Economic resources for production of SOP are geologically scarce. The unique composition of the Colluli resource favours low energy input, high potassium yield conversion to SOP using commercially proven technology. One of the key advantages of the resource is that the salts are present in solid form (in contrast with production of SOP from brines) which reduces infrastructure costs and substantially reduces the time required to achieve full production capacity.

The resource is favourably positioned to supply the world's fastest growing markets. A binding take-or-pay offtake agreement has been confirmed with EuroChem Trading GmbH (**EuroChem**) for up to 100% (minimum 87%) of Colluli Module I SOP production.

Development Finance Institutions, Africa Finance Corporation (**AFC**) and African Export Import Bank (**Afreximbank**), have obtained formal credit approval to provide CMSC with US$200M in senior debt finance. The credit documentation was executed in December 2019, allowing drawdown of CMSC senior debt on satisfaction of customary conditions precedent. This represents the majority of funding required for the development and construction of the Colluli. AFC has also executed a Subscription Agreement to make a US$50M strategic equity investment in Danakali. The receipt of the first tranche of US$21.5M (A$31.8M) allowed commencement of the development.

Project execution has commenced, and SOP production is expected during 2022. The Company's vision is to bring Colluli into production using the principles of risk management, resource utilisation and modularity, using the starting module (**Module I**) as a growth platform to develop the resource to its full potential.

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.

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