



DANAKALI

DANAKALI LTD

ABN 56 097 904 302

AUDITED FINANCIAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2020

Corporate Information

Directors

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

Executive Management

Stuart Tarrant (Chief Financial Officer)

Joint Company Secretary

Catherine Grant Edwards
Melissa Chapman

Registered Office and Principal Place of Business

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NORTH PERTH WA 6006
Telephone: +61 (0)8 6266 8368

Bank

National Australia Bank
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PERTH WA 6005

Auditors

Ernst and 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)

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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

Stock Exchange Listing

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

American Depositary Receipts

The Bank of New York Mellon sponsors DNK's Level 1 American Depositary 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:
DNK's ADR information can also be viewed here:

<http://www.otcm Markets.com/stock/DNKLY/quote>
<https://www.adrbnymellon.com/?cusip=23585T101>

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

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Directors' Report

The directors present their report together with the financial statements of the consolidated entity being, Danakali Limited (**Danakali** or the **Company**) and its controlled entities (the **Group**) for the financial year ended 31 December 2020.

DIRECTORS

The names and details of the Company's directors in office during the financial period and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

The Company restructured its permanent sub-committees on 23 January 2020. The Audit Committee was reconstituted to become the Audit and Risk Committee, and the Technical and Risk Committee was ceased..

Names, qualifications, experience and special responsibilities:

Seamus Ian Cornelius

Non-Executive Chairman, LLB, LLM, initially appointed Non-Executive Chairman 15 July 2013, transitioned to Executive Chairman 14 June 2018, resumed Non-Executive Chairman role 25 June 2019, and transitioned to Executive Chairman 26 February 2021)

Mr Cornelius is a corporate lawyer and former partner of one of Australia's leading international law firms. He has a high degree of expertise in cross-border transactions, particularly in the resources and finance sectors.

Mr Cornelius was appointed as Non-Executive Chairman of the Company on 15 July 2013 and acted in the role of Executive Chairman from 14 June 2018 to 25 June 2019. As announced on 26 February 2021, Mr Cornelius was re-appointed as Executive Chairman.

Mr Cornelius is currently the Non-Executive Chairman of Buxton Resources Ltd (appointed 29 November 2010), Element 25 Limited (appointed 30 June 2011), and Duketon Mining Ltd (appointed 8 February 2013).

Special Responsibilities:

During the year Mr Cornelius was a member of the Audit and Risk Committee (and Audit Committee), a member of the Remuneration and Nomination Committee, and a member of the Technical and Risk Committee.

John Daniel Fitzgerald

Independent Non-Executive Director, CA, appointed 19 February 2015

Mr Fitzgerald has over 30 years of finance and corporate advisory experience in the resource sector.

Previously, he held senior positions at NM Rothschild and Sons, Investec Bank Australia, Commonwealth Bank, HSBC Precious Metals and Optimum Capital.

Mr Fitzgerald is a Non-Executive Director of Northern Star Resources Limited (appointed 30 November 2012) and Medallion Metals Limited (appointed 5 October 2020).

Previously Mr Fitzgerald was Non-Executive Chairman of Exore Resources Limited (23 December 2015 to 25 September 2020).

Mr Fitzgerald is a Chartered Accountant, a Fellow of the Financial Services Institute of Australasia (FINSIA) and a graduate member of the Australian Institute of Company Directors.

Special Responsibilities:

During the year Mr Fitzgerald was Chairman of the Audit and Risk Committee (and Audit Committee) and a member of the Remuneration and Nomination Committee.

Zhang Jing

Non-Executive Director, M.Sc, appointed 17 June 2016

Ms Zhang has more than 15 years of international trading and business development experience in China and previously held investment and project managerial roles in public listed companies.

Ms Zhang holds a Master's degree in International Consultancy and Accounting from the university of Reading in the United Kingdom.

Special Responsibilities:

None.

Directors' Report

Robert Gordon Connochie

Independent Non-Executive Director, B.A. Sc, M.B.A., appointed 6 February 2017

Mr Connochie is a highly-experienced potash and mining specialist with over 40 years of industry experience. He brings extensive senior line management experience from the potash industry, including marketing, corporate development, evaluations, financing and acquisitions.

Previously, Mr. Connochie held positions as Chairman of Canpotex (a world leading potash exporter for over 40 years) and Chairman of Behre Dolbear Capital, Inc.

Further, Mr Connochie was Chairman and CEO of Potash Company of America, CEO Asia Pacific Potash, Director of Athabasca Potash, Chairman of the Phosphate and Potash Institute, Director of the Fertiliser Institute, and Director of the Saskatchewan Potash Producers Association.

Special Responsibilities:

During the year Mr Connochie was a member of the Audit and Risk Committee (appointed on 25 August 2020), and a member of the Technical and Risk Committee.

Samaila Zubairu

Non-Executive Director, FCA, appointed 23 April 2020

Mr Zubairu is African Finance Corporation's (**AFC**) President and Chief Executive Officer. Previously, he was the CEO of Africapital Management Limited, where he established a joint venture with Old Mutual's African Infrastructure Investment Managers to develop a fund for infrastructure private equity across West Africa, and Chief Financial Officer for Dangote Cement Plc. Prior to that, he was the Treasurer for the Dangote Group during its transformation from a trading company to an industrial conglomerate. He has undertaken investments of over US\$3 billion, financing green-field project finance, acquisitions, corporate transformation, privatization and equity capital market transactions.

Mr Zubairu is an Eisenhower Fellow and sits on the Eisenhower Fellowship's Global Network Council and the President's Advisory Council. He holds several non-executive board positions including being the advisory board member for KSE Africa, a leading operations and management provider of captive power plants in the mining sectors in Botswana and Nigeria. He is also a Fellow of the Institute of Chartered Accountants of Nigeria (FCA) and holds a BSc in Accounting from Ahmadu Bello University, Nigeria.

Special Responsibilities:

None.

Taiwo Adeniji

Non-Executive Director, HCIB, appointed 23 April 2020

Mr Adeniji is Senior Director for Investment Operations & Execution at AFC, where he has responsibility, amongst other things, for the institution's investments in oil & gas, and mining projects. Taiwo has had over 26 years of post-graduate and extensive professional and managerial experience in several areas of banking and finance. He has deep knowledge and extensive experience with infrastructure and mining policy issues, as well as the analysis, evaluation and financing of infrastructure and mining projects. Mr Adeniji has supervised AFC's investments in mining projects that spanned different products, including gold, copper, bauxite, and iron ore, as well as in different geographies, including countries in West, North and Central Africa. From 1994 to 2007, Mr Adeniji worked with the African Development Bank, focussing largely on infrastructure investments and financial sector development.

Mr Adeniji's academic background is in economics and finance. He is an Honorary Senior Member (HCIB) of the Chartered Institute of Bankers of Nigeria.

Special Responsibilities:

None.

Neil Gregson

Independent Non-Executive Director, Qualified Mining Engineer, appointed 3 August 2020

Mr Gregson is an experienced resource sector investor having spent over 30 years managing investments predominantly in mining and energy companies.

Mr Gregson's previous roles included portfolio manager in J.P. Morgan Asset Management's Global Equities Team based in London and responsible for global natural resource mandates. Prior investment roles were with CQS Asset Management as a Senior Portfolio Manager, with a focus on the natural resource sector and Credit Suisse Asset Management as Head of Emerging Markets and related sector funds.

Directors' Report

Mr Gregson began his career holding various positions at mining companies, including a role as a mining investment analyst at South African company Gold Fields. He is a qualified mining engineer.

Mr Gregson is currently a Director of Uranium Royalty Corp. (appointed 14 October 2020) and Atalaya Mining Plc (appointed 10 February 2021).

Special Responsibilities:

During the year Mr Gregson was Chairman of the Remuneration and Nomination Committee (appointed on 25 August 2020).

Paul Michael Donaldson

Non-Executive Director, Master's Degree - Mining Engineering, Master's Degree - Business and Technology, BEng Chemical (Honours, University Medal), Assoc Dip. Applied Science (Metallurgy), initially appointed Chief Operating Officer 29 November 2012, transitioned to Chief Executive Officer 1 February 2013 and additionally appointed Managing Director 29 April 2014, transitioned from Chief Executive Office and Managing Director role to Non-Executive Director role on 21 December 2017, resigned 3 August 2020

Mr. Donaldson, in his previous role as the Company's CEO and Managing Director, redefined the product and development path and process for the Project, overseeing the pre-feasibility, definitive feasibility and FEED study phases. In December 2017, he transitioned to his role as Non-Executive Director. Mr Donaldson is also currently Chief Transformation Officer at Pacific National, Australia's largest rail operator.

Special Responsibilities:

In the period prior to his resignation, Mr Donaldson was a member of the Remuneration and Nomination Committee, and a member of the Technical and Risk Committee.

Andre Liebenberg

Independent Non-Executive Director, MBA, BSc (Elec) Eng., appointed 2 October 2017, resigned 3 August 2020

Mr Liebenberg is an experienced mining industry professional with extensive investor, market, finance, business development and leadership experience, and has spent over 25 years in private equity, investment banking, and held senior roles within QKR Corporation and BHP.

In addition to the CFO role at QKR Corporation, Mr. Liebenberg occupied senior executive roles within BHP including Head of Group Investor Relations, as well as CFO roles for the Energy Coal and Diamonds and Speciality Products divisions. These roles were based in London, Melbourne and Sydney.

Mr Liebenberg's experience within BHP also included key roles in the BHP merger with Billiton, the bid for Rio Tinto and the bid for Potash Corp. of Saskatchewan. Prior to BHP, Mr Liebenberg worked at UBS in London and Standard Bank Group in South Africa.

Mr Liebenberg is currently the Executive Director and Chief Executive Officer of Yellow Cake Plc (appointed 1 June 2018) and Non-Executive Director of Zeta Resources Limited (appointed 30 December 2019).

Special Responsibilities:

In the period prior to his resignation, Mr Liebenberg was the Chairman of the Remuneration and Nomination Committee, and a member of the Audit and Risk Committee (and Audit Committee).

COMPANY SECRETARY

Catherine Grant-Edwards and Melissa Chapman

Appointed Joint Company Secretary 7 July 2017

Ms Melissa Chapman (*Certified Practising Accountant (CPA), AGIA/ACIS, GAICD*) and Ms Catherine Grant-Edwards (*Chartered Accountant (CA)*) were appointed as Joint Company Secretary on 7 July 2017. Ms Chapman and Ms Grant-Edwards are directors of Bellatrix Corporate Pty Ltd (**Bellatrix**), a company that provides company secretarial and accounting services to a number of ASX listed companies. Between them, Ms Chapman and Ms Grant-Edwards have over 30 years' experience in the provision of accounting, finance and company secretarial services to public listed resource and private companies in Australia and the UK, and in the field of public practice external audit.

Directors' Report

INTERESTS IN SHARES, OPTIONS AND PERFORMANCE RIGHTS OF THE COMPANY

As at the date of this report, the interests of the directors in the shares, options and performance rights on issue by Danakali Limited were:

Director	Ordinary Shares	Options over Ordinary Shares	Performance Rights
S Cornelius	13,491,126	301,040	-
J Fitzgerald	526,453	-	-

PRINCIPAL ACTIVITIES

The principal activity of the Group during the period was advancing the Colluli Potash Project in Eritrea, East Africa. There was no significant change in the nature of the Group's activities during the financial year ended 31 December 2020.

CORPORATE STRUCTURE

Danakali Limited is a company limited by shares that is incorporated and domiciled in Australia.

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 (*ASX announcement 25 February 2015 and <http://circumminerals.com/resources>*).

Colluli is located approximately 75km from the Red Sea coast providing unrivalled logistics potential. Colluli also boasts the shallowest known mineralisation globally. 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: Sylvinitite, 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% K₂O for 260Mt of contained SOP equivalent (*ASX announcement 25 February 2015*). 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.

Due to the massive resource, Colluli has the potential to produce a diverse and high volume of products however as a start up development, focus has been placed on the highest value commodity, SOP. Technical studies have been undertaken for the production of high-quality SOP. The final Colluli study, Front-End Engineering Design (**FEED**) (*ASX announcement 29 January 2018*), defined in initial SOP development:

- Module I – 472ktpa SOP production
- Module II – additional 472ktpa SOP production commencing in year 6

The above delivers a mine life of approximately 200 years, demonstrating the capacity of Colluli to further expand and support decades of growth beyond Modules I and II.

FEED demonstrates the robust project economics. The premium commodity combined with industry leading capital intensity and first quartile operating costs results in a Project Net Present Value (**NPV₁₀**) of US\$902M and Internal Rate of Return (**IRR**) of 29.9% (Post tax). The Danakali economic outcomes were an NPV₁₀ of US\$439M and IRR of 31.3% (Post tax and gearing).

Directors' Report

Colluli's diversification potential beyond SOP includes the option to produce additional potash and salt products such as MOP, SOP-M, kieserite ($\text{MgSO}_4 \cdot \text{H}_2\text{O}$), gypsum ($\text{CaSO}_4 \cdot 2\text{H}_2\text{O}$), magnesium chloride (MgCl_2), and rock salt (NaCl). The Colluli SOP Mineral Resource also comprises an 85Mt Kieserite (magnesium sulphate) Mineral Resource (ASX announcement 15 August 2016). Kieserite is a suitable fertiliser for magnesium deficient soils. A 347Mt Rock Salt (sodium chloride) Mineral Resource (ASX announcement 23 September 2015) has also been established at Colluli. Unprocessed Rock Salt can be used in a number of chemical processes, for de-icing, and as a feed for the production of table salt. Colluli has in place a 10 year take or pay Offtake (ASX announcement 12 June 2018), executed Senior Debt documentation for a \$200M facility with African Finance Corporation (**AFC**) and African Export Import Bank (**Afreximbank**) (ASX announcement 23 December 2019) and issued US\$21.5M of Danakali equity to AFC (ASX announcement 3 December 2019).

Project Execution

EPCM Phase 1 and 2 of project execution, which relates to the process plant and associated infrastructure work has been completed. The project now benefits from a more defined scope and de-risked design and the robustness of the FEED results have been confirmed. The capital estimate has been revised and remains within the FEED cost estimate (ASX announcement 2 September 2020).

Early procurement commenced during 2020 with the order of the Reverse Osmosis (**RO**) Plant. This equipment will be used to provide potable and construction water prior to the commissioning of the main Anfile Bay Water Intake Treatment Area (**WITA**) which will be developed to provide higher volumes of water to support SOP production. The Group has considered whether COVID-19 had an impact for the Group for the year ended 31 December 2020. As the Project is still in development and has not commenced operations, the impact is limited, however, there is an uncertainty in the impact of COVID-19 in the future as it relates to the extractive activities.

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 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.

In accordance with the Mining Agreement, CMSC is obliged to spend US\$200 million on infrastructure and mine development within the area of the Colluli project mining licences, and commence Commercial Production 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, dated 16 December 2019, was accepted by MoEM on 21 July 2020 (ASX announcement 22 July 2020). The granted time by the MoEM to commence Commercial Production and spend US\$200M on infrastructure and mine development is 36 months from submission of the Notice (15 December 2022).

A Social and Environmental Impact Assessment (**SEIA**) and associated Social and Environmental Management Plans (**SEMPs**) have been completed, consistent 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 SEMP's were signed off by the Ministry in August 2018. The SEMP's are a cornerstone of the environmental, social and safety management system being developed by CMSC and provide the foundation for compliance.

The senior lenders have reviewed the SEIA and SEMP's and determined that the foundation of Social and Environmental compliance was robust which allowed execution of formal documentation for the US\$200M facilities. The review also identified some outstanding documents, captured as an Environmental and Social Action Plan (ESAP), that required completion as a requisite to drawdown of the facilities. These specific outstanding documents are required in CMSC's SEMP's, procedures, forms and guidelines and once completed ensure alignment with the Equator Principles and the IFC Performance Standards. Throughout 2020, considerable efforts were made to close out the ESAP. As of December 31st, 2020, the Company had completed 85% of the ESAP requirements with plans in 2021 to have the process finalised well in advance of project construction.

Carbon Neutral SOP

Early assessment work on the solar and wind energy potential of Colluli has been completed and this has confirmed that both of these renewable energy sources can be incorporated into the future generation of power for the Project. Our initial goal is to create a responsible, environmentally friendly, zero carbon, premium fertilizer business that clearly links Colluli SOP with the production of nutritious crops, bolsters global food and nutrition security, and improves millions of lives.

Directors' Report

MARKETING AND PROJECT FINANCE

Off-take

The company holds a binding take-or-pay offtake agreement 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 was 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 (*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. There is no deadline for the completion of such conditions precedent however the project is required to be completed by the Longstop Date which is 31 March 2023.

In addition to CMSC senior debt, AFC made a strategic equity investment in Danakali for approximately 53M new Shares issued at A\$0.60 per Share to raise A\$31.8M (US\$21.5M), which was completed on 10 December 2019. A second tranche totaling US\$28.5 was planned to be executed in 2020 but in light of the rapid spread of COVID-19 and its significant impact on global financial markets, Tranche 2 was deferred to allow for the stabilisation of market and global conditions.

On 1 June 2020, it was announced that Danakali and AFC had agreed on a deadline extension of 21 November 2020 to satisfy remaining conditions precedent for Tranche 2 funding.

On 26 October 2020, the Company announced that it is unlikely that all such conditions precedent will be satisfied and as such, Tranche 2 will not complete in accordance with the terms of the Subscription Agreement.

The Company continues to work with AFC as part of a total funding solution for the Project.

The Company has engaged a range of advisers and brokers to support our funding requirements, including the appointment of AFC Advisory on an arm's length basis. We are pursuing multiple options in partnership with ENAMCO, including debt, equity and quasi-equity instruments.

Key Operational Contracts

The following operational contracts are key to advancing the project.

Mining – undergoing negotiations with preferred mining services provider

Earth Moving Worldwide (**EMW**) is the Company's preferred contractor for Colluli's mining services scope, which covers the pre-production period (development) plus the first 5 years of production. The scope includes the provision, operation and maintenance of excavation, haulage and dewatering equipment. EMW has extensive global experience in mining services, earthworks and water management and will provide the Project with strong commercial and technical support.

The Mining Services Contract is complete for all material matters. Execution of the contract will follow successful completion of the project financing.

Power – Finalising documentation

Aggreko have been appointed as preferred power supply contractor for a 12MW HFO power plant at Colluli. Under 5-year Built, Own, Operate Transfer (**BOOT**) contract, Aggreko will supply, commission, operate and maintain the power plant, then transfer the equipment to CMSC. Aggreko will provide the funding for the power solution which provides certainty over delivery of this preferred solution (*ASX announcement 8 October 2020*).

The Power Contract is complete for all material matters. Execution of the contract is expected during Q2 2021.

The early assessment work on the solar and wind energy potential of Colluli has been completed and this has confirmed that both of these renewable energy sources can be incorporated into the future generation of power for the Project. The Company will now work with Aggreko on further developing these solutions. Aggreko's ambition is to be carbon net zero, aligning with the Paris Climate Agreement, by helping its customers meet their sustainability targets.

Camp – Contracts near completion

A contract with RA International (RAI) to provide the camp is well advanced and early shipment of the accommodation camp and infrastructure building to Eritrea has been negotiated with RAI. Execution of the contract is expected during Q2 2021.

EPCM

The Company has engaged DRA Global (**DRA**) to support Project Execution through the provision of Engineering, Procurement, Construction and Management (**EPCM**) services. DRA is a high quality, multi-disciplinary global project management and engineering group with strong African experience and EPCM delivery capability. The scope of DRA's contract includes:

Directors' Report

- all aspects of design, project management, procurement, construction management and supervision;
- commissioning of the complete process plant and associated infrastructure; and
- awarding and overseeing major contracts such as early works, earthworks, structural, mechanical, piping, electrical and instrumentation works, laboratory and permanent camp.

In addition, multinational professional services company Turner & Townsend has been engaged to support the Owner's Team.

Project Execution advanced during the year, most notably through the completion of the first two stages of the EPCM scope.

CORPORATE

Board Changes

Africa Finance Corporation (**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.

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.

Refer to events occurring after the balance date for board changes that have occurred subsequent to 31 December 2020.

Management Changes

New Chief Operating Officer (COO) appointed

Dr Rod McEachern, previously Director for Process and Product Innovation at Nutrien and PotashCorp, was appointed on 3 December 2020 as Danakali Chief Operating Officer (**COO**). Dr McEachern holds a Ph.D in Physical Chemistry from the University of Saskatchewan. Bringing with him significant experience in potash mining, production, harvesting, process engineering, logistics and safety, he has been given the responsibilities for the design and set up of operation readiness including safe and sustainable mining and processing operation for CMSC.

Dr McEachern's international potash experience spans three decades with his most recent roles in senior management as Director, Process and Product Innovation at Nutrien. He held prior roles with Potash Corp as Senior Director for Innovation and General Manager and held the Vice President of Operations role at Arab Potash in Amman, Jordan.

Refer to events occurring after the balance date for management changes that have occurred subsequent to 31 December 2020.

Shares

During the year, the Company issued the following fully paid ordinary shares:

- 20,000 shares on vesting of performance rights (Class 5: 20,000)
- 25,000 shares on vesting of performance rights (Class 6: 25,000)
- 50,000 shares on vesting of performance rights (Class 8: 50,000)
- 100,000 shares on vesting of performance rights (Class 9: 100,000)

At 31 December 2020, there were a total of 318,741,306 fully paid ordinary shares on issue.

Options

The following unlisted options were issued during the year:

- 947,041 unlisted options at an exercise price of \$0.00 each expiring 31 December 2021 to management in lieu of cash payments under the Company's short-term incentive scheme approved by the Board on 20 August 2020
- 200,000 unlisted options at an exercise price of \$0.664 each expiring 8 July 2023

A further 250,000 unlisted options at an exercise price of \$0.501 each expiring 3 December 2023 were granted during the year and formally issued on 12 February 2021.

There were no unlisted options exercised and converted to shares during the year.

The following unlisted options lapsed during the year:

- 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 31 December 2020, there were a total of 5,211,153¹ unlisted options on issue at various exercise prices and expiry dates.

Directors' Report

Performance Rights

There were no new performance rights issued during the year.

The following performance rights vested and were converted to shares during the year:

- 20,000 Class 5 performance rights
- 25,000 Class 6 performance rights
- 50,000 Class 8 performance rights
- 100,000 Class 9 performance rights

The following performance rights were forfeited during the year:

- 15,000 Class 7 performance rights²
- 15,000 Class 8 performance rights
- 800,000 Class 4 performance rights

At 31 December 2020, there were a total of 1,260,000 performance rights on issue in the following classes:

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

¹ Excludes 250,000 unlisted options at an exercise price of \$0.501 each expiring 3 December 2023 that were granted during the year on 3 December 2020 and formally issued on 12 February 2021.

² Comprises 15,000 class 7 performance rights that were subject to forfeiture at 31 December 2019 and removed from the register in January 2020.

Refer to events occurring after the balance date for details of performance rights forfeited subsequent to 31 December 2020.

Annual General Meeting

The Company's annual general meeting was held on 15 July 2020 (**AGM**). For more information, refer to the Notice of AGM and Results available via the Company's website.

Amended Constitution

An amended constitution was adopted by the Company following receipt of shareholder approval by special resolution at the AGM.

Environmental and Social Governance (ESG)

Danakali and CMSC have a strong commitment to sustainable development which is underpinned by the principles that mineral projects should be financially, technically and environmentally sound and socially responsible.

The Company has implemented a Sustainable Development Framework to address its ESG agenda and is aligned with its Corporate Governance Framework. The policies developed using this framework directly supported the management plans associated with the SEIA and SEMP for the project.

The Company released its inaugural sustainability report in 2020. This report details the policies and frameworks in place to ensure that the Company continues to operate in a sustainable manner. The Company plans to release annual sustainability reports with increased transparency as the project continues to grow and evolve. The annual sustainability reports will align with the Global Reporting Initiative once the Colluli project becomes operational.

The Company initiated an independent human rights due diligence study in 2020 to determine the potential risks and opportunities with respect to the Colluli Project. Stakeholder engagement, field work, capacity building and implementing potential mitigation measures is planned in 2021 in advance of project construction.

RESERVE AND RESOURCE OVERVIEW

Colluli has a JORC-2012 compliant resource of 1.289 billion tonnes as shown in Table 1 as at 31 December 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 31 December 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 ₂ O Equiv.	Kieserite
	Mt	t/m ³	%	%
Sylvinite	265	2.2	12%	0.03%
Upper Carnallite	51	2.1	12%	3%
Lower Carnallite	347	2.1	7%	22%
Kainitite	626	2.1	12%	1%
Total	1,289	2.1	11%	7%

Directors' Report

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 outcomes (ASX announcement 19 February 2018). There have been no changes to the Mineral Resource since 19 February 2018.

The Colluli JORC-2012 compliant Ore Reserve estimate by potash mineral as at 31 December 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 ₂ O Equiv %	Mt	K ₂ O Equiv %	Mt	K ₂ O Equiv %	K ₂ SO ₄ Equiv %	K ₂ SO ₄ Equiv Mt ¹
Sylvinite (KCl.NaCl)	77	15.0%	173	12.1%	250	13.0%		
Carnallite (KCl.MgCl ₂ .H ₂ O)	77	6.9%	279	7.8%	356	7.6%		
Kainitite (KCl.MgSO ₄ .H ₂ O)	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 K₂SO₄ (SOP) calculated by multiplying %K₂O 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 31 December 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%

SAFETY

Danakali is committed to ensuring all work activities are carried out safely with all practical measures taken to remove risks to health, safety and welfare of workers, contractors, authorised visitors, and anyone else who may be affected by the Group's activities.

Since the Company commenced exploration in 2010, no injuries have been reported. This safety performance, along with a strong safety culture, bodes well for the Company as it moves into the construction and production phases at Colluli.

ENVIRONMENT

The Group is subject to environmental regulation in respect to its exploration and development activities. Danakali aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with relevant environmental legislation. There were no breaches of environmental legislation for the period under review.

EVENTS OCCURRING AFTER THE BALANCE DATE

Board and Management Changes

On 26 February 2021, the Company announced that the role of the Chief Executive Officer, held by Mr Niels Wage, had been made redundant as part of a reallocation of responsibilities.

Mr Seamus Cornelius was appointed as Executive Chairman on 26 February 2021.

Movements in Securities

On 29 January 2021, the Company issued 500,000 unlisted options at an exercise price of \$0.527 expiring on 29 January 2023. On 24 March 2021, the Company issued 250,000 unlisted options at an exercise price of \$0.78 expiring on 24 March 2023.

On 15 February 2021, the Company issued 947,041 fully paid ordinary shares upon the exercise of unlisted options at an exercise price of \$0.00 expiring 31 December 2021 to management in lieu of cash payments under the Company's short-term incentive scheme approved by the Board on 20 August 2020. In addition, on 12 February 2021, the Company completed the formal issue of 250,000 unlisted options at an exercise price of \$0.501 expiring 3 December 2023 (being options granted 3 December 2020).

Directors' Report

On 26 February 2021, 900,000 performance rights (Class 9) were forfeited. This forfeiture resulted from the role of Chief Executive Officer being made redundant.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

ACTIVITIES PLANNED FOR 2021

The following key activities are scheduled over the coming year:

- Secure balance of funding to advance Colluli to Final Investment Decision
- Execute the remaining phases of the EPCM contracts and commence the detailed design work
- Finalise and execute the mining services, power provider and camp contracts
- Advance the Company's ESG objectives
- Close out the Conditions Precedent to allow draw down of the CMSC Senior Debt Facility

FINANCE REVIEW

The Group recorded a net loss after tax of \$8,259,370 for the financial year to 31 December 2020 compared to a loss of \$3,148,734 for the financial year to 31 December 2019. As the Group is still in the development stage, revenue streams mainly relate to interest earned on surplus funds from capital raisings held at bank. The net losses after tax reflect the remeasurement loss of the receivable at fair value arising from the change in the loan repayment profile, foreign exchange loss on the loan receivable denominated in USD and administrative costs incurred by the Group.

Total consolidated cash on hand at the end of the financial year was \$9,738,794 (31 December 2019: \$33,800,104).

Operating activities utilised \$2,881,504 (31 December 2019: \$2,538,695 utilised) of net cash flows. Net cash outflow from investing activities of \$17,572,229 (31 December 2019: \$4,407,612) was predominantly expenditure made to advance the Colluli Project in relation to:

- Executing Phase 1 and 2 of project execution
- Establishment of the Owners Team
- Early procurement of the Reverse Osmosis Plant
- Advancing key operational contracts
- Advancing the ESAP
- Payment of senior lender fees subsequent to the execution of documentation for US\$200M of senior debt facilities on behalf of CMSC

Net cash outflow from financing activities of \$3,302,478 in the financial year to 31 December 2020 was attributable to costs of capital accrued for in the previous financial year (31 December 2019: \$32,286,301 funds received in respect of a placement of shares and the exercise of options).

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.

DEVELOPMENTS AND EXPECTED RESULTS

Details of important developments occurring in this financial year have been covered in the Review of Operations section of the Directors' Report. The Group will continue to invest in the Colluli Potash Project to advance activities in the exploration, evaluation and development of the project with the objective of developing a significant mining operation. Any significant information or data will be released to the market and the shareholders pursuant to the Continuous Disclosure rules as and when they arise.

DIVIDENDS

No dividends were paid or declared during the financial year to 31 December 2020. No recommendation for payment of dividends has been made.

Directors' Report

DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors and permanent Board sub-committees held during the financial year ended 31 December 2020 and the number of meetings attended by each Director were:

Director	Board of Directors		Audit and Risk Committee ¹		Remuneration and Nomination Committee	
	Total meetings held / eligible to attend	Total attended	Total meetings held / eligible to attend	Total attended	Total meetings held / eligible to attend	Total attended
S Cornelius	13	13	6	5	4	4
J Fitzgerald	13	13	6	6	7	7
J Zhang	13	10	-	-	-	-
R Connochie	13	9	2	2	-	-
S Zubairu	9	6 ²	-	-	-	-
T Adeniji	9	6	-	-	-	-
N Gregson	5	4	-	-	4	4
P Donaldson	8	5	-	-	3	2
A Liebenberg	8	6	3	3	3	3

¹ The Audit Committee was reconstituted to become the Audit and Risk Committee on 23 January 2020. References to meetings held in the above table includes those of the Audit Committee.

² The number of meetings attended include those attended by Mr Zubairu (2) or his representative (4).

³ The Technical and Risk Committee ceased on 23 January 2020. There were no meetings held during the current period.

OPTIONS

At the date of this report, unissued ordinary shares in respect of which options are outstanding are as follows:

	Number of options
Balance at the beginning of the year	6,004,112
<i>Movements of share options during the financial year ended 31 December 2020:</i>	
Issued, exercisable at \$0.00, expiry date 31 December 2021	947,041
Issued, exercisable at \$0.664, expiry date 8 July 2023	200,000
Expired, exercisable at \$0.94, expiry date 19 May 2020	(1,440,000)
Expired, exercisable at \$0.912, expiry date 11 May 2020	(500,000)
Share options outstanding at 31 December 2020	5,211,153
<i>Movements since the financial year ended 31 December 2020:</i>	
Issued, exercisable at \$0.527, expiry date 29 January 2023	500,000
Issued, exercisable at \$0.501, expiry date 3 December 2023	250,000
Issued, exercisable at \$0.78, expiry date 23 March 2023	250,000
Exercised, exercisable at \$0.00, expiry date 31 December 2021	(947,041)
Total number of share options outstanding as at the date of this report	5,264,112

Expiry date	Exercise price	Number of options
24 January 2022	\$1.031	1,469,312
13 March 2022	\$1.108	583,000
28 March 2022	\$1.119	561,800
30 May 2022	\$1.114	1,450,000
3 December 2023	\$0.501	250,000
29 January 2023	\$0.527	500,000
23 March 2023	\$0.78	250,000
8 July 2023	\$0.664	200,000
Total number of share options outstanding at the date of this report		5,264,112

No option holder has any right under the option to participate in any share issue of the Company or any other entity.

No options were granted to key management personnel of the Company since the end of the financial year.

Directors' Report

PERFORMANCE RIGHTS

Details of performance rights over unissued shares in Danakali Ltd as at the date of this report are set out below:

	Number of rights
Balance at the beginning of the year	2,285,000
<i>Movements of performance rights during the financial year ended 31 December 2020:</i>	
Vested and exercised	(195,000)
Forfeited (a)	(830,000)
Performance rights outstanding at 31 December 2020	1,260,000
<i>Movements since the financial year ended 31 December 2020:</i>	
Forfeited (b)	(900,000)
Total number of performance rights as at the date of this report	360,000

Note:

- (a) Performance rights forfeited as performance hurdles not met (15,000) and upon resignation of director and employee (815,000).
- (b) Performance rights forfeited on 26 February 2021 upon termination of employment of Mr Niels Wage pursuant to redundancy.

No performance rights holder has any right to participate in any other share issue of the company or any other entity.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

An indemnity agreement has been entered into with each of the directors and company secretary of the Company named earlier in this report. Under the agreements, the Company has agreed to indemnify those officers against any claim or for any expense or cost which may arise as a result of work performed in their respective capacities to the extent permitted by law. There is no monetary limit to the extent of this indemnity.

Insurance

During the period, the Company paid an insurance premium in respect of Directors' and Officers' insurance. The premiums relate to costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome, and other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage. Premiums totalling \$413,795 (2019: \$213,272) were paid in respect of directors' and officers' liability cover. The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst and Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst and Young during or since the financial year.

AUDIT PARTNER EXTENSION

On 25 October 2019, the Board granted approval pursuant to section 324DAC of the Corporations Act 2001 (Cth), for Mr Gavin Buckingham of Ernst & Young to play a significant role in the audit of the Company for an additional one financial year through to the financial year ending 31 December 2020.

The Board considered the matters set out in section 324DAB(3) of the Act and is satisfied that the approval:

- i) is consistent with maintaining the quality of the audit provided to the Company; and
- ii) would not give rise to a conflict of interest situation.

Reasons supporting this decision include:

- the benefits associated with the continued retention of knowledge regarding key audit matters;
- the Board being satisfied with the quality of Ernst & Young and Mr Buckingham's work as auditor; and
- the Company's ongoing governance processes to ensure the independence of the auditor is maintained.

NON-AUDIT SERVICES

The Board has considered the non-audit services provided during the financial year by the auditor and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor's independence requirements of the *Corporations Act 2001*.

All non-audit services provided during the financial year were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Directors' Report

During the period, Ernst and Young, the Company's auditors, performed the following services in addition to their statutory duties:

	2020 \$	2019 \$
Tax compliance services	10,792	22,073
Fees for regulatory services	61,800	-
	<u>72,592</u>	<u>22,073</u>

CORPORATE GOVERNANCE

The Company's corporate governance statement can be found at the following URL: <http://www.danakali.com.au/our-business/corporate-governance>.

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 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 cash outflows 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 risk mitigant exists against lower SOP prices in the form of an industry cost curve, of which Colluli is expected to be in the bottom quartile.

Directors' Report

RISK	MITIGATION / CONTROL
	An offtake agreement with Eurochem has been executed for up to 100% of the production for the first 10 years of the project. There is regular 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 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 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. The company continues to identify and engage further strategic and institutional investors through its advisers and brokers.
The ability for CMSC to spend US\$200 million on infrastructure and mine development and commence Commercial Production before 15 December 2022.	The Group is engaged in sourcing necessary funding to close the project funding. With regard to the development schedule, work is being undertaken by DRA Global to compress the development timeline. If it is assessed that the company will not be able to achieve the production date, CMSC would in the normal course of business, apply to the MoEM for an extension of the date.
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. The Group monitors the transition of LIBOR to SOFR to assess the impact, if any, of this change.
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 engaged industry experts 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, 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. During phase 1 and 2, risk reviews were undertaken and collated in a project risk register. These reviews will continue as the project progresses.
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.
Health event that could impact the employee wellbeing or	The company has developed a business continuity plan in

Directors' Report

RISK	MITIGATION / CONTROL
disrupt business continuity.	the event of a business interruption event and developed various controls to limit the impact of a Pandemic.
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 has appointed 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 has implemented a number of policies and procedures to ensure 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.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

No proceedings have been brought or intervened in or on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

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.

REMUNERATION REPORT (AUDITED)

The Remuneration Report outlines the director and executive remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (Cth) and its Regulations. For the purposes of this report, Key Management Personnel (**KMP**) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Company. For the purposes of this report, the term 'Executive' includes the Chief Executive Officer and key management personnel of the Group.

The Key Management Personnel of Danakali Ltd and the Group during the financial year to 31 December 2020 were:

Directors

S Cornelius	Non-Executive Chairman (transitioned to Executive Chairman 26 February 2021)
J Fitzgerald	Non-Executive Director
J Zhang	Non-Executive Director
R Connochie	Non-Executive Director
S Zubairu	Non-Executive Director (appointed 23 April 2020)
T Adeniji	Non-Executive Director (appointed 23 April 2020)
N Gregson	Non-Executive Director (appointed 3 August 2020)
P Donaldson	Non-Executive Director (resigned 3 August 2020)
A Liebenberg	Non-Executive Director (resigned 3 August 2020)

Directors' Report

Non-Director Key Management Personnel

N Wage	Chief Executive Officer (employment terminated 26 February 2021 pursuant to redundancy)
S Tarrant	Chief Financial Officer
C Grant-Edwards	Joint Company Secretary
M Chapman	Joint Company Secretary

All of the above persons were key management personnel during the financial year to 31 December 2020 unless otherwise stated. The information provided in this remuneration report has been audited as required by section 308 (3C) of the *Corporations Act 2001*.

Key Elements of Key Management Personnel Remuneration Strategy

The remuneration strategy for Danakali Ltd is designed to provide rewards that achieve the following:

- Attract, retain, motivate and reward KMP;
- Reward KMP for Company and individual performance against targets set by reference to appropriate benchmarks;
- Link reward with the strategic goals and performance of the Company;
- Provide remuneration that is competitive by market standards;
- Align executive interests with those of the Company's shareholders; and
- Comply with applicable legal requirements and appropriate standards of governance.

The Company is satisfied that its remuneration framework reflects current business needs, shareholder views and contemporary market practice and is appropriate to attract, motivate, retain and reward employees.

A summary of the key elements of the current remuneration arrangement is as follows:

Remuneration Component	Item	Purpose	Link to Performance
Fixed Remuneration	• Base salary • Superannuation contributions • Other benefits	Provide competitive remuneration with reference to the role and responsibilities, market and experience, to attract high calibre people.	Executive performance and remuneration packages are reviewed at least annually by the Board and Remuneration and Nomination Committee. The review process includes consideration of the individual's performance in addition to the overall performance of the Group.
Performance Based Short Term Incentive (STI)	• Cash bonus • Options	Provide reward to KMP for the achievement of individual and Group performance targets linked to the Company's short-term goals and strategic objectives.	Award of STI linked directly to achievement of company and individual KPI's and performance targets.
Performance Based: Long Term Incentive (LTI)	• Shares • Options • Performance Rights	Provide reward to KMP for their continued service and their contribution to achieving corporate objectives set by the Board to ensure the long-term growth of the Company.	Award of LTI linked directly to achievement of strategic Company objectives.

The Remuneration Report has been set out under the following headings:

- Decision Making Authority for Remuneration
- Principles Used to Determine the Nature and Amount of Remuneration
- Voting and Comments Made at the Last Annual General Meeting
- Details of Remuneration
- Service Agreements
- Details of Share Based Compensation
- Equity Instruments Held by Key Management Personnel
- Loans to Key Management Personnel
- Other Transactions with Key Management Personnel
- Additional Information

Directors' Report

a) Decision Making Authority for Remuneration

The Company's remuneration policy and strategies are overseen by the Remuneration and Nomination Committee on behalf of the Board. The Remuneration and Nomination Committee is responsible for making recommendations to the Board on all aspects of remuneration arrangements for key management personnel including:

- the Company's remuneration policy and framework;
- the remuneration arrangements for the Chief Executive Officer, Executive Chairman and other KMP;
- the terms and conditions of long-term incentives and short-term incentives for the Chief Executive Officer and other KMP;
- the terms and conditions of employee incentive schemes; and
- the appropriate remuneration to be paid to non-executive Directors.

The Remuneration and Nomination Committee Charter is approved by the Board and is published on the Company's website. Remuneration levels of the Directors and Key Management Personnel are set by reference to other similar sized mining and development companies with similar risk profiles and are set to attract and retain KMP capable of managing the Group's operations.

Remuneration levels for the Chief Executive Officer and key management personnel are determined by the Board based upon recommendations from the Remuneration and Nomination Committee. Remuneration of non-executive directors is determined by the Board within the maximum levels approved by the shareholders from time to time.

b) Principles Used to Determine the Nature and Amount of Remuneration

The Company's remuneration practices are designed to attract, retain, motivate and reward high calibre people capable of delivering the strategic objectives of the Company. The Company's Key Management Personnel remuneration framework aligns their remuneration with the achievement of strategic objectives and the creation of value for shareholders and conforms with market practice for delivery of reward.

The Remuneration and Nomination Committee ensures that the remuneration of Key Management Personnel is competitive and reasonable, acceptable to shareholders and aligns remuneration with performance. The structure and level of remuneration for key management personnel is conducted annually by the Remuneration and Nomination Committee relative to the Company's circumstances, size, nature of business and performance.

Remuneration of Non-Executive Directors

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board at times receives advice from independent remuneration consultants to ensure non-executive Directors fees and payments are appropriate and in line with the market. No advice was received during the period.

The general principles of non-executive Directors compensation are:

- Non-executive Directors are paid a base fee prior to any statutory superannuation payments;
 - Additional fees are paid to Directors who serve on the board sub-committees; and
- Adjustments may be made in the event that a specific non-executive Director's contribution warrants an adjustment. Such adjustments are at the recommendation of the board.

Fees for the non-executive directors are determined within an aggregate directors' fee pool limit of \$500,000 as approved by shareholders on 27 May 2019. Effective from 27 May 2019, the base fee paid to each Non-Executive Director was increased from \$40,000 to \$60,000 per annum. In response to COVID-19, effective 1 May 2020 until 31 October 2020, the base fee paid to each Non-Executive Director was reduced from \$60,000 to \$48,000 per annum. Effective from 1 March 2021, Non-Executive Director base fees were reduced to \$40,000 per annum.

Remuneration of Chairman

Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market and the specific requirements that the Company has of the Chairman.

The Chairman is not present at any of the discussions relating to the determination of his own remuneration.

Remuneration of Non-Director Key Management Personnel

The Company's remuneration and reward framework is designed to ensure reward structures are aligned with shareholders' interest by:

- Being market competitive to attract and retain high calibre individuals;
- Rewarding high individual performance;
- Recognising the contribution of each Non-Director key management personnel to the contributed growth and success of the Company; and
- Ensuring that long term incentives are linked to shareholder value.

To achieve these objectives, the remuneration of Non-Director key management personnel may comprise a fixed salary component and an 'at risk' variable component linked to performance of the individual and the Company as a whole. Fixed remuneration comprises base salary, superannuation contributions and other defined benefits. 'At risk' variable remuneration comprises both short term and long-term incentives.

Directors' Report

The remuneration and reward framework for Non-Director key management personnel may consist of the following areas:

- i) Fixed Remuneration
- ii) Variable Short-Term Incentives
- iii) Variable Long-Term Incentives

The combination of these would comprise the Non-Director key management personnel's total remuneration.

i) Fixed Remuneration

The fixed remuneration for each senior executive is influenced by the nature and responsibilities of each role and knowledge, skills and experience required for each position. Fixed remuneration provides a base level of remuneration which is market competitive and comprises a base salary and statutory superannuation. It is structured as a total employment cost package, which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Non-Director key management personnel are offered a competitive base salary that comprises the fixed component of pay and rewards. External remuneration consultants may provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. No external advice was taken this period. Base salary for Non-Director key management personnel is reviewed annually to ensure the executives' pay is competitive with the market. The pay of Non-Director key management personnel is also reviewed on promotion. There is no guaranteed pay increase included in any Non-Director key management personnel's contract.

In response to COVID-19, effective 1 May 2020 until 31 October 2020, the fixed remuneration paid to each KMP was reduced by 20%.

ii) Variable Remuneration – Short Term Incentives (STI)

The Danakali Ltd Short-Term Incentive Scheme applies to executives in the Company and is designed to link any STI payment with the achievement by each Non-Director key Management Personnel of specified key performance indicators (**KPI's**) which are in turn linked to the Company's strategic objectives and targets.

The Board has the discretion to reduce or suspend any bonus payments where Company circumstances render it appropriate.

Information in relation to STI awarded for performance year FY19

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. Following board approval received in FY20, an offer of zero exercise price options (**ZEP Options**) was made to eligible employees, resulting in the formal issue of 947,041 ZEP Options occurring in the current year. The share based payment expense associated with the ZEP Options has been recognised in the current year.

The Board approved KPIs for prior 2019 year were linked to the following:

- Securing senior debt
- Securing funds from equity raising
- Operational readiness
- License to develop

Information in relation to STI awarded for performance year FY20

Following a review of performance against FY20 key performance indicators (**KPIs**), the Board determined that no STIs would be awarded in respect of FY20.

Information in relation to STI awarded for performance year FY21

The Board has approved KPIs for the upcoming 2021 year being:

- Secure balance of Colluli funding and maintain Senior Lender Support
- Successful completion of process test work
- Mining Services, Power Contract and Camp Contract signed subject to conditions precedent
- No ESG, Health and Safety or corporate governance incidents and no notice of licence breach.

iii) Variable Remuneration – Long Term Incentives (LTI)

The Company does not currently have a formal long term incentive plan approved by shareholders in place under which long term incentives are offered. No long term incentives have been provided to employees during the year.

In previous financial years, long term incentives have been provided to employees in the form of non-plan performance rights, and performance rights under the Performance Rights Plan (**PRP**). The PRP was re-approved by shareholders at the general meeting held 17 November 2014.

Details of options issued to Non-Director key management personnel in the previous years can be found in section f(i) below.

Details of performance rights issued to Non-Director key management personnel can be found in section f(ii) below.

Further performance rights details can be found in Note 22 to the financial statements.

Directors' Report

All performance rights will automatically expire on the earlier of the expiry date or the date the holder ceases to be an employee of the Company, unless the Board determines to vary the expiry date in the event the holder ceased to be an employee because of retirement, redundancy, death or total and permanent disability and such other cases the Board may determine. Performance rights granted under the PRP will carry no dividend or voting rights. When the vesting conditions have been met, each performance right will be converted into one ordinary share.

c) Voting and Comments Made at the Last Annual General Meeting

The Company received approximately 98% of votes in favour of its Remuneration Report for the financial year ending 31 December 2020 and received no specific feedback on its Remuneration Report at the Annual General Meeting or throughout the period.

d) Details of Remuneration

Details of the remuneration of the directors and other Non-Director key management personnel of Danakali Ltd are set out in the following table. The disclosed directors' fees are inclusive of committee fees.

Directors' Report

Key management personnel of the Company for the financial year to 31 December 2020:

Financial Year to 31 December 2020	Short-Term Benefits	Post- Employment	Long Term Benefits	Share Based Payments				Total Remuneration	Performance related ^(h)
	Salary and Fees	Super- annuation	Long Service Leave ^(c)	Shares	STI Options ^{(b)(f)(g)}	LTI Options ^{(b)(d)}	Performance Rights ^{(b) (d)}		
	\$	\$	\$	\$	\$	\$	\$	\$	%
Non-Executive Directors									
S Cornelius ^(g)	91,985	7,546	-	-	-	3,567	-	103,098	3%
P Donaldson ^(g)	42,465	4,034	-	-	-	-	(111,319)	(64,820)	0%
J Fitzgerald ^(g)	70,000	6,650	-	-	-	-	-	76,650	0%
J Zhang ^(g)	54,000	-	-	-	-	-	-	54,000	0%
R Connochie ^(g)	56,485	-	-	-	-	-	-	56,485	0%
A Liebenberg ^(g)	47,763	-	-	-	-	-	-	47,763	0%
N Gregson ^(g)	25,268	-	-	-	-	-	-	25,268	0%
S Zubairu ^(g)	35,067	-	-	-	-	-	-	35,067	0%
T Adeniji ^(g)	35,067	-	-	-	-	-	-	35,067	0%
Other Non-Director Key Management Personnel									
N Wage ^(f)	450,993	40,569	12,562	-	226,094	58,435	52,881	841,534	40%
S Tarrant ^(f)	254,970	23,119	5,307	-	116,145	18,587	-	418,128	32%
C Grant-Edwards ^(a)	37,950	-	-	-	-	-	-	37,950	0%
M Chapman ^(a)	37,950	-	-	-	-	-	-	37,950	0%
TOTAL	1,239,963	81,918	17,869	-	342,239	80,589	(58,438)	1,704,140	27%

Note:

- (a) Company secretarial services are provided through Bellatrix Corporate Pty Ltd. Fees charged are on an arms-length basis. In response to COVID-19, fees were reduced by 10% over the six-month period from May to October 2020.
- (b) The recorded values of options will only be realised by the KMP's in the event the Company's share price exceeds the option exercise price. The recorded values of performance rights will only be realised by the KMP's in the event the Company achieves its stated objectives, which is expected to create further value for shareholders.
- (c) Long service leave reported in this table represents amounts accrued during the year.
- (d) This amount refers to the share-based payment expense/(reversal) recorded in the statement of comprehensive income during the period in respect of the options and performance rights to KMP's (refer details below).
- (e) In response to COVID-19, salaries were reduced by 20% over the six-month period from May to October 2020.
- (f) In response to COVID-19, non-executive director base fees were reduced by 20% over the six-month period from May to October 2020.
- (g) Refers to ZEP Options issued constituting a short term incentive (STI) award in respect of the FY19 year results (as detailed above).
- (h) Performance related percentage calculated in reference to share based payments divided by total remuneration (excluding reversal amounts).

Directors' Report

Key management personnel of the Company for the financial year to 31 December 2019:

Financial Year to 31 December 2019	Short-Term Benefits	Post- Employment	Long Term Benefits	Share Based Payments				Total Remuneration	Performance related ^(h)
	Salary and Fees ^(e)	Super- annuation	Long Service Leave ^(f)	Shares	STI Options	LTI Options ^(d) ^(g)	Performance Rights ^(d) ^(g)		
	\$	\$	\$	\$	\$	\$	\$	\$	%
Non-Executive Directors									
S Cornelius ^(a)	99,497	-	-	-	-	-	-	99,497	-
P Donaldson	78,514	7,459	-	-	-	-	18,919	104,892	18%
J Fitzgerald	68,451	6,503	-	-	-	-	-	74,954	-
J Zhang	52,473	-	-	-	-	-	-	52,473	-
R Connochie	58,554	-	-	-	-	-	-	58,554	-
A Liebenberg	78,823	-	-	-	-	15,865	-	94,688	17%
Executive Directors									
S Cornelius ^(a)	69,028	-	-	-	-	33,656	-	102,684	33%
Other Non-Director Key Management Personnel									
N Wage ^(b)	306,504	29,668	4,189	-	-	130,241	160,138	630,740	46%
S Tarrant	271,651	25,156	(14)	-	-	75,382	(145)	372,030	20%
C Grant-Edwards ^(c)	48,000	-	-	-	-	-	-	48,000	-
M Chapman ^(c)	48,000	-	-	-	-	-	-	48,000	-
TOTAL	1,179,495	68,786	4,175	-	-	255,144	178,912	1,686,512	26%

Note:

(a) Mr S Cornelius transitioned from the role of Executive Chairman to Non-Executive Chairman on 25 June 2019.

(b) Mr Wage was appointed Chief Executive Officer 25 March 2019.

(c) Company secretarial services are provided through Bellatrix Corporate Pty Ltd. Fees charged are on an arms-length basis.

(d) The recorded values of options will only be realised by the KMP's in the event the Company's share price exceeds the option exercise price. The recorded values of performance rights will only be realised by the KMP's in the event the Company achieves its stated objectives, which is expected to create further value for shareholders.

(e) Amounts shown in salary and fees includes annual leave movements during the year.

(f) Long service leave reported in this table represents amounts accrued during the year.

(g) This amount refers to the share-based payment expense recorded in the statement of comprehensive income during the period in respect of the options and performance rights to KMP's (refer details below).

(h) Performance related percentage calculated in reference to share based payments divided by total remuneration (excluding reversal amounts).

Directors' Report

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Financial Year to 31 December 2020		
	Fixed Remuneration	At risk – STI	At risk - LTI
Non-Executive Directors			
S Cornelius	97%	-	3%
J Fitzgerald	100%	-	-
J Zhang	100%	-	-
R Connochie	100%	-	-
N Gregson	100%	-	-
S Zubairu	100%	-	-
T Adeniji	100%	-	-
P Donaldson	100%	-	-
A Liebenberg	100%	-	-
Other Non-Director Key Management Personnel			
N Wage	60%	27%	13%
S Tarrant	68%	28%	4%
C Grant-Edwards	100%	-	-
M Chapman	100%	-	-

e) Service Agreements

Remuneration and other terms of employment for the executive managers are formalised in employment contracts. Other major provisions of the agreements relating to remuneration are set out below.

N Wage, Chief Executive Officer:

- Appointed 25 March 2019 to role of CEO
- Engaged as a permanent full-time employee
- Effective from 1 January 2020, Mr Wage's salary was increased to €257,500 per annum plus superannuation at the Australian statutory rate and health insurance for Mr Wage and his dependents
- In response to COVID-19, effective from 1 May 2020 until 31 October 2020, Mr Wage's salary was reduced by 20% to €206,000 per annum plus superannuation at the Australian statutory rate
- Notice period of six months, required to be given by either party for termination

S Tarrant, Chief Financial Officer

- Appointed 12 June 2017
- Engaged as a permanent full-time employee
- 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 was reduced by 20% to \$244,800 per annum inclusive of superannuation
- Notice period of three months, required to be given by either party for termination

f) Details of Share Based Compensation

(i) Options

During the year, the following options were issued to KMP's as part of remuneration:

- 471,030 unlisted options with an exercise price of \$0.00 each expiring 31 December 2021 (no vesting conditions due to options being issued in compensation for satisfaction of historical KPIs) to Mr Niels Wage,
- 241,968 unlisted options with an exercise price of \$0.00 each expiring 31 December 2021 (no vesting conditions due to options being issued in compensation for satisfaction of historical KPIs) to Mr Stuart Tarrant; and representing the STI award as equity in lieu of cash in relation to performance against 31 December 2019 KPIs.

There were no new options granted to key management personnel during the year, other than listed above.

Directors' Report

The terms and conditions of each grant of options constituting key management personnel remuneration that remain on issue to current key management personnel at 31 December 2020 are set out in the following table:

Grant date	Vesting and first exercise date	Expiry date	Number of Options	Exercise price	Value per option at grant date	Vested and exercisable %
27 May 2019	24 January 2020	24 January 2022	301,040	\$1.031	\$0.124	100% ^(a)
13 March 2019	13 March 2020	13 March 2022	583,000	\$1.108	\$0.161	100% ^(a)
30 May 2019	31 January 2020	30 May 2022	725,000	\$1.114	\$0.130	100% ^(a)
30 May 2019	31 July 2020	30 May 2022	725,000	\$1.114	\$0.130	100% ^(a)
20 August 2020	28 August 2020	31 December 2021	712,998	\$0.000	\$0.480	100% ^(b)
Total Options			3,047,038			

Note:

(a) Options vest subject to service condition being met

(b) No vesting conditions

Details of options over ordinary shares in the Company, provided as remuneration to key management personnel are set out in the following table.

Name	Year of grant	Year in which options vest	Number of options granted	Value of options at grant date	Unamort-ised value of options at 31 Dec 2020	Number of options vested	Vested and exercisable
S Cornelius	2019	2020	301,040	\$37,234	-	301,040	100%
N Wage	2019	2020	1,450,000	\$188,676	-	1,450,000	100%
N Wage	2020	2020	471,030	\$226,094	-	471,030	100%
S Tarrant	2019	2020	583,000	\$93,670	-	583,000	100%
S Tarrant	2020	2020	241,968	\$116,145	-	241,968	100%
Total Options			3,047,038			3,047,038	

There were no remuneration options exercised by key management personnel during the year.

Options will automatically expire on the earlier of the expiry date or the date the holder ceases to be an employee of the Company, unless the Board determines to vary the expiry date in the event the holder ceased to be an employee because of retirement, redundancy, death or total and permanent disability and such other cases the Board may determine.

When exercisable, each option is convertible into one ordinary share. Further information on the options is set out in note 22.

(ii) Performance Rights

There were no new performance rights granted to key management personnel during the year.

The terms and conditions of each grant of performance rights constituting key management personnel remuneration that remain on issue at 31 December 2020 are as set out in the following table:

Name	Year of grant	Performance rights granted		Number of performance rights vested		Performance rights forfeited	Total Unvested
		Class	Number	In prior periods	In current period		
P M Donaldson	2014	Class 4	2,450,000	1,650,000	-	800,000	-
S Tarrant	2017	Class 6	50,000	50,000 ^(a)	-	-	-
S Tarrant	2017	Class 7	50,000	20,000	-	30,000 ^(b)	-
N Wage	2019	Class 9 ^(c)	1,000,000	100,000	-	-	90%

^(a) Includes 25,000 performance rights in respect of which the performance hurdle was met in the year ended 31 December 2019 and were formally converted 13 January 2020.

^(b) Includes 15,000 performance rights in respect of which the performance hurdle failed to be met in the year ended 31 December 2019 and were formally forfeited 13 January 2020.

^(c) Class 9 performance rights were granted on 30 May 2019. The fair value of rights at grant date was \$0.75 per right. The rights do not have an expiry date, but unvested rights are subject to forfeiture upon employee ceasing to be employed. As at 31 December 2020, the unamortised value of the rights is \$536,981. The 900,000 Class 9 performance rights which were on issue at 31 December 2020 were forfeited subsequent to year end.

The performance rights on issue to key management personnel, as set out above, vest, subject to the following vesting conditions:

Directors' Report

These conditions were selected to incentivise the progression of the Project development.

Class 4:

- 300,000 upon completion of a Prefeasibility Study and the release of the study results to market (vested March 2015);
- 650,000 upon completion of a Definitive Feasibility Study and release of study results to market (vested November 2015);
- 700,000 upon awarding of the Colluli mining licence (vested February 2017); and
- 800,000 upon commencement of construction of the production facility. On 3 August 2020, Mr Paul Donaldson resigned as Non-executive Director and were forfeited as a result.

Class 6:

- 10,000 upon successful completion of a dual listing of the Company on the London stock exchange (vested during 2018 and shares issued July 2018);
- 15,000 upon Endeavour Financial being paid its first milestone success fee which is linked to a letter of finance support from a lending institution (vested October 2019); and
- 25,000 upon term sheets being signed for the project financing of the Colluli project (vested during December 2019 and shares issued January 2020).

Class 7:

- 10,000 upon market announcement of a binding offtake agreement to support debt funding of the project (vested during 2018 and shares issued June 2018);
- 10,000 upon market announcement on completion of FEED (vested during 2018 and shares issued March 2018);
- 15,000 upon completion of a strategic investment at greater than 30-day VWAP plus 10% (performance hurdle forfeited as not met at December 2019 and rights were formally removed from the register in January 2020); and
- 15,000 on signing a debt term sheet for project financing or debt is secured from a strategic investor (forfeited June 2019).

Class 9:

- 100,000 when CMSC commences early works at Colluli provided this occurs in 2019 (vested December 2019 and shares issued January 2020);
- 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 (forfeited subsequent to year end);
- 500,000 when CMSC commences commercial production at Colluli provided this is materially on time and on budget, meeting safety and product quality standards (forfeited subsequent to year end); 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 (forfeited subsequent to year end).

No performance rights held by key management personnel were forfeited during the year, other than those detailed above. Subsequent to year end, all the Class 9 performance rights were forfeited.

Directors' Report

g) Equity Instruments Held by Key Management Personnel

(i) Shares

No shares were granted as remuneration during the year ended 31 December 2020.

The number of shares in the Company held during the financial period by each director of Danakali Ltd and other key management personnel of the Group, including their personally related parties, are set out in the following tables.

Financial Year to 31 December 2020	Balance at 31 December 2019	Granted as compensation	Received on exercise of remuneration options	Received / entitled to receive on conversion of performance rights	On market purchases/ (sales)	Other	Balance at 31 December 2020
Shares							
Directors							
S Cornelius	10,328,965	-	-	-	3,162,161	-	13,491,126
J Fitzgerald	526,453	-	-	-	-	-	526,453
J Zhang	-	-	-	-	-	-	-
R Connochie	-	-	-	-	-	-	-
N Gregson	-	-	-	-	-	-	-
S Zubairu	-	-	-	-	-	-	-
T Adeniji	-	-	-	-	-	-	-
P Donaldson	2,957,751	-	-	-	-	(2,957,751) ^(a)	-
A Liebenberg	-	-	-	-	-	-	-
Other KMP							
N Wage	100,000	-	-	-	-	-	100,000
S Tarrant	229,857	-	-	-	-	-	229,857
C Grant-Edwards	-	-	-	-	13,156	-	13,156
M Chapman	-	-	-	-	13,156	-	13,156
TOTAL	14,143,026	-	-	-	3,188,473	(2,957,751)	14,373,748

^(a) At the date of resignation on 3 August 2020, Mr Donaldson held 2,957,751 shares.

(ii) Options

The numbers of options over ordinary shares in the Company held during the financial period by each director of Danakali Ltd and other Key Management Personnel of the Group, including their personally related parties, are set out in the following tables.

Financial Year to 31 December 2020	Balance at 31 December 2019	Granted	Exercised	Expired	Cancelled	Balance at 31 December 2020	Vested and exercisable	Unvested
Options								
Directors								
S Cornelius	601,040	-	-	(300,000)	-	301,040	301,040	-
P Donaldson	100,000	-	-	(100,000)	-	-	-	-
J Fitzgerald	250,000	-	-	(250,000)	-	-	-	-
J Zhang	100,000	-	-	(100,000)	-	-	-	-
R Connochie	500,000	-	-	(500,000)	-	-	-	-
A Liebenberg	500,000	-	-	(500,000)	-	-	-	-
N Gregson	-	-	-	-	-	-	-	-
S Zubairu	-	-	-	-	-	-	-	-
T Adeniji	-	-	-	-	-	-	-	-
Other KMP								
N Wage	1,450,000	471,030	-	-	-	1,921,030	1,921,030	-
S Tarrant	583,000	241,968	-	-	-	824,968	824,968	-
C Grant-Edwards	-	-	-	-	-	-	-	-
M Chapman	-	-	-	-	-	-	-	-
TOTAL	4,084,040	712,998	-	(1,750,000)	-	3,047,038	3,047,038	-

Directors' Report

(iii) Performance Rights held by Key Management Personnel

Movements in Performance Rights held by Key Management Personnel are as set out in the following table:

Financial Year to 31 December 2020	Balance at 31 December 2019	Granted as Remuneration	Vested	Forfeited	Other	Unvested Balance at 31 December 2020
Performance Rights						
Directors						
S Cornelius	-	-	-	-	-	-
P Donaldson	800,000	-	-	(800,000) ^(a)	-	-
J Fitzgerald	-	-	-	-	-	-
J Zhang	-	-	-	-	-	-
R Connochie	-	-	-	-	-	-
A Liebenberg	-	-	-	-	-	-
N Gregson	-	-	-	-	-	-
S Zubairu	-	-	-	-	-	-
T Adeniji	-	-	-	-	-	-
Other KMP						
N Wage ^(b)	900,000	-	-	-	-	900,000
S Tarrant	-	-	-	-	-	-
C Grant-Edwards	-	-	-	-	-	-
M Chapman	-	-	-	-	-	-
TOTAL	1,700,000	-	-	(800,000)	-	900,000

Note:

(a) Lapse of performance rights upon ceasing to be a Director pursuant terms of Performance Rights Plan.

(b) Performance rights lapsed subsequent to year end on 26 February 2021.

h) Loans to Key Management Personnel

There were no loans to key management personnel during the period.

i) Other Transactions with Key Management Personnel

There were no other transactions with key management personnel during the period.

j) Additional Information

The remuneration structure has been set up with the objective of attracting and retaining the highest calibre staff who contribute to the success of the Company's performance and individual rewards. The remuneration policies seek a balance between the interests of stakeholders and competitive market remuneration levels. The overall level of key management personnel compensation takes into account the performance of the Group over a number of years and the stage of activities the Company is engaged in.

During the period, corporate and project development activities were undertaken to progress the Colluli Potash Project. The remuneration paid during the period is commercially reasonable for a development stage mining company. Company performance is measured against a comparable list of companies operating in the same market segment.

The Group is still in the development stage and revenue streams only relate to interest earned on surplus funds from capital raisings held at bank. The net losses after tax reflect the remeasurement loss of the receivable at fair value arising from the change in the loan repayment profile, foreign exchange loss on the loan receivable denominated in USD and administrative costs incurred by the Group. The table below shows the performance of the Group over the last 5 reporting periods:

Financial Year	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
Basic loss per share (Cents)	(2.59)	(1.16)	(2.66)	(2.85)	(2.35)
Share Price	\$0.315	\$0.60	\$0.74	\$0.715	\$0.48
(Loss) for the period	(\$8,259,370)	(\$3,148,734)	(\$6,944,413)	(\$6,839,936)	(\$4,925,558)

The Company continues to review its remuneration framework to ensure it reflects current business needs, shareholder views and contemporary market practice and remains appropriate to attract, motivate, retain and reward employees.

-- END OF REMUNERATION REPORT --

Directors' Report

MANAGEMENT REPORT AND RESPONSIBILITY STATEMENT

In accordance with the requirements set out in DTR4.1 of the Disclosure and Transparency Rules in the United Kingdom, the Directors' Report and Corporate Governance Statement, incorporated by reference, when taken as a whole, form the Management Report.

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

- a) the consolidated financial statements and notes to the financial statements were prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and the undertakings included in the consolidation taken as a whole; and
- b) the Directors' Report includes a fair review the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Signed in accordance with a resolution of the directors.



Seamus Cornelius

EXECUTIVE CHAIRMAN

Perth, 31 March 2021

Directors' Report

Competent Persons and Responsibility Statements

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% K₂O Equiv. and 7% Kieserite. The Mineral Resource contains 303Mt @ 11% K₂O Equiv. and 6% Kieserite of Measured Resource, 951Mt @ 11% K₂O Equiv. and 7% Kieserite of Indicated Resource and 35Mt @ 10% K₂O 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. 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% K₂O Equiv. The Ore Reserve is classified as 285Mt @ 11.3% K₂O Equiv. Proved and 815Mt @ 10.3% K₂O Equiv. Probable. The Colluli SOP Mineral Resource includes those Mineral Resources modified to produce the Colluli SOP Ore Reserves.

The information relating to the 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. 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. 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 (KUTECH) has extensive experience in analysis of salt rock and brine samples and is certified according to 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⁺, Mg²⁺, Ca²⁺, Cl⁻, SO₄²⁻, H₂O) 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 endeavored 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

Directors' Report

assumptions, such statements are not guaranteeing 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.

Auditor's independence declaration to the Directors of Danakali Limited

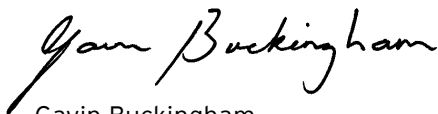
As lead auditor for the audit of the financial report of Danakali Limited for the financial year ended 31 December 2020, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



Gavin Buckingham
Partner
Perth
31 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 \$	2019 \$
REVENUE AND OTHER INCOME			
Interest revenue	4	71,841	81,338
Sundry		117,500	2,169
EXPENSES			
Depreciation expense	9	(3,939)	(5,880)
Loss on disposal of plant and equipment	9	(3,499)	(3,074)
Administration expenses	5	(3,493,175)	(2,780,202)
Share based payment expense	22	(420,063)	(730,096)
Net gain/(loss) on financial assets classified at fair value through profit or loss	8	(2,669,808)	4,400,730
Share of net gain/(loss) of joint venture	10	15,242	(2,957,269)
Foreign exchange gain/(loss)		(1,873,469)	(1,156,450)
LOSS BEFORE INCOME TAX		(8,259,370)	(3,148,734)
Income tax expense	7	-	-
LOSS FOR THE YEAR		(8,259,370)	(3,148,734)
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified to profit or loss in subsequent periods</i>			
Share of foreign currency translation reserve relating to equity accounted investment	10,14	(1,550,097)	(18,178)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(1,550,097)	(18,178)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(9,809,467)	(3,166,912)
Loss per share attributable to the ordinary equity holders of the Company:			
Basic loss per share (cents per share)	17	(2.59)	(1.16)
Diluted loss per share (cents per share)	17	(2.59)	(1.16)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2020

	Notes	2020 \$	2019 \$
CURRENT ASSETS			
Cash and cash equivalents	6	9,738,794	33,800,104
Receivables	8	103,045	281,804
Prepayments		411,808	269,878
TOTAL CURRENT ASSETS		10,253,647	34,351,786
NON-CURRENT ASSETS			
Receivables	8	12,504,442	15,204,815
Investment in joint venture	10	34,194,212	27,975,738
Plant and equipment	9	12,401	13,998
TOTAL NON-CURRENT ASSETS		46,711,055	43,194,551
TOTAL ASSETS		56,964,702	77,546,337
CURRENT LIABILITIES			
Trade and other payables	11	726,271	11,794,757
Provisions	12	73,002	80,623
TOTAL CURRENT LIABILITIES		799,273	11,875,380
NON-CURRENT LIABILITIES			
Provisions	12	65,684	45,229
TOTAL NON-CURRENT LIABILITIES		65,684	45,229
TOTAL LIABILITIES		864,957	11,920,609
NET ASSETS		56,099,745	65,625,728
EQUITY			
Issued capital	13	109,058,372	109,194,951
Reserves	14	12,793,237	13,923,271
Accumulated losses	15	(65,751,864)	(57,492,494)
TOTAL EQUITY		56,099,745	65,625,728

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2020

			Reserves			
	Notes	Issued Capital \$	Share Based Payments \$	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		-	-	-	(8,259,370)	(8,259,370)
Other comprehensive Loss	14	-	-	(1,550,097)	-	(1,550,097)
Total comprehensive loss for the period		-	-	(1,550,097)	(8,259,370)	(9,809,467)
Transactions with owners in their capacity as owners:						
Shares issued	13	-	-	-	-	-
Costs of capital raised	13	(136,579)	-	-	-	(136,579)
Share based payments	14	-	420,063	-	-	420,063
BALANCE AT 31 DECEMBER 2020		109,058,372	12,382,082	411,155	(65,751,864)	56,099,745
BALANCE AT 1 JANUARY 2019		79,576,117	11,231,923	1,979,430	(54,343,760)	38,443,710
Loss for the period		-	-	-	(3,148,734)	(3,148,734)
Other comprehensive loss	14	-	-	(18,178)	-	(18,178)
Total comprehensive loss for the period		-	-	(18,178)	(3,148,734)	(3,166,912)
Transactions with owners in their capacity as owners:						
Shares issued	13	32,413,295	-	-	-	32,413,295
Costs of capital raised	13	(2,794,461)	-	-	-	(2,794,461)
Share based payments	14	-	730,096	-	-	730,096
BALANCE AT 31 DECEMBER 2019		109,194,951	11,962,019	1,961,252	(57,492,494)	65,625,728

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 \$	2019 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		71,898	81,693
Payments to suppliers and employees		(2,953,402)	(2,620,388)
NET CASH OUTFLOW USED IN OPERATING ACTIVITIES	16(a)	(2,881,504)	(2,538,695)
CASH FLOWS FROM INVESTING ACTIVITIES			
Funding of joint venture		(17,566,388)	(4,407,612)
Payments for plant and equipment		(5,841)	-
NET CASH OUTFLOW USED IN INVESTING ACTIVITIES		(17,572,229)	(4,407,612)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		-	32,413,295
Payment of costs of capital raised		(3,302,478)	(126,994)
NET CASH INFLOW FROM FINANCING ACTIVITIES		(3,302,478)	32,286,301
NET INCREASE / (DECREASE) IN CASH		(23,756,211)	25,339,994
Cash at the beginning of the financial year		33,800,104	9,550,585
Net foreign exchange differences		(305,099)	(1,090,475)
CASH AT THE END OF THE YEAR	6	9,738,794	33,800,104

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION

Danakali Ltd (**Danakali** or the **Company**) is a for profit 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 financial report of the group as at, and for the year ended 31 December 2020 comprises the Company and its subsidiaries (together referred to as the **Group**). The address of the registered office is Level 1, 2A / 300 Fitzgerald Street, North Perth, WA, 6006.

The financial statements are presented in the Australian currency.

The financial report of Danakali for the year ended 31 December 2020 was authorised for issue by the Directors on 31 March 2021. The directors have the power to amend and reissue the financial statements.

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

2. BASIS OF PREPARATION

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These general purpose consolidated financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

The consolidated financial statements of the Danakali Ltd Group also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

These consolidated financial statements have been prepared under the historical cost convention, except for the loan to the joint venture that has been measured at fair value.

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

The Group applied all new and amended Accounting Standards and Interpretations that were effective as at 1 January 2020, including:

AASB 2019-1 Conceptual Framework for Financial Reporting and relevant amending standards (Conceptual Framework)

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 AASB in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, 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.

At 1 January 2020 it was determined that the adoption of the Conceptual Framework had no material impact on the Group.

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

At 1 January 2020 it was determined that the adoption of AASB 2018-7 had no material impact on the Group.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

(b) New accounting standards and interpretations not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting year ended 31 December 2020. The relevant standards are outlined in the table below.

Reference	Title	Summary	Application date	
			of standard	for Group
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. In December 2015, the IASB postponed the effective date of the amendments to IFRS 10 and IAS 28 indefinitely pending the outcome of its research project on the equity method of accounting.	1 January 2022	1 January 2022
AASB 2020-1	Amendments to AASs – Classification of Liabilities as Current or Non-current	A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. Specifically: ▪ The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. ▪ Management intention or expectation does not affect classification of liabilities. ▪ In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.	1 January 2023	1 January 2023
AASB 2020-3	Amendments to AASB 137 – Onerous Contracts – Cost of Fulfilling a Contract	AASB 137 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Unavoidable cost is the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it. AASB 137 does not specify which costs to include in determining the cost of fulfilling a contract. Consequently, AASB 137 was amended to clarify that when assessing whether a contract is onerous, the cost of fulfilling the contract comprises all costs that relate directly to the contract, which includes both the: ▪ Incremental costs of fulfilling that contract (e.g., materials and labour); and ▪ An allocation of other costs that relate directly to fulfilling contracts (e.g.,	1 January 2022	1 January 2022

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

Reference	Title	Summary	Application date	
			of standard	for Group
		depreciation of property, plant and equipment) An entity shall apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Comparative information is not restated. Instead, the cumulative effect of initially applying the amendments is recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.		
AASB 2020-3	Amendment to AASB 9 – Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities (Part of Annual Improvements 2018–2020 Cycle)	Under AASB 9, an existing financial liability that has been modified or exchanged is considered extinguished when the contractual terms of the new liability are substantially different, measured by the “10 per cent” test. That is, when the present value of the cash flows under the new terms, including any fees paid or received, is at least 10 per cent different from the present value of the remaining cash flows of the original financial liability. The amendment to AASB 9 clarifies that fees included in the 10 per cent test are limited to fees paid or received between the borrower and the lender, including amounts paid or received by them on the other's behalf. When assessing the significance of any difference between the new and old contractual terms, only the changes in contractual cash flows between the lender and borrower are relevant. Consequently, fees incurred on the modification or exchange of a financial liability paid to third parties are excluded from the 10 per cent test.	1 January 2022	1 January 2022

(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 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.

At balance date, the Group had cash and cash equivalents of \$9,738,794 (31 December 2019: \$33,800,104) and a net working capital surplus of \$9,454,374 (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. 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.

The balance of the funding is being pursued through a mix of debt, equity and quasi-equity instruments for Danakali and CMSC. Where such financing was likely to be delayed, as was experienced during 2020 in part due to the COVID-19 pandemic, the directors seek to defer its planned capital expenditure on the project.

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 and commence Commercial Production 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, dated 16 December 2019, was accepted by MoEM on 21 July

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

2020 (ASX announcement 22 July 2020). The granted time by the MoEM to commence Commercial Production and spend US\$200M on infrastructure and mine development is 36 months from submission of the Notice (15 December 2022).

The ability for CMSC to spend US\$200 million on infrastructure and mine development and commence Commercial Production before 15 December 2022 is determined by two factors; available funding and the development schedule. With regard to the availability of funding, as described above, the Group is engaged in sourcing necessary funding to close the project funding. With regard to the development schedule, work is being undertaken by DRA Global to compress the development timeline. The combination of the timing of funding and schedule compression may not be sufficient to satisfy the 15 December 2022 date. Should this be the case, CMSC would, in the normal course of business, apply to the MoEM for an extension of the date. Based on informal discussions with the MoEM and our partners, and previous experience in Eritrea, the directors are satisfied that there are reasonable grounds to believe that an extension will be granted if requested.

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.

(d) Principles of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Danakali's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(iii) Foreign operations

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

(g) Interest revenue

Interest revenue is recognised using the effective interest rate method.

(h) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements at the reporting date. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Leases

Group as Lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) Right of use asset

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

(ii) Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group recognised the lease payments as an expense on a straight line basis over the lease term.

The Group has elected not to recognise right of use assets and lease liabilities for short term leases and low value assets.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption for those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of plant and equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(j) Impairment of assets

Assets are reviewed for impairment annually to determine if events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of

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assessing impairment, assets are consolidated at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For Consolidated Statement of Cash Flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(l) Receivables

(i) Initial recognition

Receivables are initially recognised and measured at fair value. Receivables that are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest are classified and subsequently measured at amortised cost. Receivables that do not meet the criteria for amortised cost are measured at fair value through profit or loss (**FVTPL**). The loan to Colluli Mining Share Company is measured at FVTPL.

(ii) Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

(iii) Impairment

The group assesses on a forward looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on financial assets are estimated based on the Group's historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast conditions at the reporting date.

In relation to all other receivables measured at amortised cost, the Group applies the credit loss model. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, the Group measures the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

The Group considers an event of default has occurred when a financial asset is more than 90 days past due or external sources indicate that the debtor is unlikely to pay its creditors, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovering the contractual cash flow.

(m) Investment in joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investment in a joint venture is accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its' carrying value, then recognises the loss as 'Share of profit of the equity accounted investment' in profit or loss.

Upon loss of joint control over a joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(n) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is de-recognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value.

The assets' residual values and useful lives are reviewed, and adjusted prospectively if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group's policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(o) Exploration and evaluation costs

Acquired exploration and evaluation costs are capitalised. Ongoing exploration and evaluation costs are expensed in the period they are incurred.

(p) Development Expenditure costs

When proven mineral reserves are determined and an application for development has been submitted subsequent development expenditure is capitalised and classified within development capital expenditure, a non-current asset, provided commercial viability conditions continue to be satisfied. Capitalised exploration and evaluation expenditure is reclassified into capitalised development and maintained on the consolidated balance sheet as a non-current asset and evaluated for impairment annually. On completion of development, all development capital expenditure and exploration and evaluation expenditure are reclassified as either plant and equipment or other mineral assets and depreciation commences.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

(r) Employee benefits

(i) Wages and salaries, annual leave and long service leave

Liabilities for wages and salaries, including non-monetary benefits, and other short terms benefits expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

The long term benefits are measured using the projected unit credit valuation method.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

(ii) Share-based payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for options or rights over shares ('equity-settled transactions') refer to note 22.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of options is determined by an internal valuation using a Black-Scholes option pricing model. The fair value of performance rights is determined by consideration of the Company's share price at the grant date.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled, ending on the date on which the relevant employees become

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fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options or rights that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition or awards with non-vesting conditions.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

(s) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Borrowings are classified as current liabilities unless the Consolidated Entity has the unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. Borrowing costs are capitalised from the date that sufficient funding has been secured and unconditional and the project development execution has started. This judgment will be reviewed periodically relative to the project development. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(u) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(v) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(w) Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

(i) Impairment

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. The investment in CMSC joint venture is tested for impairment when there is objective evidence of impairment. As at 31 December 2020 the Group assessed that, no indicator of impairment existed (31 December 2019: Nil).

(ii) Interest in Joint Arrangement and measurement of loan receivable

The Group accounts for its 50% interest in CMSC as a joint venture using the equity method.

Danakali holds 3 of 5 CMSC Board seats, however in reference to certain material decisions which are reserved for Majority Shareholder approval, being a shareholder(s) holding at least a 75% interest in the share capital of CMSC. Neither ENAMCO of STB Eritrea Pty Ltd (Danakali's wholly owned subsidiary) hold a 75% shareholding in CMSC and as such material decisions require unanimous approval of CMSC directors. Additionally, the annual budget for CMSC is required to be approved by the shareholders with a simple majority. As each shareholder holds 50% of the shares, this is interpreted

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as a simple majority therefore can only be achieved if both shareholders agree. This indicates there is no control by one party. In light of the considerations mentioned, it has been determined that the interest in CMSC is more appropriately classified as an interest in a joint venture and has been accounted for using the equity method.

The assumptions applied in determining the fair value of the loan to the joint venture includes determining the timing of cash receipts and the discount rate applied. The fair value of the loan has been measured using valuation techniques under a discounted cash flow (**DCF**) model, as fair value cannot be measured on quoted prices in active markets. The inputs to a DCF are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value. Judgments include consideration of inputs including foreign exchange risk, interest rate risk, credit risk, development risk and country risk. At 31 December 2020 a discount rate of 21% (31 December 2019: 21%) was applied, based on management's judgement of the underlying risks. The timing of cash receipts has been adjusted according to management's best estimate and it is currently estimated that receipts commence in the June 2026 quarter (2019: June 2024 quarter).

Further context is detailed in note 10.

(iii) Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 22.

The fair value of performance rights is determined by the share price at the date of grant and consideration of the probability of the vesting condition being met.

(x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(y) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

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 development of the Colluli Potash Project 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.

The Group's non-current assets, other than financial instruments are geographically located in Eritrea.

4. REVENUE

	2020 \$	2019 \$
Interest	71,841	81,338

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5. EXPENSES

	2020 \$	2019 \$
Employee benefits (net of recharges)	427,935	361,103
Directors' fees	476,330	519,301
Compliance and regulatory expenses	1,285,515	1,095,671
Lease payments relating to short term leases	69,925	125,974
Insurance	304,390	235,944
Investor and public relations	473,158	225,718
Other administration expenses	455,922	216,491
	<u>3,493,175</u>	<u>2,780,202</u>

6. CASH AND CASH EQUIVALENTS

	2020 \$	2019 \$
Cash at bank and on hand	9,738,794	19,543,204
Short term deposits	-	14,256,900
	<u>9,738,794</u>	<u>33,800,104</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

7. INCOME TAX

	2020 \$	2019 \$
(a) Income tax recognised in profit or loss		
Current tax	-	-
Deferred tax	-	-
Total tax benefit/(expense)	<u>-</u>	<u>-</u>
(b) Reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense	(8,259,370)	(3,148,734)
Prima facie tax benefit at the Australian tax rate of 30.0% (2019: 30.0%)	(2,477,811)	(944,620)
Adjustment of under-provision of deferred tax in prior year	(806,717)	(25,372)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
<i>Share-based payments</i>	126,019	219,029
<i>Share of net (gain)/loss of joint venture</i>	(4,573)	887,180
<i>Net (gain)/loss on financial assets at fair value through profit or loss</i>	800,942	(1,320,219)
Movements in unrecognised temporary differences and tax effect of current year tax losses:	2,362,139	1,184,002
Income tax expense/(benefit)	<u>-</u>	<u>-</u>

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(c) Deferred Income Tax

Deferred income tax at 31 December relates to the following:

	Statement of Financial Position		Statement of Comprehensive Income		Statement of Change in Equity	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
<i>Deferred Tax Liabilities:</i>						
Interest receivable	(17)	(34)	17	95		
<i>Deferred Tax Assets:</i>						
Provision for employee entitlements	41,606	37,756	3,850	(2,142)		
Accrued expenditure	44,850	18,107	26,743	16,134		
Unrealised foreign exchange gain/loss	130,684	324,850	(194,166)	324,850		
Share issue expenses	576,064	786,410	-	-	(210,346)	598,369
Tax losses	8,443,603	5,917,891	2,525,712	689,148		
Deferred tax assets not brought to account as realisation is not probable	(9,236,790)	(7,084,980)	(2,362,156)	(1,028,085)	210,246	(598,369)
	-	-	-	-	-	-

8. RECEIVABLES

	2020 \$	2019 \$
<i>Current</i>		
Net GST receivable	47,962	225,023
Accrued interest	57	114
Other receivables at amortised cost	26	1,667
Security bonds at amortised cost	55,000	55,000
	103,045	281,804
<i>Non-Current</i>		
Loan to Colluli Mining Share Company – at fair value	12,504,442	15,204,815
Carrying value of loans	12,504,442	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 interest rate of 21% (2019: 21%).

During the years ended 31 December 2020 and 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 resulted in a loss of \$2,669,808 through profit or loss (2019: gain of \$4,400,730) (see note 10).

The undiscounted underlying loan balance at 31 December 2020 is \$40,506,332 (USD 31,226,502) (31 December 2019: \$40,053,560) (USD 28,061,524).

	2020 \$	2019 \$
<i>Reconciliation of movement in loan to Colluli Mining Share Company</i>		
Opening carrying amount at beginning of the year	15,204,815	9,283,670
Additional loans during the year	1,537,805	1,586,388
Foreign exchange gain/(loss)	(1,568,370)	(65,973)
Net gain/(loss) on financial assets at fair value through profit or loss	(2,669,808)	4,400,730
Closing carrying amount at end of the year	12,504,442	15,204,815

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9. PLANT AND EQUIPMENT

	2020 \$	2019 \$
Plant and equipment		
Gross carrying value – at cost	26,511	39,874
Accumulated depreciation	(14,110)	(25,875)
Net book amount	12,401	13,998
Plant and equipment		
Opening net book amount at beginning of the year	13,998	22,952
Additions	5,841	-
Disposals	(3,499)	(3,074)
Depreciation charge	(3,939)	(5,880)
Closing net book amount at end of the year	12,401	13,998

10. INVESTMENT IN JOINT VENTURE

The Group has an interest in the following joint arrangement:

Project	Activities	Equity Interest		Carrying Value	
		2020 %	2019 %	2020 \$	2019 \$
Colluli Potash	Mineral Exploration	50	50	34,194,212	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 the Shareholders Agreement entered into with the Eritrean National Mining Corporation (**ENAMCO**) and executed in November 2013. CMSC was incorporated in Eritrea, in accordance with the Shareholders Agreement, to hold the Colluli project with Danakali 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 equated to half of the allowable historical exploration costs transferred to CMSC by STB Eritrea Pty Ltd, a wholly owned subsidiary of Danakali Limited. The balance of the allowable historic exploration costs transferred to CMSC are recoverable via a shareholder loan account (see note 8).

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 31 December 2020.

	2020 \$	2019 \$
Reconciliation of movement in investments accounted for using the equity method:		
Opening carrying amount at beginning of the year	27,975,738	19,829,489
Additional investment during the year	7,753,329	11,121,696
Share of net (loss)/profit for the year	15,242	(2,957,269)
Other comprehensive income for the year	(1,550,097)	(18,178)
Closing carrying amount at end of the year	34,194,212	27,975,738

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Summarised financial information of joint venture:

	2020 \$	2019 \$
Financial position (Aligned to Danakali accounting policies)		
<i>Current Assets:</i>		
Cash	36,043	81,067
Other current assets	110,132	109,984
	<u>146,175</u>	<u>191,051</u>
<i>Non-current assets</i>		
Fixed Assets	86,186	114,708
Development costs capitalised	5,189,033	204,109
Prepaid finance costs	11,070,564	12,046,633
Mineral Property	28,404,193	31,302,663
	<u>44,749,976</u>	<u>43,668,113</u>
<i>Current liabilities</i>		
Trade & other payables and provisions	(3,622,125)	(4,786,610)
	<u>(3,622,125)</u>	<u>(4,786,610)</u>
<i>Non-current liabilities</i>		
Loan from Danakali Ltd – at amortised cost	(10,706,959)	(12,901,373)
	<u>(10,706,959)</u>	<u>(12,901,373)</u>
NET ASSETS	<u>30,567,067</u>	<u>26,171,181</u>
Group's share of net assets	<u>15,283,534</u>	<u>13,085,590</u>
Reconciliation of Equity Investment:		
Group's share of net assets	15,283,534	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	23,215,782	19,195,255
Carrying amount at the end of the period	<u>34,194,211</u>	<u>27,975,738</u>

	2020 \$	2019 \$
Financial performance		
Interest expense relating to the unwinding of discount on joint venture loan	(3,397,462)	(2,340,278)
(Loss)/gain on re-measurement of loan to joint venture carried at amortised cost	5,859,365	323,465
General administrative costs	(2,431,419)	(3,897,725)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>30,484</u>	<u>(5,914,538)</u>
Group's share of total gain/(loss) for the year	<u>15,242</u>	<u>(2,957,269)</u>

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

Colluli Mining Share Company has the following commitments or contingencies at 31 December 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, and commence Commercial Production 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, dated 16 December 2019, was accepted by MoEM on 21 July 2020 (ASX announcement 22 July 2020). The granted time by the MoEM to commence Commercial Production and spend US\$200M on infrastructure and mine development is 36 months from submission of the Notice (15 December 2022).

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Development

At 31 December 2020, development work had commenced including the engagement of DRA Global (**DRA**), CMSC's EPCM contractor. There were no material commitments on 31 December 2020.

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 31 December 2020, CMSC has commitments of \$0.4M in annual agent fees and \$0.3M in due diligence costs.

CMSC will be liable for facility fees of \$3.4M (2019: \$3.8M) to the financial advisors on the draw down of the facility.

CONTINGENCIES

At 31 December 2020, CMSC had contingency liabilities of \$2.6m (2019: \$2.9m) payable to the MLAs on the draw down of the facility.

11. TRADE AND OTHER PAYABLES

	2020 \$	2019 \$
Trade payables (i)	483,282	4,213,886
Accrued expenses (ii)	149,500	7,580,871
Other payables	93,489	-
	<u>726,271</u>	<u>11,794,757</u>

i) 2019 includes \$2,790,642 fees payable to financial advisors.

ii) 2019 includes lenders fees of USD5,275,000 (\$7,520,545) associated with the debt financing.

12. PROVISIONS

	2020 \$	2019 \$
Current		
Employee entitlements	73,002	80,623
Non-Current		
Employee entitlements	65,684	45,229
	<u>138,686</u>	<u>125,852</u>

Employee entitlements relate to the balance of annual leave and long service leave accrued by the Group's employees. Recognition and measurement criteria have been disclosed in note 2.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

13. ISSUED CAPITAL

	2020		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
Total issued capital	318,741,306	109,058,372	318,546,306	109,194,951
(b) Movements in ordinary share capital				
Balance at the beginning of the year	318,546,306	109,194,951	264,422,398	79,576,117
<i>Issued during the year:</i>				
– 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
– Costs of capital raised (ii)	-	(136,579)	-	(2,794,461)
Balance at the end of the year	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**).

Under the terms of the Tranche 2, 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 required satisfaction before completion. Approval of Danakali's shareholders remains a further condition precedent. In light of the rapid spread of COVID-19 and its significant impact on global financial markets, Tranche 2 was deferred to allow for the stabilisation of market and global conditions.

On 1 June 2020, it was announced that Danakali and AFC had agreed on a deadline extension of 21 November 2020 to satisfy remaining conditions precedent for Tranche 2 funding.

On 26 October 2020, the Company announced that it is unlikely that all such conditions precedent will be satisfied and as such, Tranche 2 will not complete in accordance with the terms of the Subscription Agreement.

- (ii) Includes fees paid or payable to financial advisers in relation to 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 during the year ended 31 December 2020.

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 Options	2019 Options
(d) Movements in options on issue		
Balance at beginning of the year	6,004,112	2,990,000
<i>Issued during the year:</i>		
– Exercisable at \$0.912, on or before 11 May 2020	-	500,000
– Exercisable at \$1.031, on or before 24 January 2022	-	2,025,055
– Exercisable at \$1.108, on or before 13 March 2022	-	583,000
– Exercisable at \$1.119, on or before 28 March 2022	-	561,800
– Exercisable at \$1.114, on or before 30 May 2022	-	1,450,000
– Exercisable at \$0, on or before 31 December 2021	947,041	-
– Exercisable at \$0.664, on or before 8 July 2023	200,000	-
<i>Exercised, lapsed or expired during the year:</i>		
– Exercised, exercisable at \$0.543 on or before 7 October 2019	-	(250,000)
– Exercised, exercisable at \$0.558, on or before 8 August 2019	-	(900,000)
– Expired, exercisable at \$0.96 on or before 20 June 2019	-	(400,000)
– Expired, exercisable at \$0.94 on or before 19 May 2020	(1,440,000)	-
– Expired, exercisable at \$0.912 on or before 11 May 2020	(500,000)	-
– Lapsed, exercisable at \$1.031 on or before 24 January 2022	-	(555,743)
Balance at end of the year	5,211,153 ¹	6,004,112

¹ Excludes 250,000 unlisted options at an exercise price of \$0.501 each expiring 3 December 2023 that were granted during the year on 3 December 2020 and formally issued on 12 February 2021.

14. RESERVES

	2020 \$	2019 \$
(a) Reserves		
Share-based payments reserve		
Balance at beginning of the year	11,962,019	11,231,923
Employee and contractor share options and performance rights (note 22)	420,063	730,096
Balance at end of the year	12,382,082	11,962,019
Foreign currency translation reserve		
Balance at beginning of the year	1,961,252	1,979,430
Currency translation differences arising during the year/ period	(1,550,097)	(18,178)
Balance at end of the year	411,155	1,961,252
Total reserves	12,793,237	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.

15. ACCUMULATED LOSSES

	2020 \$	2019 \$
Balance at beginning of the year	(57,492,494)	(54,343,760)
Loss for the year	(8,259,370)	(3,148,734)
Balance at end of the year	(65,751,864)	(57,492,494)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

16. STATEMENT OF CASH FLOWS

	2020 \$	2019 \$
(a) Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net loss for the year	(8,259,370)	(3,148,734)
<i>Non-Cash Items:</i>		
Depreciation of plant and equipment	3,939	5,880
Loss of disposal of plant and equipment	3,499	3,074
Share-based payment expense	420,063	730,096
Share of net (gain)/loss of associate	(15,242)	2,957,269
Unrealised foreign exchange (gain)/loss	1,873,469	1,156,446
Net (gain)/loss on financial assets at fair value through profit or loss	2,669,808	(4,400,730)
<i>Change in operating assets and liabilities:</i>		
Decrease/(increase) in trade and other receivables	175,497	28,521
Decrease/(increase) in trade and other payables	233,999	148,714
Increase/(decrease) in provisions	12,834	(19,231)
Net cash outflow from operating activities	(2,881,504)	(2,538,695)
(b) Funding of joint venture operations		
Cash contribution to joint venture operations during the period	(17,566,388)	(4,407,612)
(c) Payments of leases		
Payment of leases	69,925	125,974

17. EARNINGS PER SHARE

(a) Reconciliation of earnings used in calculating earnings per share (EPS)

	2020 \$	2019 \$
Loss attributable to the owners of the Company used in calculating basic and diluted loss per share	(8,259,370)	(3,148,734)

(b) Weighted average number of shares used as the denominator

	2020 No. of Shares	2019 No. of Shares
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	318,726,073	270,813,912

As the Group incurred a loss for the period, the options on issue have an anti-dilutive effect, therefore the diluted EPS is equal to the basic EPS. A total of 5,461,153¹ (2019: 6,004,112) share options and 1,260,000 (2019: 2,285,000) performance rights which could potentially dilute basic EPS in the future have been excluded from the diluted EPS calculation because they are anti-dilutive for the current year presented.

¹ Includes 250,000 unlisted options at an exercise price of \$0.501 each expiring 3 December 2023 that were granted during the year on 3 December 2020 and formally issued on 12 February 2021.

18. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to market, liquidity and credit risks arising from its financial instruments.

The Group's management of financial risk is aimed at ensuring net cash flows are sufficient to meet all of its financial commitments and maintain the capacity to fund the Colluli project and ancillary exploration activities. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of risks.

Market (including foreign exchange and interest rate risks), liquidity and credit risks arise in the normal course of business. These risks are managed under Board approved treasury processes and transactions.

The principal financial instruments as at reporting date include cash, receivables and payables.

This note presents information about exposures to the above risks, the objectives, policies and processes for measuring and managing risk, and the management of capital.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements. The international operations are at the start-up stage and there is limited exposure at the reporting date to assets and liabilities denominated in foreign currencies.

The loan receivable of \$12,504,442 (2019: \$15,204,815) to Colluli Mining Share Company is denominated in US Dollars.

As at 31 December 2020, the Group held \$9,191,452 (2019: \$30,659,500) of cash and term deposits denominated in US Dollars.

Included within trade and other payables are \$18,281 (2019: \$2,836,192) trade payables and nil (2019: \$7,520,545) accrued expenses denominated in US Dollars.

The following table demonstrates the sensitivity to a reasonably possible change in US Dollar exchange rates, with all other variables held constant. A strengthening of the Australian Dollar rate results in an increased loss before tax. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD Rate %	Effect on Loss before tax \$	Effect on Equity \$
Year to 31 December 2020	+5%	(1,083,881)	1,083,881
	-5%	1,083,881	(1,083,881)
Year to 31 December 2019	+5%	(1,775,379)	1,775,379
	-5%	1,775,379	(1,775,379)

(ii) Interest rate risk

The Group is exposed to movements in market interest rates on cash. The Group's policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash for the Group of \$9,738,794 (2019: \$33,800,104) is subject to interest rate risk. The floating interest rates fluctuate during the period depending on current working capital requirements. The weighted average interest rate received on cash by the Group was 0.44% (2019: 0.95%).

Sensitivity analysis

At 31 December 2020, if interest rates had changed by +/- 80 basis points from the weighted average rate for the period with all other variables held constant, post-tax loss for the Group would have been \$77,910 higher/lower (2019: \$270,401 higher/lower) as a result of lower/higher interest income from cash and cash equivalents and changes in the fair value of loans.

For the interest rate risk relating to the loan at fair value through profit or loss, refer to note (d) below.

(b) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings.

The Board of Directors constantly monitors the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the Consolidated Statement of Financial Position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

(c) Credit risk

The Group's significant concentration of credit risk includes cash, which is held with a major Australian bank with AA3 credit rating, accordingly the credit risk exposure is minimal. In addition, there is a significant concentration of risk in relation to the receivable from CMSC. The maximum exposure to credit risk at balance date is the carrying amount of cash and receivables as disclosed in the Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements.

Other than the loan to Colluli Mining Share Company which is carried at fair value, the Group does not presently have any material debtors. A formal credit risk management policy is not maintained in respect of debtors.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

(d) Fair values

Set out below is an overview of financial instruments, other than cash at bank and on hand and short-term deposits, held by the group as at 31 December 2020:

	At amortised cost \$	Fair value through profit and loss \$	Fair value through other comprehensive income \$
Financial Assets:			
Receivables	103,045	-	-
Total current	103,045	-	-
Receivable	-	12,504,442	-
Total non-current	-	12,504,442	-
Total Assets	103,045	12,504,442	-
Financial liabilities:			
Trade and other payables	726,271	-	-
Total current	726,271	-	-
Total Liabilities	726,271	-	-

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 31 December 2020:

	Carrying Value \$	Fair Value \$
Financial Assets:		
Receivables	103,045	103,045
Total current	103,045	103,045
Receivable	12,504,442	12,504,442
Total non-current	12,504,442	12,504,442
Total Assets	12,607,487	12,607,487
Financial liabilities:		
Trade and other payables	726,271	726,271
Total current	726,271	726,271
Total Liabilities	726,271	726,271

Notes to the Consolidated Financial Statements

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Set out below is an overview of financial instruments, other than cash at bank and on hand and short-term deposits, held by the group as at 31 December 2019:

	At amortised cost \$	Fair value through profit and loss \$	Fair value through other comprehensive income \$
Financial Assets:			
Receivables	281,804	-	-
Total current	281,804	-	-
Receivable	-	15,204,815	-
Total non-current	-	15,204,815	-
Total Assets	281,804	15,204,815	-
Financial liabilities:			
Trade and other payables	11,794,757	-	-
Total current	11,794,757	-	-
Total Liabilities	11,794,757	-	-

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 31 December 2019:

	Carrying Value \$	Fair Value \$
Financial Assets:		
Receivables	281,804	281,804
Total current	281,804	281,804
Receivable	15,204,815	15,204,815
Total non-current	15,204,815	15,204,815
Total Assets	15,486,619	15,486,619
Financial liabilities:		
Trade and other payables	11,794,757	11,794,757
Total current	11,794,757	11,794,757
Total Liabilities	11,794,757	11,794,757

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 (2019: 21%). The timing of cash receipts has been adjusted according to management's best estimate and it is currently estimated that receipts commence in the June 2026 quarter (2019: June 2024). The fair value measurement for 2020 and 2019 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. A 300bps (2019: 50bps) movement in the discount rate would change the valuation by \$1,725,122 (2019: \$313,663).

19. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

Capital managed by the Board includes Shareholder equity, which was \$56,099,745 (2019: \$65,625,728). The focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration and project development programmes plus corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

20. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Group at balance date.

21. COMMITMENTS

	2020 \$	2019 \$
<i>Short-term lease commitments:</i>		
Minimum lease payments		
- within one year	-	13,640
Advisory fees pursuant to contracts	-	206,104
Total Commitments	-	219,744

Operating Leases:

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

22. SHARE-BASED PAYMENTS

(a) Expenses arising from share-based payment transactions

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

	2020 \$	2019 \$
Shares	-	-
Options issued to directors, employees and contractors	582,012	486,427
Performance Rights issued to directors, employees and contractors	(161,949)	243,669
	420,063	730,096

(b) Options

The Group provides benefits to employees (including directors), contractors and consultants of the Group in the form of share-based payment transactions, whereby employees, contractors and consultants render services in exchange for options to acquire ordinary shares.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights. Set out below is a summary of the options granted (being those the subject of share-based payments).

	2020		2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	6,004,112	\$1.035	3,490,000	\$0.811
Granted	1,397,041	\$0.185	4,619,855	\$1.077
Exercised	-	-	(1,150,000)	\$0.555
Lapsed / expired	(1,940,000)	\$0.933	(955,743)	\$1.001
Outstanding at end of the year ^(a)	5,461,153	\$0.854	6,004,112	\$1.035
Exercisable at end of the year	5,011,153	\$0.879	1,940,000	\$0.933

^(a) The weighted average exercise price of options outstanding at end of the year of \$0.854 has been calculated inclusive of 947,041 zero exercise price options (**ZEP Options**). Excluding ZEP Options from this calculation, the weighted average exercise price of unlisted options outstanding at end of the year is \$1.033.

Notes to the Consolidated Financial Statements

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Movements within specific classes of unlisted options (being those the subject of share-based payments) during the year is as follows:

Unlisted Options – Class	Opening balance 31 Dec 2019	Granted	Exercised	Lapsed / Expired	Closing balance 31 Dec 2020
Exercise price \$0.940 expiry date 19/05/2020	1,440,000 (i)	-	-	(1,440,000)	-
Exercise price \$0.912 expiry date 11/05/2020	500,000 (i)	-	-	(500,000)	-
Exercise price \$1.031 expiry date 24/01/2022	1,168,272	-	-	-	1,168,272 (i)
Exercise price \$1.031 expiry date 24/01/2022	301,040	-	-	-	301,040 (i)
Exercise price \$1.108 expiry date 13/03/2022	583,000	-	-	-	583,000 (i)
Exercise price \$1.119 expiry date 28/03/2022	561,800	-	-	-	561,800 (i)
Exercise price \$1.114 expiry date 30/05/2022	1,450,000	-	-	-	1,450,000 (i)
Exercise price \$0.000 expiry date 31/12/2021	-	947,041	-	-	947,041 (i)
Exercise price \$0.664 expiry date 08/07/2023	-	200,000	-	-	200,000
Exercise price \$0.501 expiry date 03/12/2023	-	250,000(ii)	-	-	250,000
	6,004,112	1,397,041	-	(1,940,000)	5,461,153

(i) Vested options.

(ii) Refers to unlisted options granted on 3 December 2020, which were formally issued on 12 February 2021.

Remaining contractual life

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.635 years (31 December 2019: 2.82 years), with exercise prices ranging from \$0.000 to \$1.119.

Options granted during the year

A summary of options granted during the year ended 31 December 2020 is included in the following table and as detailed below. The weighted average fair value of the options granted during the year ended 31 December 2020 was \$0.507.

Details of options valued using the Black & Scholes Option Pricing Model to produce the fair value per option are as follows:

Number of Options	Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price at Grant Date	Risk Free Interest Rate	Estimated Volatility
200,000	08/07/2020	08/07/2023	\$0.135	\$0.664	\$0.500	0.27%	53.31%
250,000	03/12/2020	03/12/2023	\$0.110	\$0.501	\$0.365	0.23%	59.27%

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 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 share based payment expense of \$454,580 associated with the issue of ZEP Options, which has been determined in reference to the share price of \$0.48 at 20 August 2020 (date of grant).

Notes to the Consolidated Financial Statements

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A summary of options granted during the year ended 31 December 2019 is included in the following table. The weighted average fair value of the options granted during the year ended 31 December 2019 was \$0.105. The value was calculated by using the Black & Scholes Option Pricing Model applying the following inputs, to produce the fair value per option:

Number of Options	Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price at Grant Date	Risk Free Interest Rate	Estimated Volatility
1,724,015	24/01/2019	24/01/2022	\$0.152	\$1.031	\$0.735	1.78%	44.49%
301,040	27/05/2019	24/01/2022	\$0.124	\$1.031	\$0.730	1.21%	42.71%
583,000	13/03/2019	13/03/2022	\$0.161	\$1.108	\$0.795	1.53%	43.92%
561,800	28/03/2019	28/03/2022	\$0.152	\$1.119	\$0.780	1.53%	43.94%
1,450,000	30/05/2019	30/05/2022	\$0.130	\$1.114	\$0.750	1.21%	42.76%

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate. The life of the options is based on historical exercise patterns, which may not eventuate in the future.

(c) Performance Rights

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

Performance Rights - Class	Opening balance 31 Dec 2019	Granted	Vested	Forfeited	Cancelled	Closing balance 31 Dec 2020
Class 1 ¹	280,000	-	-	-	-	280,000
Class 4 ¹	800,000	-	-	(800,000)	-	-
Class 5 ¹	100,000	-	(20,000)	-	-	80,000
Class 8 ¹	15,000	-	-	-	(15,000)	-
Class 9	900,000	-	-	-	-	900,000
	2,095,000 ²	-	(20,000)	(800,000)	(15,000)	1,260,000

¹ Issued under the Performance Rights Plan which was re-approved at the annual general meeting of the Company held 17 November 2014.

² The opening balance excludes: 25,000 performance rights in respect of which the performance hurdle had been met 23 December 2019 (formal conversion occurred 13 January 2020); 50,000 performance rights in respect of which the performance hurdle had been met 3 December 2019 (formal conversion occurred 13 January 2020); and 100,000 performance rights in respect of which the performance hurdle had been met 20 December 2019 (formal conversion occurred 28 January 2020).

Movements in the number of performance rights during the prior year is as follows:

Performance Rights - Class	Opening balance 31 Dec 2018	Granted	Vested	Forfeited	Closing balance 31 Dec 2019
Class 1	280,000	-	-	-	280,000
Class 4	800,000	-	-	-	800,000
Class 5	100,000	-	-	-	100,000
Class 6	40,000	-	(40,000) ¹	-	-
Class 7	30,000	-	-	(30,000)	-
Class 8	65,000	-	(50,000) ²	-	15,000
Class 9	-	1,000,000 ⁴	(100,000) ³	-	900,000
	1,315,000	1,000,000	(190,000)	(30,000)	2,095,000

¹ Includes 25,000 performance rights in respect of which the performance hurdle had been met 23 December 2019. Issue of shares following conversion occurred 13 January 2020.

² Includes 50,000 performance rights in respect of which the performance hurdle had been met 3 December 2019. Issue of shares following conversion occurred 13 January 2020.

³ Includes 100,000 performance rights in respect of which the performance hurdle had been met 20 December 2019. Issue of shares following conversion occurred 28 January 2020.

⁴ The fair value of performance rights is determined by the share price at the date of grant. The share price at the on date of grant of the Class 9 performance rights of 30 May 2019 was \$0.75 per share.

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Under the Performance Rights Plan, shares are issued in the future subject, to the performance-based vesting conditions being met. The 1,260,000 Performance Rights on issue at 31 December 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 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.

Subject to achievement of either one of these performance conditions, one share will be issued for each Performance Right that has vested.

23. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Group is Danakali Limited.

(b) Subsidiary

Interests in the subsidiary is set out in note 25.

(c) Investment in Joint Venture

Transactions with Colluli Mining Share Company are set out in note 8 and note 10 of this report.

(d) Key management personnel compensation

	2020 \$	2019 \$
Short-term benefits	1,239,963	1,179,495
Post-employment and long-term benefits	99,787	72,961
Share-based payments	364,390	434,056
	<u>1,704,140</u>	<u>1,686,512</u>

(e) 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 and made a strategic equity investment in Danakali on 10 December 2019 of A\$31.8M (US\$21.5M) for 53M new Shares issued at A\$0.60 per Share.

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 the 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.

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 received by the Company in respect of equity investors identified within the mandate with AFC.

There were no other material related party transactions.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

24. REMUNERATION OF AUDITORS

During the year, the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

	2020 \$	2019 \$
Assurance related	149,582	54,393
Tax compliance services	10,792	22,073
Fees for regulatory services	61,800	-
	<u>222,174</u>	<u>76,466</u>

25. 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 2020 %	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.

26. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Danakali Limited. The information presented here has been prepared using accounting policies consistent with those presented in note 2.

	2020 \$	2019 \$
Current assets	10,253,645	34,351,786
Non-current assets	<u>20,435,046</u>	<u>20,461,260</u>
Total assets	<u>30,688,691</u>	<u>54,813,046</u>
Current liabilities	799,273	11,875,379
Non-current liabilities	<u>65,684</u>	<u>45,229</u>
Total liabilities	<u>864,957</u>	<u>11,920,608</u>
Net Assets	<u>29,823,734</u>	<u>42,892,438</u>
Issued capital	109,058,372	109,194,951
Share-based payments reserve	12,382,082	11,962,020
Accumulated losses	<u>(91,616,720)</u>	<u>(78,264,533)</u>
Total equity	<u>29,823,734</u>	<u>42,892,438</u>
Loss for the year	<u>(13,352,187)</u>	<u>(25,900,207)</u>
Total Comprehensive loss for the year	<u>(13,352,187)</u>	<u>(25,900,207)</u>

27. DIVIDENDS

No dividends were paid during the financial period. No recommendation for payment of dividends has been made.

28. EVENTS OCCURRING AFTER THE BALANCE DATE

Board and Management Changes

On 26 February 2021, the Company announced that the role of the Chief Executive Officer, held by Mr Niels Wage, had been made redundant as part of a reallocation of responsibilities.

Mr Seamus Cornelius was appointed as Executive Chairman on 26 February 2021.

Movements in Securities

On 29 January 2021, the Company issued 500,000 unlisted options at an exercise price of \$0.527 expiring on 29 January

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

2023. On 24 March 2021, the Company issued 250,000 unlisted options at an exercise price of \$0.78 expiring on 24 March 2023.

On 15 February 2021, the Company issued 947,041 fully paid ordinary shares upon the exercise of unlisted options at an exercise price of \$0.00 expiring 31 December 2021 to management in lieu of cash payments under the Company's short-term incentive scheme approved by the Board on 20 August 2020. In addition, on 12 February 2021, the Company completed the formal issue of 250,000 unlisted options at an exercise price of \$0.501 expiring 3 December 2023 (being options granted 3 December 2020).

On 26 February 2021, 900,000 performance rights (Class 9) were forfeited. This forfeiture resulted from the role of Chief Executive Officer being made redundant.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes of Danakali Limited for the financial year ended 31 December 2020 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the year ended on that date;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2;
- (c) there are reasonable grounds to believe that the Company 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); and

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



Seamus Cornelius

EXECUTIVE CHAIRMAN

Perth, 31 March 2021

Independent auditor's report to the members of Danakali Limited

Opinion

We have audited the financial report of Danakali Limited (the Company), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

In our opinion:

the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- i. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the year ended on that date; and
- ii. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2(c) in the financial report. The matters as set forth in Note 2(c) indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

Accounting for the Group's interest in Colluli Mining Share Company ("CMSC")

Why significant

The group acquired an interest in Colluli Mining Share Company ("CMSC") at the date of CMSC's incorporation on 5 March 2014. This acquisition was in accordance with the Shareholders Agreement entered into with the Eritrean National Mining Corporation ("ENAMCO") which was executed in November 2013. CMSC was incorporated in Eritrea, in accordance with the Shareholders' Agreement, to hold the Colluli project, with Danakali and ENAMCO each holding 50% of the equity.

The group's equity investment in CMSC is accounted for as a joint venture using the equity method. In addition to the equity investment in CMSC, the group has a shareholder loan receivable carried at fair value through profit and loss.

The accounting for the interests in CMSC is significant to our audit due to the complexity involved in measuring both the investment in CMSC as well as the shareholder loan receivable. Specifically, key assumptions underpinning the measurement of the receivable relate to the timing as to when the group considers CMSC will have generated free cashflows from the project to enable repayment of monies loaned to them and an appropriate discount rate to reflect the risk applicable to the repayment of the shareholder loan as well as the underlying credit risk.

Refer to note (2)(w)(ii) and notes 8 and 10 to the financial report for further detail explaining the key judgements underpinning the accounting discussed in the two preceding paragraphs.

At 31 December 2020, the Investment in CMSC amounted to \$34.2 million (refer to Note 10 in the financial statements) and the shareholder loan receivable from CMSC amounted to \$12.5 million (refer to Note 8 in the financial statements).

How our audit addressed the key audit matter

Our procedures included the following:

- ▶ We reviewed the applicable Shareholders' Agreement and the group's position paper which concluded that it is appropriate for Danakali's investment in CMSC to be equity accounted.
- ▶ We assessed the group's calculations supporting the measurement of the investment and the shareholder loan. This calculation included the discounting of the shareholder loan balance based on the group's current best estimate of when the shareholder loan will be repaid.
- ▶ We involved our valuation specialists to assess the assumed discount rate having regard to factors such as the project risk, credit risk and country risk.
- ▶ We assessed the group's shareholder loan repayment assumptions having regard to the current status of the project and the group's best estimates of the timeline to finance, develop, commission and produce free cashflow from the project to repay the shareholder loan.
- ▶ We assessed the arithmetical accuracy of the group's calculations, including where applicable any foreign currency translations embedded in the measurement process.
- ▶ We performed appropriate audit procedures over the results of CMSC and confirmed that Danakali's 50% interest in these results were accounted for on an equity basis in the financial statements of the group.
- ▶ We considered whether there was any objective evidence to suggest that Danakali's investment in CMSC is impaired at the balance date.
- ▶ We assessed the adequacy of the group's disclosures in the financial report relating to the measurement and accounting for its investment in and loan to CMSC.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2020 annual report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the annual report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the annual report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial report

The Directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- ▶ Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 31 December 2020.

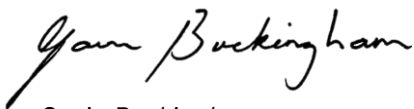
In our opinion, the Remuneration Report of Danakali Limited for the year ended 31 December 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Gavin Buckingham
Partner
Perth
31 March 2021

ASX Additional Information

Additional information required by Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 5 March 2021.

(a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

		Holders	Securities	%
1	- 1,000	541	212,048	0.07%
1,001	- 5,000	793	2,069,612	0.65%
5,001	- 10,000	348	2,693,810	0.84%
10,001	- 100,000	661	22,365,066	7.00%
100,001	and over	194	292,347,811	91.45%
TOTAL		2,537	319,688,347	100.00%

The number of shareholders holding less than a marketable parcel was 473.

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	AFC EQUITY INVESTMENTS LIMITED	52,958,908	16.57
2	CITICORP NOMINEES PTY LIMITED	45,441,495	14.21
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	26,059,209	8.15
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,283,850	5.41
5	MR LIAM RAYMOND CORNELIUS	13,402,515	4.19
6	BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	8,667,205	2.71
7	BNP PARIBAS NOMS PTY LTD <DRP>	7,807,232	2.44
8	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	7,760,103	2.43
9	ELEMENT 25 LIMITED	6,209,097	1.94
10	COMPUTERSHARE CLEARING PTY LTD <CCNL DI A/C>	5,335,979	1.67
11	WELL EFFICIENT LIMITED	5,000,000	1.56
12	BRISPTOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	4,998,813	1.56
13	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	4,865,802	1.52
14	MR SEAMUS CORNELIUS	4,404,097	1.38
15	SINO WEST ASSETS LIMITED	4,308,037	1.35
16	MR SEAMUS IAN CORNELIUS	4,178,992	1.31
17	ALPHA BOXER LIMITED	3,910,000	1.22
18	RANGUTA LIMITED	3,195,685	1.00
19	DUKETON CONSOLIDATED PTY LTD	2,981,500	0.93
20	MR JOHN JOSEPH WALLACE <WALLACE FAMILY A/C>	2,848,983	0.89
		231,617,502	72.45

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
AFC Equity Investments Limited (AFC Equity) and Africa Finance Corporation (AFC)	52,958,908
Well Efficient Ltd	35,000,000

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction. Holders of unlisted options and performance rights do not have voting rights.

ASX Additional Information

(e) Unquoted securities

At 5 March 2021 the Company has on issue 5,014,112 unlisted options over ordinary shares and 360,000 performance rights.

The names of security holders holding more than 20% of an unlisted class of security are listed below.

Holder	Unlisted Options						
	\$1.031 24/01/2022	\$1.108 13/03/2022	\$1.119 28/03/2022	\$1.114 30/05/2022	\$0.664 08/07/2023	\$0.501 03/12/2023	\$0.527 29/01/2023
Gregory Ian MacPherson	344,500	-	-	-	-	-	-
Redgate Beach Investments Pty Ltd <Redgate Beach Invest A/C>	823,772	-	-	-	-	-	-
Melissa Rose Tarrant	-	583,000	-	-	-	-	-
Anthony William Harrington	-	-	561,800	-	-	-	-
Niels Wage	-	-	-	1,450,000	-	-	-
Seamus Ignatius Quan Cornelius	301,040	-	-	-	-	-	-
Romaine International Consulting Inc.	-	-	-	-	200,000	-	-
Rod McEachern	-	-	-	-	-	250,000	-
Colin MacKay	-	-	-	-	-	-	500,000
Holders individually less than 20%	-	-	-	-	-	-	-
Total	1,469,312	583,000	561,800	1,450,000	200,000	250,000	500,000

Holder	Performance Rights	
	Class 1	Class 5
Mr Zeray Lake	75,000	-
Mascots International Ltd	85,000	-
Mr Tony Harrington	-	80,000
Holders individually less than 20%	120,000	-
Total	280,000	80,000

(f) Schedule of Interests in Mining Tenements

Tenement: Colluli, Eritrea
License Type: Exploration License
Nature of Interest: Owned
Current equity 50%