DANAKALI LIMITED

ABN 56 097 904 302

FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2022

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2021 and any public announcements made by Danakali Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Corporate Information

Directors

Seamus Cornelius	(Executive Chairman)	Zhang Jing	(Non-Executive Director)
Paul Donaldson	(Non-Executive Director)	Samaila Zubairu	(Non-Executive Director)
Taiwo Adeniji	(Non-Executive Director)	Neil Gregson	(Non-Executive Director)

Executive Management

Greg MacPherson (Chief Financial Officer)
Rod McEachern (Chief Operating Officer)

Joint Company Secretaries

Catherine Grant-Edwards
Melissa Chapman

Registered Office & Principal Place of Business

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

Bank

Bendigo Bank
225 St Georges Terrace
PERTH WA 6000

Auditors

Ernst & Young
11 Mounts Bay Road
PERTH WA 6000

Share Register (Australia)

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

Website

www.danakali.com.au

Stock Exchange Listing

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

American Depository Receipts

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

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

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

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Directors' Report

Your directors submit their report together with the consolidated financial statements of the consolidated entity, being Danakali Limited (**Danakali** or the **Company**) and its controlled entities (the **Group**) for the half year ended 30 June 2022.

DIRECTORS

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

- Seamus Cornelius (Executive Chairman)
- Paul Donaldson (Non-Executive Director)
- Zhang Jing (Non-Executive Director)
- Taiwo Adeniji (Non-Executive Director)
- Samaila Zubairu (Non-Executive Director)
- Neil Gregson (Non-Executive Director)

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

PRINCIPAL ACTIVITIES

The principal activity of the Group during the half-year ended 30 June 2022 was advancing the Colluli Potash Project (**Colluli**, or the **Project**) in Eritrea, East Africa. There was no significant change in the nature of the Group's activities during the six months to 30 June 2022.

REVIEW AND RESULTS OF OPERATIONS

The net loss after tax of the Group for the half-year ended 30 June 2022 amounted to $2,426,986 (2021: $477,897). Total consolidated cash on hand at the end of the period was $17,964,184 (31 December 2021: $22,884,417).

REVIEW OF OPERATIONS

Project Overview

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

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

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

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

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

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

The Mineral Resource for Colluli are estimated at 1.289Bt @ 11% K_2O for 260Mt of contained SOP equivalent (*DNK announcement 19 February 2018*). The 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. The Resources and Ore Reserves have been assessed in compliance to the JORC Code.

Colluli will be developed to its full potential by adopting the principles of risk management, resource utilisation and modularity, using the first module as a platform for growth. The Colluli modules are:

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

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

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

The FEED for Colluli was undertaken to provide offtakers and funders with a high level of study detail and accuracy and was the final study stage before project execution. Subsequent to the release of FEED, Colluli secured Offtake (*ASX announcement 12 June 2018)* and begun the search for senior debt which culminated in the execution of documentation for $200M Senior Debt facilities with African Finance Corporation (**AFC**) and African Export Import Bank (**Afreximbank**) (*ASX announcement 23 December 2019*) and issued US$21.5M of Danakali equity to AFC (*ASX announcement 3 December 2019)*.

FEED firmly established Colluli as an economically attractive greenfield SOP development project (*ASX announcement 29 January 2018*). The FEED results reaffirm the outstanding project economics of Colluli with industry leading capital intensity.

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 FEED results have been further improved.

Early works have commenced with the procurement of the Reverse Osmosis and Sewage Treatment Plants. The Earthworks, infrastructure and civil scopes are complete, and the EPCM have progressed with updating the plant design following the improvement identified for the Mass Balance.

As the Project is still in development and has not commenced operations, the impact of COVID-19 is limited, however there is uncertainty regarding the impact that COVID-19 will have in the future as it relates to the extractive activities.

Significant progress in project execution is limited by the funds available and geopolitical restrictions resulting from the US sanctions imposed by the U.S. Department of the Treasury’s Office of Foreign Assets Control (**OFAC**) on 12 November 2021. OFAC designated four entities and two individuals pursuant to Executive Order (E.O.) 14046 as subject to sanctions in response to the US Government’s view regarding the ongoing military conflict in Ethiopia. Although the sanctions do not apply to Danakali, ENAMCO or CMSC as entities, they have had an impact on the ordinary conduct of business by the Company in Eritrea.

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 this contract will follow successful completion of the project financing.

Power – Finalising documentation

Aggreko has been appointed as the preferred power supply contractor for a 12MW HFO power plant at Colluli. Under a 5-year Build, Own, Operate Transfer (**BOOT**) contract, Aggreko will supply, commission, operate and maintain the power plant, then transfer ownership of the equipment to CMSC. Aggreko will provide the funding for the power plant 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 will follow successful completion of the project financing.

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 and camp services is well advanced. The camp design and scope is complete.

Execution of the contract will follow successful completion of the project financing.

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:

- 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.

Execution of the contract for the full scope of work will follow successful completion of the project financing.

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 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 required 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 MoEM. The Notice, dated 16 December 2019, was accepted by MoEM on 21 July 2020 (ASX announcement 22 July 2020). The time granted by the MoEM to commence Commercial Production and spend US$200 million on infrastructure and mine development is 36 months from submission of the Notice (namely, 15 December 2022). The Company continues to work closely with ENAMCO through CMSC to formalise discussions with the MoEM on the best way to manage the development timeline and the impact of the US sanctions. It is possible that CMSC may need to agree on an extension of the development timeline with the MoEM or deal with the delay in another form. CMSC has a strong relationship with the MoEM and continues to have regular engagement with the MoEM regarding the Project's progress.

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 SEMPs were signed off by the Ministry in August 2018. The SEMPs are a cornerstone of the environmental, social and safety management system being developed by CMSC and provide the foundation for compliance.

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 UPDATE

Offtake

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

Project Financing

Development finance institutions, Africa Finance Corporation (**AFC**) and African Export Import Bank (**Afreximbank,** together the **Senior Lenders**), have executed documentation for the provision of US$200 million in senior debt finance to CMSC (each Senior Lender providing US$100 million). 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.

We continue to work closely with our Senior Lenders (AFC and Afreximbank) to determine the best way to manage the development timeline and the impact of the US sanctions. CMSC will probably need to agree to on an extension of the longstop date with the Senior Lenders. The Senior Lenders fully support the Project and continue to provide their ongoing support.

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.

On the 12 November 2021, the U.S. Department of Treasury's Office of Foreign Assets Control (OFAC), placed sanctions on certain Eritrean entities and individuals. These sanctions will likely impact parties that would normally invest in a project of this nature. We continue to work with our banks, advisors and partners to mitigate the risks associated with the sanctions to ensure that Danakali remains compliant and is able to continue with its mandate to complete the funding of the Project.

RESERVE AND RESOURCE OVERVIEW

Colluli has resource of 1.289 billion tonnes as shown in Table 1 as at 30 June 2022 which has been estimated according to the JORC Code. 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 mineral resource estimate as at 30 June 2022 is as follows:

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

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

Within the resources of 1.289 billion tonnes, Mineral Resource Estimate, 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 are in line with FEED (*ASX announcement 19 February 2018*).

The Colluli Ore Reserve estimate by potash minerals as at 30 June 2022 has been estimated according to the JORC Code is as follows:

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

	Proved		Probable		Total			
Occurrence	Mt	K_2O Equiv %	Mt	K_2O Equiv %	Mt	K_2O Equiv %	K_2SO_4 Equiv %	K_2SO_4 Equiv Mt[1]
Sylvinite ($KCl.NaCl$)	77	15.0%	173	12.1%	250	13.0%		
Carnallitite ($KCl.MgCl_2.H_2O$)	77	6.9%	279	7.8%	356	7.6%		
Kainitite ($KCl.MgSO_4.H_2O$)	131	11.8%	363	11.2%	494	11.4%		
Total	**285**	**11.2%**	**815**	**10.4%**	**1,100**	**10.7%**	**18.5**	**203**

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

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

As at 30 June 2022, the 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**	**96.7%**	**0.06%**	**0.05%**	**2.1%**	**0.24%**

CORPORATE

Board and Management Changes

On 1 March 2022, Gregory MacPherson was appointed Chief Financial Officer.

Shares

No shares were issued during the period.

At 30 June 2022, there were a total of 368,334,346 fully paid ordinary shares on issue.

Options

The following unlisted options were issued during the period:

- 4,000,000 unlisted options exercisable at $0.450 expiring 31 December 2024

There were no unlisted options exercised during the period.

The following unlisted options expired during the period:

- 1,469,312 unlisted options exercisable at $1.031 expired 24 January 2022
- 583,000 unlisted options exercisable at $1.108 expired 13 March 2022
- 561,800 unlisted options exercisable at $1.119 expired 28 March 2022
- 1,450,000 unlisted options exercisable at $1.114 expired 30 May 2022

At 30 June 2022, there were a total of 15,200,000 unlisted options on issue at various exercise prices and expiry dates.

Performance Rights

The following performance rights were issued during the period.

- 2,250,000 Class 10 performance rights

There were no performance rights forfeited during the period.

There were no performance rights vested and converted into shares during the period.

At 30 June 2022, there were a total of 2,610,000 performance rights on issue in the following classes:

- 280,000 Class 1 performance rights
- 80,000 Class 5 performance rights
- 2,250,000 Class 10 performance rights

INTEREST IN MINING TENEMENTS

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Conflict between Russia and Ukraine

The Company has considered the impact the Russian and Ukraine conflict is having on the business. CMSC is not yet in production and there are no strategic project supplies being sourced from the affected region therefore the direct and immediate exposure is low. The off-take agreement with EuroChem will need to be closely monitored as the sanctions have already affected the global fertilizer market. As at the date of this report, the CMSC off-take agreement has not been impacted. The Group continues to pursue an equity raising strategy to fund the Project and the conflict has increased global uncertainties, which directly effects investor risk appetites. This will probably affect the investor pool and more specifically the strategic investors from Russia. The Group continues to work with their various financial advisors to work through these uncertain times. The changing global macroeconomic conditions may affect the Project costs however the increasing fertilizer prices are providing a significant hedge to accommodate any CAPEX escalations. The Group will continue to monitor the impact of the conflict on the business.

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.

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. The imposition of sanctions by the U.S. Department of the Treasury's Office of Foreign Assets Control (**OFAC**) against Eritrean designated entities has restricted the Group's ability to freely work through the US financial systems. 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 Group works closely with its banks and advisors and has implemented various controls to ensure that the Group works within the constraints of the US Sanctions. 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

RISK	MITIGATION / CONTROL
	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 adequately 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. 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 fund raising, 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$200 million 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. Discussions have commenced with the Senior Lenders for the extension of the long-stop date. 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 continues to work closely with ENAMCO through CMSC to formalise discussions with the MOEM and our Senior Lenders on the best way to manage the development timeline and the impact of the US sanctions. It is possible that CMSC may need to agree on an extension of the development timeline with the Senior Lenders and the MoEM or deal with the delay perhaps by agreeing on a force majeure or some other arrangement. The MoEM continue to support CMSC and the company continues to have regular engagement with the MoEM regarding the Project's progress.
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.
On the 12 November 2021, OFAC, placed sanctions on certain Eritrean entities and individuals. The sanctions place restrictions on the financial systems in particular with regards to trading in US dollars.	The Group has obtained legal advice on how to comply with the US Sanctions and have put controls in place to ensure compliance. Where possible, the Company avoids the settlement of transactions in US dollars.

RISK	MITIGATION / CONTROL
	The Group continues to work closely with its bankers, advisors and partners to mitigate the risks associated with the sanctions to ensure that Danakali remain compliant and are able to continue with its mandate to complete the funding of the Project.
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 Group's 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.
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. The EPCM continues to identify risks associated with the Project and maintains the project risk register which has identified a number of controls which are to be implemented during execution.
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 with 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 disrupt business continuity.	The Company has developed a business continuity plan in 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 Group's 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 Group 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 present 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 developing these plans.
The physical remoteness of Project increases the risk of commuting to site and the availability of medical assistance in the event of an incident.	Emergency response plans and travel safety strategies have been implemented.

EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There are no events subsequent to 30 June 2022 and up to the date of this report that would materially affect the operations of the Group or its state of affairs which have not otherwise been disclosed in this financial report.

AUDITOR'S INDEPENDENCE DECLARATION

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

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

Seamus Cornelius
EXECUTIVE CHAIRMAN
Perth, 29 August 2022

COMPETENT PERSONS AND RESPONSIBILITY STATEMENT

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

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

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

Competent Persons Statement (Sulphate of Potash Ore Reserve)

Colluli Proved and Probable Ore Reserve is reported according to the JORC Code and estimated at 1,100Mt @ 10.5% 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 January 2018 Colluli Ore Reserve is extracted from the report entitled "Colluli Ore Reserve update" disclosed on 19 February 2018 and is available to view at www.danakali.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Competent Persons Statement (Rock Salt Mineral Resource)

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

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

AMC Consultants Pty Ltd (AMC) independence

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

Quality control and quality assurance

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

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

Halite blanks and duplicate samples are submitted with each hole. Chemical analyses were conducted by Kali-Umwelttechnik GmBH, Sondershausen, Germany, utilising flame emission spectrometry, atomic absorption spectroscopy and ion chromatography. Kali-Umwelttechnik (KUTEC) has extensive experience in analysis of salt rock and brine samples and is certified according by DIN EN ISO/IEC 17025 by the Deutsche Akkreditierungsstelle GmbH (DAR). The laboratory follows standard procedures for the analysis of potash salt rocks chemical analysis (K+, Na+, 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 endeavoured to ensure that the information enclosed is accurate at the time of release, and that it accurately reflects the Company's intentions. All statements in this document, other than statements of historical facts, that address future production, project development, reserve or resource potential, exploration drilling, exploitation activities, corporate transactions and events or developments that the Company expects to occur, are forward looking statements. Although the Company believes the expectations expressed in such statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements.

Factors that could cause actual results to differ materially from those in forward-looking statements include market prices of potash and, exploitation and exploration successes, capital and operating costs, changes in project parameters as plans continue to be evaluated, continued availability of capital and financing and general economic, market or business conditions, as well as those factors disclosed in the Company's filed documents.

There can be no assurance that the development of Colluli will proceed as planned. Accordingly, readers should not place undue reliance on forward looking information. Mineral Resources and Ore Reserves have been reported according to the JORC Code, 2012 Edition. To the extent permitted by law, the Company accepts no responsibility or liability for any losses or damages of any kind arising out of the use of any information contained in this document. Recipients should make their own enquiries in relation to any investment decisions.

Mineral Resource, Ore Reserve, production target, forecast financial information and financial assumptions made in this announcement are consistent with assumptions detailed in the Company's ASX announcements dated 25 February 2015, 23 September 2015, 15 August 2016, 1 February 2017, 29 January 2018, and 19 February 2018 which continue to apply and have not materially changed. The Company is not aware of any new information or data that materially affects assumptions made.

No representation or warranty, express or implied, is or will be made by or on behalf of the Company, and no responsibility or liability is or will be accepted by the Company or its affiliates, as to the accuracy, completeness or verification of the information set out in this announcement, and nothing contained in this announcement is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or the future. The Company and each of its affiliates accordingly disclaims, to the fullest extent permitted by law, all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this announcement or any such statement.

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Building a better working world

Auditor's independence declaration to the directors of Danakali Limited

As lead auditor for the review of the half-year financial report of Danakali Limited for the half-year ended 30 June 2022, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review;

b. No contraventions of any applicable code of professional conduct in relation to the review; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Ernst & Young

Pierre Dreyer
Partner
29 August 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE HALF YEAR ENDED 30 JUNE 2022

		Half Year Ended	
		30 June 2022	30 June 2021
	Notes	$	$
REVENUE			
Interest revenue calculated using the effective interest rate method		48,216	9,424
Net gain on financial assets at fair value through profit or loss	5	750,386	1,048,069
Foreign exchange gain		346,679	1,002,462
EXPENSES			
Depreciation expense		(4,319)	(2,049)
Loss on disposal of assets		(1,626)	-
Administration expenses	4	(1,378,848)	(1,582,270)
Share based payment expense	11	(387,841)	(135,423)
Share of net loss of joint venture	6	(1,799,633)	(818,110)
LOSS BEFORE INCOME TAX		**(2,426,986)**	**(477,897)**
Income tax expense		-	-
NET LOSS FOR THE PERIOD		**(2,426,986)**	**(477,897)**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit and loss			
Share of foreign currency translation reserve relating to equity accounted investment	6, 9	619,825	248,314
TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**619,825**	**248,314**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(1,807,160)**	**(229,583)**
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic loss per share (cents per share)		(0.66)	(0.13)
Diluted loss per share (cents per share)		(0.66)	(0.13)

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

Consolidated Statement of Financial Position

AS AT 30 JUNE 2022

	Notes	30 June 2022 $	31 December 2021 $
CURRENT ASSETS			
Cash and cash equivalents		17,964,184	22,884,417
Receivables	5	104,286	96,481
Prepayments		294,130	61,977
TOTAL CURRENT ASSETS		**18,362,599**	**23,042,875**
NON-CURRENT ASSETS			
Receivables	5	12,084,183	10,597,238
Investment in joint venture	6	36,315,967	34,916,132
Plant and equipment		20,834	26,829
TOTAL NON-CURRENT ASSETS		**48,420,984**	**45,540,199**
TOTAL ASSETS		**66,783,583**	**68,583,073**
CURRENT LIABILITIES			
Trade and other payables	7	795,799	1,240,888
Provisions		165,626	108,796
TOTAL CURRENT LIABILITIES		**961,426**	**1,349,684**
NON-CURRENT LIABILITIES			
Provisions		56,287	48,200
TOTAL NON-CURRENT LIABILITIES		**56,287**	**48,200**
TOTAL LIABILITIES		**1,017,713**	**1,397,884**
NET ASSETS		**65,765,870**	**67,185,189**
EQUITY			
Issued capital	8	127,866,319	127,866,319
Reserves	9	16,115,570	15,107,903
Accumulated losses	10	(78,216,018)	(75,789,033)
TOTAL EQUITY		**65,765,870**	**67,185,189**

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

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 30 JUNE 2022

	Notes	Issued Capital $	Reserves: Share Based Payments $	Reserves: Foreign Currency Translation $	Accumulated Losses $	Total Equity $
BALANCE AT 1 JANUARY 2022		**127,866,319**	**13,632,696**	**1,475,207**	**(75,789,033)**	**67,185,189**
Loss for the period	10	-	-	-	(2,426,986)	(2,426,986)
Other comprehensive income	6	-	-	619,825	-	619,825
Total comprehensive income/(loss) for the period		**-**	**-**	**619,825**	**(2,426,986)**	**(1,807,160)**
Transactions with owners in their capacity as owners:						
Shares issued		-	-	-	-	-
Share based payments expense	11	-	387,841	-	-	387,841
BALANCE AT 30 JUNE 2022		127,866,319	**14,020,537**	**2,095,033**	**(78,216,019)**	**65,765,870**
BALANCE AT 1 JANUARY 2021		**109,058,372**	**12,382,082**	**411,155**	**(65,751,864)**	**56,099,745**
Loss for the period		-	-	-	(477,897)	(477,897)
Other comprehensive income		-	-	248,314	-	248,314
Total comprehensive income/(loss) for the period		**-**	**-**	**248,314**	**(477,897)**	**(229,583)**
Transactions with owners in their capacity as owners:						
Shares issued		20,455,218	-	-	-	20,455,218
Capital raising costs		(1,383,667)	-	-	-	(1,383,667)
Share based payments expense		-	135,423	-	-	135,423
BALANCE AT 30 JUNE 2021		**128,129,923**	**12,517,505**	**659,469**	**(66,229,761)**	**75,077,133**

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

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 30 JUNE 2022

	Notes	Half Year Ended 30 June 2022 $	30 June 2021 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		39,093	9,233
Payments to suppliers and employees		(1,989,854)	(1,754,219)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(1,950,761)	(1,744,986)
CASH FLOWS FROM INVESTING ACTIVITIES			
Funding of joint venture		(2,879,624)	(1,969,415)
Receipts/(payments) for plant and equipment		50	(14,182)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(2,879,574)	(1,983,597)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		-	20,455,218
Payment of capital raising costs		-	(1,383,667)
NET CASH INFLOW FROM FINANCING ACTIVITIES		-	19,071,551
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(4,830,334)	15,342,967
Cash and cash equivalents at the beginning of the financial period		22,884,417	9,738,794
Realised foreign exchange gain/(loss) on cash		(89,899)	648,420
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**17,964,184**	**25,730,181**

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

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

Danakali Limited (**Danakali** or the **Company**) is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange (**ASX**). The consolidated half year financial report of the consolidated group as at, and for the six months ended 30 June 2022 comprises the Company and its subsidiaries (together referred to as the **Group**).

The financial report of Danakali for the half year ended 30 June 2022 was authorised for issue by the Directors on 29 August 2022.

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

2. BASIS OF PREPARATION

(a) Basis of preparation

This condensed general purpose financial report for the half year ended 30 June 2022 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. It is recommended that the half year financial report be read in conjunction with the annual financial report for the financial year ended 31 December 2021 and considered together with any public announcements made by the Company during the half year ended 30 June 2022 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

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

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the new standards and interpretations effective as of 1 January 2022. Adoption of these standards and interpretations did not have any effect on the statements of financial position or performance of the Group. The Group has not elected to early adopt any new standards or amendments.

The following standards and interpretations apply for the first time for entities with a year beginning on 1 January 2022:

Reference	Title	Summary
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.
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., 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

Reference	Title	Summary
		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.
AASB 2020-3	Amendments to AASB 3 – Reference to the Conceptual Framework11	When the revised Conceptual Framework was issued in 2018, its application to AASB 3 was excluded, requiring entities to apply the definitions of an asset and a liability (and supporting concepts) in the previous Framework. This exemption responded to concerns that, in some cases, the revised definitions might change which assets and liabilities qualify for recognition in a business combination. As a consequence, post-acquisition accounting required by other standards could lead to immediate derecognition of such assets or liabilities, causing 'day 2 gains or losses' to arise, which do not depict economic reality. The IASB has now assessed the impact of the revised definitions of assets and liabilities in the Conceptual Framework to business combinations, concluding that the problem of day 2 gains or losses would be significant only for liabilities that an acquirer accounts for after acquisition by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies. The IASB updated IFRS 3 in May 2020 for the revised definitions of an asset and a liability and excluded the application of the Conceptual Framework to liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21. The AASB released the equivalent amendments to AASB 3 in June 2020.

(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 $17,964,184 (31 December 2021: $22,884,417) and a net working capital surplus of $17,401,174 (31 December 2021: $21,693,190). 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 CMSC dated 31 January 2017 (**Mining Agreement**), CMSC is required 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 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$200 million 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, the spend requirement is unlikely be met within the time period which does give the MoEM the right to terminate the Mining Agreement. CMSC has a strong relationship with the MoEM and continues to have regular engagement with the MoEM regarding the Project's progress. Based on informal discussions with the MoEM and the Group's partners, and previous experience in Eritrea, the directors are satisfied that there are reasonable grounds to believe that an extension will be granted in due course.

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

3. SEGMENT INFORMATION

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

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

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

4. EXPENSES

	30 June 2022 $	30 June 2021 $
Employee benefits	410,170	545,059
Director fees	239,550	248,302
Low value asset leases	31,308	28,941
Compliance, regulatory and other administration expenses	697,820	759,968
	1,378,848	1,582,270

5. TRADE AND OTHER RECEIVABLES

	30 June 2022 $	31 December 2021 $
Current		
Net GST receivable	18,934	22,530
Accrued interest	9,123	-
Other receivables at amortised cost	3,390	1,112
Security bonds at amortised cost	72,839	72,839
	104,286	96,481
Non-Current		
Loan to Colluli Mining Share Company - at fair value	12,084,183	10,597,238

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, is non-interest bearing, unsecured and subordinate to any loans from third party secured lenders, under which CMSC may enter into in order to fund the Project Development Capital. For accounting purposes, the value of the loan has been discounted by applying a market effective interest rate of 25% (31 December 2021: effective interest rate of 25%).

During the period ended 30 June 2022 and the year ended 31 December 2021, the expected repayment profile of the receivable was reviewed to consider the timing of the completion of construction, timing of project financing and alignment to the indicative debt financing terms. It was assessed that there was no requirement to amend the expected repayment profile during the period ended 30 June 2022.

The undiscounted underlying loan balance at 30 June 2022 is $40,174,970 (USD 31,105,139) (31 December 2021: $42,110,711 (USD 32,402,935)).

	Half Year to 30 June 2022 $	Financial Year to 31 December 2021 $
Reconciliation of movement in loan to Colluli Mining Share Company:		
Carrying amount at the beginning of the period	10,597,238	12,504,442
Additional loans during the period	69,514	676,637
Foreign exchange gain/(loss)	667,045	874,406
Net gain/(loss) on financial assets at fair value through profit or loss	750,386	(3,458,248)
Carrying amount at the end of the period	12,084,183	10,597,238

6. INVESTMENT IN JOINT VENTURE

The Group has an interest in the following joint arrangement:

Project	Activities	Equity Interest 30 June 2022 %	Equity Interest 31 December 2021 %	Carrying Value 30 June 2022 $	Carrying Value 31 December 2021 $
Colluli Potash	Mineral Exploration	50	50	36,315,967	36,315,967

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

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

The Group's 50% interest in CMSC is accounted for as a joint venture using the equity method. The following tables summarise the financial information of the Group's investment in CMSC at 30 June 2022.

	Half Year to 30 June 2022 $	Financial Year to 31 December 2021 $
Reconciliation of movement in investments accounted for using the equity method:		
Carrying amount at the beginning of the period	34,916,132	34,194,212
Additional investment during the period	2,579,643	4,029,535
Share of net profit / (loss) for the period	(1,799,633)	(4,371,666)
Other comprehensive income / (loss) for the period	619,825	1,064,052
Carrying amount at the end of the period	36,315,967	34,916,132

Notes to the Consolidated Financial Statements

Summarised financial information of joint venture:

	30 June 2022 $	31 December 2021 $
Financial position (Aligned to Danakali accounting policies)		
Current assets:		
Cash and cash equivalents	351,022	108,536
Other current assets	626,026	117,012
	977,048	225,548
Non-current assets:		
Fixed assets	80,056	70,755
Development costs capitalised	43,085,790	39,427,791
	43,165,846	39,498,546
Current liabilities:		
Trade & other payables and accruals	(137,853)	(546,552)
	(137,853)	(546,552)
Non-current liabilities:		
Loan from Danakali Limited – at amortised cost	(12,849,633)	(11,195,361)
	(12,849,633)	(11,195,361)
NET ASSETS	31,155,407	27,982,181
Group's share of net assets	15,577,704	13,991,091
Reconciliation of Equity Investment:		
Group's share of net assets	15,577,704	13,991,091
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	25,043,370	25,230,149
Carrying amount at the end of the period	36,315,967	34,916,132

	Half Year to 30 June 2022 $	Half Year to 30 June 2021 $
Financial performance		
Interest expense relating to the unwinding of discount on joint venture loan	(1,291,209)	(1,212,002)
Gain on re-measurement of loan to joint venture carried at amortised cost	-	194,845
Expenses recorded through profit and loss	(2,308,057)	(619,063)
LOSS FOR THE PERIOD	(3,599,266)	(1,636,220)
Group's share of total gain/(loss) for the period	(1,799,633)	(818,110)

During the period ended 30 June 2022 no dividends were paid or declared (31 December 2021: Nil).

Colluli Mining Share Company has the following commitments or contingencies at 30 June 2022:

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$200 million on infrastructure and mine development is 36 months from submission of the Notice (15 December 2022). The spend requirement is unlikely to be met within the time period which does give the MoEM the right to terminate the Mining Agreement. CMSC has a strong relationship with the MoEM and continues to have regular engagement with the MoEM regarding the Project's progress.

Funding

CMSC successfully executed a mandate to provide fully underwritten debt finance facilities of US$200 million, subject to condition precedents, 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. In 2021, these transaction costs have been written-off as it is unlikely to meet the conditions precedent and there is low probability that the Group will draw down from the facility from long stop date.

At 30 June 2022, CMSC has commitments of $0.4 million in annual agent fees and $0.3 million in due diligence costs.

CMSC will be liable for success fees of $3.5 million (US$2.6 million) (2021: $3.4 million (US$2.6 million)) to the financial advisors on the drawdown of the facility. Concurrently, CMSC will also be liable for facility fees of $2.8 million (US$2 million) (2020: $2.6 million (US$2 million)) payable to the MLAs on the drawdown of the facility.

CONTINGENCIES

At 30 June 2022, CMSC had no contingency liabilities (2021: Nil).

7. TRADE AND OTHER PAYABLES

	30 June 2022 $	31 December 2021 $
Trade payables	755,087	473,529
Accrued expenses	-	724,000
Other payables	40,712	43,359
	795,799	1,240,888

8. ISSUED CAPITAL

	Half Year to 30 June 2022		Financial Year to 31 December 2021	
	Number of shares	$	Number of shares	$
(a) Share capital				
Ordinary shares fully paid	368,334,346	127,866,319	368,334,346	127,866,319
(b) Movements in ordinary share capital				
Beginning of the period	368,334,346	127,866,319	318,741,306	109,058,372
Issued during the period*:*				
– Issued at $0.43 per share pursuant to placement	-	-	47,565,999[(i)]	20,453,380
– Issued at $0.43 per share pursuant to director participation in placement	-	-	1,080,000	464,400
– Exercise of options			947,041	-
– Costs of capital raised[(ii)]	-	-	-	(2,109,833)
End of the period	368,334,346	127,866,319	368,334,346	127,866,319

(i) On 6 May 2021, the Company issued a total of 47,565,999 shares at an issue price of $0.43 per share pursuant to a placement to institutional and sophisticated investors and senior Danakali executives (**Placement**).

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

9. RESERVES

	Half Year to 30 June 2022 $	Financial Year to 31 December 2021 $
(a) Reserves		
Share-based payments reserve		
Balance at beginning of the period	13,632,696	12,382,082
Employee and contractor share options & performance rights	387,841	1,250,614
Balance at end of the period	14,020,537	13,632,696
Foreign currency translation reserve		
Balance at beginning of the period	1,475,207	411,155
Currency translation differences arising during the period	619,825	1,064,052
Balance at end of the period	2,095,032	1,475,207
Total reserves	**16,115,570**	**15,107,903**

(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 venture.

10. ACCUMULATED LOSSES

	Half Year to 30 June 2022 $	Financial Year to 31 December 2021 $
Balance at beginning of the period	(75,789,033)	(65,751,865)
Loss for the period	(2,426,986)	(10,037,168)
Balance at end of the period	(78,216,018)	(75,789,033)

11. SHARE BASED PAYMENTS

(a) Expenses arising from share-based payment transactions

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

	Half Year to 30 June 2022 $	Half Year to 30 June 2021 $
Options issued to directors and employees	375,550	195,175
Performance rights issued to directors, employees and consultants	12,292	(59,752)
Expense	387,841	135,423

(b) Option movement summary

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

Unlisted Option	Opening balance 1 Jan 2022	Issued	Exercised	Lapsed / Expired	Closing balance 30 Jun 2022
Exercise price $1.031 expiry date 24/01/2022	1,168,272	-	-	(1,168,272)	-
Exercise price $1.031 expiry date 24/01/2022	301,040	-	-	(301,040)	-
Exercise price $1.108 expiry date 13/03/2022	583,000	-	-	(583,000)	-
Exercise price $1.119 expiry date 28/03/2022	561,800	-	-	(561,800)	-
Exercise price $1.114 expiry date 30/05/2022	1,450,000	-	-	(1,450,000)	-
Exercise price $0.664 expiry date 08/07/2023	200,000	-	-	-	200,000[a]
Exercise price $0.501 expiry date 03/12/2023	250,000	-	-	-	250,000[a]
Exercise price $0.527 expiry date 29/01/2023	500,000	-	-	-	500,000[a]
Exercise price $0.780 expiry date 24/03/2023	250,000	-	-	-	250,000[a]
Exercise price $0.640 expiry date 30/07/2025	10,000,000	-	-	-	10,000,000[a]
Exercise price $0.450 expiry date 31/12/2024	-	4,000,000 [b]	-	-	4,000,000[b]
	15,264,112	4,000,000	-	(4,064,112)	15,200,000

[a] Vested options.

[b] Refers to unlisted options granted on 26 May 2022.

(c) Performance Rights

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

Performance Rights - Class	Opening balance 1 Jan 2022	Granted	Vested	Forfeited	Closing balance 30 Jun 2022
Class 1 [a]	280,000	-	-	-	280,000
Class 5 [a]	80,000	-	-	-	80,000
Class 10 [b]	-	2,250,000	-	-	2,250,000
	360,000	2,250,000	-	-	2,610,000

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

[b] Issued under Board Resolution dated 28 March 2022

The 2,610,000 Performance Rights on issue at 30 June 2022 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 10:
- 900,000 upon DNK share price being sustained at or above $0.50 VWAP over a consecutive 30-day period (trading days) during the period to Expiry Date
- 675,000 upon DNK share price being sustained at or above $0.60 VWAP over a consecutive 30-day period (trading days) during the period to Expiry Date
- 675,000 upon DNK share price being sustained at or above $0.70 VWAP over a consecutive 30-day period (trading days) during the period to Expiry Date

12. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 30 June 2022:

	At amortised cost	Fair value	
		through profit and loss	through other comprehensive income
	$	$	$
Financial Assets:			
Trade and other receivables	104,286	-	-
Total current	104,286	-	-
Receivable	-	12,084,183	-
Total non-current	-	12,084,183	-
Total Assets	104,286	12,084,183	-
Financial liabilities:			
Trade and other payables	795,799	-	-
Total current	795,799	-	-
Total Liabilities	795,799	-	-

Fair values:

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 30 June 2022:

	Carrying amount $	Fair value $
Financial Assets:		
Trade and other receivables	104,286	104,286
Total current	104,286	104,286
Receivable	12,084,183	12,084,183
Total non-current	12,084,183	12,084,183
Total Assets	12,188,469	12,188,469
Financial liabilities:		
Trade and other payables	795,799	795,799
Total current	795,799	795,799
Total Liabilities	795,799	795,799

The current receivables 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 25% which incorporates an appropriate adjustment for credit risk. The timing of cash receipts has been updated to consider the timing of the completion of construction, timing of project financing and alignment to the indicative debt financing terms. The fair value measurement for the long-term receivable is categorised as Level 3 in the fair value hierarchy as the estimated market interest rate is an unobserved input in the valuation. The fair value of the loan is sensitive to the discount rate applied.

13. SUBSIDARY

Interest in subsidiary

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

				Equity Holding	
Name	Principal Activities	Country of Incorporation	Class of Shares	30 June 2022 %	31 December 2021 %
STB Eritrea Pty Ltd	Investment in Potash Exploration	Australia	Ordinary	100	100

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

14. RELATED PARTY INFORMATION

Key Management Personnel (KMP)

Offer of Unlisted Options

On 26 May 2022, Mr Seamus Cornelius was granted 4,000,000 unlisted options with an exercise price to be determined at 143% of the share price at the date shareholder approval being received and expiring 4 years from this date. These options were approved for issued by shareholders at the Company's AGM held 26 May 2022.

Offer of Performance Rights

On 28 March 2022, Mr Gregory MacPherson and Rod McEachern were granted 500,000 performance rights each, with an expiry date of 31 December 2022.

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 due to AFC interest of 14.4% (2021: 14.4%) in the issued capital of the Company and AFC's President and CEO, Samaila D. Zubairu, and AFC Senior Director for Investment Operations & Execution, Taiwo Adeniji, are Non-Executive Directors on the Danakali Board.

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.

15. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Group at balance date (2021:Nil).

16. COMMITMENTS

	Half Year to 30 June 2022 $	Financial Year to 31 December 2021 $
Lease commitments (Group as lessee):		
Low value Leases		
Minimum lease payments		
- Within one year	30,507	7,626
- Later than one year but not later than five years	-	-
Total Commitments	30,507	7,626

Low values Leases:

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

17. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There are no events subsequent to 30 June 2022 and up to the date of this report that would materially affect the operations of the Group or its state of affairs which have not otherwise been disclosed in this financial report.

Directors' Declaration

In the directors' opinion:

1. the financial statements and notes of Danakali Limited for the half-year ended 30 June 2022 are in accordance with the *Corporations Act 2001*, including:

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

   b) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the half year ended on that date; and

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

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

Seamus Ian Cornelius

EXECUTIVE CHAIRMAN

Perth, 29 August 2022

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

Conclusion

We have reviewed the accompanying half-year financial report of Danakali Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2022 and of its consolidated financial performance for the half-year ended on that date; and

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

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year 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 APES 110 *Code of Ethics for Professional Accountants* (*including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 2(c) to the financial report, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibilities for the half-year financial report

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

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Ernst & Young

Pierre Dreyer
Partner
Perth
29 August 2022