



DANAKALI

DANAKALI LTD

ABN 56 097 904 302

AUDITED FINANCIAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2019

Corporate Information

Directors

Seamus Cornelius (Non-Executive Chairman)
Paul Donaldson (Non-Executive Director)
Zhang Jing (Non-Executive Director)
Robert Connochie (Independent Non-Executive Director)
John Fitzgerald (Independent Non-Executive Director)
Andre Liebenberg (Independent Non-Executive Director)

Executive Management

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

Joint Company Secretary

Catherine Grant Edwards
Melissa Chapman

Registered Office and Principal Place of Business

Level 11, 125 St George's Terrace
PERTH WA 6000
Telephone: +61 (0)8 6189 8635

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
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PERTH WA 6000
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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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To facilitate trading of Danakali's shares on the Standard Segment of the London Stock Exchange (**LSE**) Main Market, Danakali has established a Depository Interest (**DI**) facility, under which it has appointed Computershare Investor Services Plc as the depository. 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 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:
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 2019.

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.

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, and resumed Non-Executive Chairman role 25 June 2019)

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 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 Committee and a member of the Technical and Risk Committee. On 23 January 2020, the Company's Audit Committee was reformed to become the Audit and Risk Committee (of which Mr Cornelius was appointed a member), and the Technical and Risk Committee was ceased.

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

Mr Donaldson has over 25 years of experience in senior management roles including BHP. At BHP Mr Donaldson managed large scale, open cut mining operations, significant growth and sustaining capital projects, and complex pyro metallurgical, beneficiation and manufacturing processes. Mr Donaldson headed the BHP Carbon Steel Materials Technical Marketing Team, managed the Port Hedland iron ore facility as well as occupying key roles in product and infrastructure planning across large scale supply chains. Mr Donaldson also brings extensive experience in high-level business improvement and logistics from base metal operations and a high degree of integrated supply chain management, technical operational management and frontline leadership experience in the steel industry. 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:

During the year Mr Donaldson was the Chairman of the Technical and Risk Committee and a member of the Remuneration and Nomination Committee. On 23 January 2020, the Technical and Risk Committee was ceased.

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 Non-Executive Chairman of Exore Resources Limited (appointed 23 December 2015) and Lead Independent Director of Northern Star Resources Limited (appointed 30 November 2012).

Previously Mr Fitzgerald was Non-Executive Chairman of Carbine Resources Limited (13 April 2016 to 23 March 2018).

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 Committee and a member of the Remuneration and Nomination Committee. On 23 January 2020, the Company's Audit Committee was reformed to become the Audit and Risk Committee (of which Mr Fitzgerald was appointed as chair).

Directors' Report

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.

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 Technical and Risk Committee. On 23 January 2020, the Technical and Risk Committee was ceased.

Andre Liebenberg

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

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:

Mr Liebenberg is Chairman of the Remuneration and Nomination Committee and during the year was a member of the Audit Committee. On 23 January 2020, the Company's Audit Committee was reformed to become the Audit and Risk Committee (of which Mr Liebenberg was appointed a member).

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 | 10,406,795 | 601,040 | - |
| P Donaldson | 2,957,751 | 100,000 | 800,000 |
| J Fitzgerald | 526,453 | 250,000 | - |
| Z Jing | - | 100,000 | - |
| R Connochie | - | 500,000 | - |
| A Liebenberg | - | 500,000 | - |

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 2019.

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 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, Carnallite and Kainite. 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.

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

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

Directors' Report

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 ($MgSO_4 \cdot H_2O$), gypsum ($CaSO_4 \cdot 2H_2O$), 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 for de-icing, processed Rock Salt can be used as table salt.

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

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

With US\$250M of funding committed in December 2019, project execution has commenced.

Mining Agreement Executed and Mining Licenses Awarded

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

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

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

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

MARKETING AND PROJECT FINANCE UPDATE

Off-take

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

Project Financing

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

AFC executed a Subscription Agreement to make a US\$50M strategic equity investment in Danakali. The Placement is being conducted in two tranches. The first tranche consisted of approximately 53M new Shares issued at A\$0.60 per Share to raise A\$31.8M (US\$21.5M), and was completed on 10 December 2019. The second tranche will consist of approximately 70M new Shares at the same issue price to raise the remaining A\$42.0M (US\$28.5M) (**Tranche 2**). Refer to 'Events Occurring After the Balance Date' below for further information regarding Tranche 2.

Under AFC's subscription agreement to invest US\$50M in Danakali, AFC has the right to appoint two nominees to the

Directors' Report

Board of Danakali provided AFC's Danakali ownership remains above certain thresholds. Upon completion of the Placement AFC will hold 32% of Danakali.

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

Key Operational Contracts

The following operational contracts are defined as project documents, and are necessary to advance the project as well as for completion of debt due diligence referred to above.

Mining – undergoing negotiations with preferred mining services provider

Following a comprehensive tendering process, Earth Moving Worldwide (**EMW**) was confirmed as 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, as well as provision, operation and maintenance of excavation, haulage and dewatering equipment. EMW has extensive global experience in mining services and will provide the Project with strong commercial and technical outcomes.

Finalisation of the Mining Services Contract is expected during the Q3 2020.

Power – Finalising commercial position towards final contracts

Inglett and Stubbs International (**ISI**) was appointed as preferred power provider in 2017. Under Build Own Operate Transfer (BOOT) model, ISI has sourced a funding solution for the Colluli power contract. This includes formal credit approval for a US\$42M guarantee in support of ISI from Afreximbank (*ASX Announcement 8 August 2019*). ISI are currently reviewing and updating their commercial position based on current market conditions, and whilst being remaining as preferred power provider, CMSC has commenced discussions with other potential power providers.

EPCM – contractor confirmed

The Company has engaged DRA Global (**DRA**) to commence the EPCM process. 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.

CORPORATE

Board Changes

Mr Seamus Cornelius resumed his former role as Non-Executive Chairman on 25 June 2019, following his service as Executive Chairman which commenced on 14 June 2018.

Management Changes

New Chief Executive Officer (CEO) appointed

Following a thorough global search for potential CEO candidates, Mr. Niels Wage was appointed as CEO 25 March 2019 due to his extensive and relevant industry experience, clear leadership capabilities, and passion for the Colluli Potash Project and Eritrea.

Mr. Wage brings significant potash, trading and logistics experience to the team. Prior to joining Danakali he held a number of senior management roles at BHP, including Vice President Potash, Vice President Freight and Vice President Diamonds. At BHP he was also responsible for marketing, sales and supply chain for the Jansen Potash Project. Mr. Wage previously worked in trading and logistics for Cargill and Vopak. He has also held a series of directorships including joint ventures between Japanese firms K-line, Daiichi and JFE Steel and BHP, the International Plant Nutrition Institute and RightShip. He holds a Master's Degree in Business Economics from the University of Amsterdam and has completed the International Directors Programme at global business school INSEAD.

Mr. Wage joined Danakali in June 2018 as Chief Commercial Officer (**CCO**). As CCO, Mr. Wage assisted the Company with building and maintaining industry relationships including interacting with CMSC's offtake partner, EuroChem. He has also been involved in investigating the multicommodity and logistics optimisation potential of the Project, further developing CMSC's product sales strategy, advancing Danakali and CMSC's social and environmental agenda, and supporting funding, project execution and operations readiness processes.

Project Director appointed

During the year, Mr. Tony Harrington was promoted to the role of Project Director (from Project Manager). He brings a depth of experience to his role as well as Eritrean and wider developing nation insight. Mr. Harrington has over 35 years' experience managing the delivery of projects across a diverse range of commodities, mineral processing units and

Directors' Report

jurisdictions including East Africa, West Africa, Southern Africa, China, Europe, UK and Australia.

Chief Sustainability Officer (CSO) appointed

In January 2020, Danakali appointed Mr. Todd Romaine as CSO.

Mr. Romaine brings significant experience in Environmental, Social & Corporate Governance (**ESG**) and Investor & Public Relations. Mr. Romaine has deep Eritrean experience accrued in his previous role as Vice President, CSR & Government Relations, with Nevsun Resources, a Canadian mining company with an operating Eritrean mine, Bisha Mining Share Company.

As CSO, Mr. Romaine will be responsible for continuing and implementing the Danakali and Colluli's ESG strategies, and looking to drive Colluli's contribution to Eritrea's Sustainable Development Goals.

Shares

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

- 900,000 shares on exercise of unlisted options at \$0.558 each
- 250,000 shares on exercise of unlisted options at \$0.543 each
- 15,000 shares on vesting of performance rights (Class 6: 15,000)
- 52,958,908 shares at \$0.60 each raising A\$31,775,345 pursuant to the AFC Placement (first tranche)

At 31 December 2019, there were a total of 318,546,306 fully paid ordinary shares on issue.

Options

The following unlisted options were issued during the year:

- 500,000 unlisted options at an exercise price of \$0.912 each expiring 11 May 2020
- 2,025,055 unlisted options at an exercise price of \$1.031 each expiring 24 January 2022
- 583,000 unlisted options at an exercise price of \$1.108 each expiring 13 March 2022
- 561,800 unlisted options at an exercise price of \$1.119 each expiring 28 March 2022
- 1,450,000 unlisted options at an exercise price of \$1.114 each expiring 30 May 2022

The following unlisted options were exercised and converted to shares during the year:

- 900,000 unlisted options exercised at \$0.558 each raising \$502,200
- 250,000 unlisted options exercised at \$0.543 each raising \$135,750

The following unlisted options lapsed during the year:

- 555,743 unlisted options exercisable at \$1.031 with an expiry of 24 January 2022 (455,800 lapsed on 7 June 2019 and 99,943 lapsed 11 October 2019)
- 400,000 unlisted options exercisable at \$0.96 expired on 20 June 2019

At 31 December 2019, there were a total of 6,004,112 unlisted options on issue at various exercise prices and expiry dates.

Performance Rights

The following performance rights were issued during the year:

- 1,000,000 Class 9 performance rights

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

- 15,000 Class 6 performance rights

The following performance rights were cancelled during the year:

- 15,000 Class 7 performance rights

At 31 December 2019, there were a total of 2,285,000 performance rights on issue in the following classes:

- 280,000 Class 1 performance rights
- 800,000 Class 4 performance rights
- 100,000 Class 5 performance rights
- 25,000 Class 6 performance rights¹
- 15,000 Class 7 performance rights²
- 65,000 Class 8 performance rights³
- 1,000,000 Class 9 performance rights⁴

¹ Comprises 25,000 class 6 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 Comprises 15,000 class 7 performance rights that were subject to cancellation at 31 December 2019 and removed from the register in January 2020.

³ Shown inclusive of 50,000 class 8 performance rights in respect of which the performance hurdle had been met 3 December 2019. Issue of shares following conversion occurred 13 January 2020.

Directors' Report

⁴ Shown inclusive of 100,000 class 9 performance rights in respect of which the performance hurdle had been met 20 December 2019. Issue of shares following conversion occurred 28 January 2020.

Annual General Meeting

The Company's annual general meeting was held on 27 May 2019 (**AGM**). For more information, refer to the Notice of AGM and Results available via the Company's website.

Sustainable Development Framework

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 govern its Corporate Social Responsibilities (**CSR**) and Sustainability 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.

Chief Sustainability Officer Mr. Todd Romaine will be responsible for continuing and implementing Danakali's and Colluli's ESG strategies, and will look to drive Colluli's contribution to Eritrea and the UN Sustainable Development Goals.

Danakali has committed to release a CSR report. This report details the policies and frameworks in place to ensure that Danakali continues to operate in a sustainable manner.

Danakali framework and policies are endorsed and adopted by joint venture partner, CMSC.

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 2018. 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 2018 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 Carnallitite | 51 | 2.1 | 12% | 3% |
| Lower Carnallitite | 347 | 2.1 | 7% | 22% |
| Kainitite | 626 | 2.1 | 12% | 1% |
| Total | 1,289 | 2.1 | 11% | 7% |

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

The Colluli JORC-2012 compliant Ore Reserve estimate by potash mineral as at 31 December 2018 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% | | |
| Carnallitite (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.

Directors' Report

As at 31 December 2018, 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

Non-adjusting event (s) after the balance sheet date

Subsequent to year end, in response to the Coronavirus (**COVID-19**) pandemic, Danakali has taken a range of steps to minimise the risks to its people and its operations. Despite COVID-19 disruption, the Company remains committed to development of the Colluli Project.

As a non-adjusting subsequent event, the COVID-19 disruption has not had any impact on the carrying value of the group's investment in and receivable from CMSC as at 31 December 2019.

Danakali is continuing to monitor the situation and adjust its continuity measures as the situation evolves. The Company continues to assess the potential short and long term impacts.

The duration and intensity of this global health crisis and related disruptions is uncertain. As at the date of this report given the fluid and evolving nature of COVID-19, the Company is unable to assess the impact COVID-19 may have on the group's ability to raise additional capital to continue with the development as required or the future carrying value of the group's investment in and receivable from CMSC.

AFC Tranche 2

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

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

Movements in Securities

On 13 January 2020, the Company issued 75,000 fully paid ordinary shares on the vesting of performance rights.

On 28 January 2020, the Company issued 100,000 fully paid ordinary shares on the vesting of performance rights.

On 14 February 2020, 15,000 performance rights lapsed and were cancelled in accordance with the terms of issue.

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' Report

ACTIVITIES PLANNED FOR 2020

The following key activities are scheduled over the coming year:

- Finalise phase 1 and 2 of the EPCM to allow the commencement of detailed design and early works
- Secure AFC Tranche 2 through satisfaction of Conditions Precedent
- Secure balance of funding to advance Colluli to Final Investment Decision
- Execute the EPCM contracts and commence the detailed design work along with early works at site
- Advance the Company's ESG objectives
- Close out the Conditions Precedent to allow draw down of the CMSC Senior Debt Facility
- Negotiate and finalise the mining services and power provider contracts

FINANCE REVIEW

The Group recorded a net loss after tax of \$3,148,734 for the financial year to 31 December 2019 compared to a loss of \$6,944,413 for the financial year to 31 December 2018. As the Group has just commenced the development stage, revenue streams mainly relate to interest earned on investing of surplus funds from capital raisings. The net losses after tax reflect the Groups' evaluation expenditure on the Colluli Potash Project and ongoing administration costs.

Total consolidated cash on hand at the end of the financial year was \$33,800,104 (31 December 2018: \$9,550,585).

Operating activities utilised \$2,538,695 (31 December 2018: \$3,468,967 utilised) of net cash flows. Net cash outflow from investing activities of \$4,407,612 (31 December 2018: \$6,464,570) was predominantly expenditure made to advance the Colluli Project in relation to:

- Advancing financing
- Advancing key operational contracts
- Engagement of DRA Global (**DRA**) to commence EPCM process

Net cash inflow from financing activities of \$32,286,301 in the financial year to 31 December 2019 was attributable to funds received in respect of a placement of shares and the exercise of options (31 December 2018: \$3,885,638 consideration received upon 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 2019. No recommendation for payment of dividends has been made.

DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the financial year ended 31 December 2019 and the number of meetings attended by each Director were:

| Director | Board of Directors | | Audit Committee | | Remuneration and Nomination Committee | | Technical and Risk 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 | Total meetings held / eligible to attend | Total attended |
| S Cornelius | 12 | 12 | 4 | 4 | - | - | 4 | 3 |
| P Donaldson | 12 | 9 | - | - | 4 | 4 | 4 | 4 |
| J Fitzgerald | 12 | 11 | 4 | 4 | 4 | 4 | - | - |
| J Zhang | 12 | 10 | - | - | - | - | - | - |
| R Connochie | 12 | 11 | - | - | - | - | 4 | 3 |
| A Liebenberg | 12 | 11 | 4 | 4 | 4 | 4 | - | - |

Directors' Report

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 | 2,990,000 |
| <i>Movements of share options during the financial year ended 31 December 2019:</i> | |
| Issued, exercisable at \$0.912, expiry date 11 May 2020 | 500,000 |
| Issued, exercisable at \$1.031, expiry date 24 January 2022 | 2,025,055 |
| Issued, exercisable at \$1.108, expiry date 13 March 2022 | 583,000 |
| Issued, exercisable at \$1.119, expiry date 28 March 2022 | 561,800 |
| Issued, exercisable at \$1.114, expiry date 30 May 2022 | 1,450,000 |
| Exercised, exercisable at \$0.558, expiry date 8 August 2019 | (900,000) |
| Exercised, exercisable at \$0.543, expiry date 7 October 2019 | (250,000) |
| Cancelled, exercisable at \$0.960, expiry date 20 June 2019 | (400,000) |
| Cancelled, exercisable at \$1.031, expiry date 24 January 2022 | (555,743) |
| Share options outstanding at 31 December 2019 | 6,004,112 |
| <i>Movements since the financial year ended 31 December 2019:</i> | |
| None | - |
| Total number of share options outstanding as at the date of this report | 6,004,112 |

| Expiry date | Exercise price | Number of options |
|---|-----------------------|--------------------------|
| 11 May 2020 | \$0.912 | 500,000 |
| 19 May 2020 | \$0.940 | 1,440,000 |
| 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 |
| Total number of share options outstanding at the date of this report | | 6,004,112 |

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.

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 | 1,315,000 |
| <i>Movements of performance rights during the financial year ended 31 December 2019:</i> | |
| Issued | 1,000,000 |
| Vested and exercised (a) | (15,000) |
| Forfeited (c) | (15,000) |
| Performance rights outstanding at 31 December 2019 | 2,285,000 |
| <i>Movements since the financial year ended 31 December 2019:</i> | |
| Vested and exercised (b) | (175,000) |
| Forfeited (c) | (30,000) |
| Total number of performance rights as at the date of this report | 2,080,000 |

Note:

- Performance rights vested upon Endeavour Financial being paid its first milestone success fee which is linked to the granting of Credit Approval for the Colluli project finance (15,000 rights).
- Comprises performance rights vested upon signing of debt documentation for the project financing of the Colluli project (25,000 rights), upon securing a strategic equity partner (50,000 rights), and upon CMSC commencing early works at Colluli (100,000 rights).
- Performance rights forfeited as performance hurdles not met (15,000) and upon resignation of employee (15,000).

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.

Directors' Report

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 \$213,272 (2018: \$56,384) 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.

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

- Preparation and lodgement of income tax returns
- Assistance with preparation of employee share scheme reporting
- General tax advice
- Corporate advisory services

| | 2019 \$ | 2018 \$ |
|---------------------------------------|------------|------------|
| Assurance related | 54,393 | 44,837 |
| Tax compliance services | 22,073 | 55,973 |
| Fees for other services (LSE listing) | - | 123,332 |
| | 76,466 | 224,142 |

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

Directors' Report

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 | |
| <p>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</p> <p>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.</p> <p>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.</p> | <p>The Group has implemented a comprehensive risk management framework to early detect and manage adverse events that would affect the Project.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> |
| Financial Risks | |
| <p>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.</p> | <p>The Group has adopted robust financial management practices to ensure that cashflow are closely governed and that future requirements remain adequate to continue as a going concern.</p> <p>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.</p> |
| <p>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.</p> | <p>The Group continuously monitors the SOP market and forecast demand to ensure that the economics of the project remain favourable.</p> <p>A natural hedge exists against lower SOP prices in the form of an industry cost curve, of which Colluli is expected to be in the bottom quartile.</p> <p>An offtake agreement with Eurochem has been concluded for up to 100% of the production for the first 10 years of the project. There is an ongoing engagement with Eurochem to continue to build the future partnership.</p> |
| <p>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.</p> | <p>The Group has established a funding strategy to fund the project through debt and equity sources.</p> <p>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.</p> <p>Various strategies have been put in place to raise the balance of the funding for the project. AFC has committed US\$50m to the company and the company continues to identify and engage further strategic and institutional investors through its advisers and brokers.</p> |
| <p>The Group is aware that foreign exchange movements and interest rate changes could affect the financial</p> | <p>The Group implements appropriate treasury management processes and procedures to monitor and manage its</p> |

Directors' Report

| RISK | MITIGATION / CONTROL |
|---|--|
| performance of the company. | foreign exchange exposures. The Group seeks to pursue natural foreign exchange hedges through the negotiation, where appropriate, of USD denominated commercial contracts. The senior debt funding facility is linked to the Libor rate which is relatively stable and does not fluctuate significantly. |
| Compliance Risks | |
| The Group is aware that the mining industry is subject to a number of laws and governmental regulations which need to be complied with. Non-compliance could result to the loss of the Groups' mining licence. | The Group has regular and effective engagement with the Eritrean Ministry of Energy and Mines to ensure that it remains compliant with regulatory requirements and that the government is made aware of the company's commitments to develop the project. |
| The Group is aware of its Environmental & Social responsibilities and the impact it would have on the company if regulatory compliance requirements have not been met. | The Group has appointed a Chief Sustainability Officer that is developing the management systems to ensure that the environment and social compliance requirements are achieved. |
| Operation/ Project Risks | |
| The Group is reliant on a number of key personnel. The loss of one or more of its key personnel could have an adverse impact on the business of the Group | The Group has developed succession plans to reduce the exposure to the loss of any key personnel. In addition, long and short-term incentive plans have been implemented. |
| The Group is in the early stages of development and therefore is exposed to various development risks. | The Group has identified a number of controls to reduce its exposure to development risks. At this stage of the development key controls relate to cost management during phase 1 and 2 of the EPCM. As part of the initial phase of development, risk reviews are undertaken and collated in a project risk register. |
| The Group is reliant on third parties to develop and operate the Project, including mining, EPCM, and power contracts. | The Group has awarded contracts or preferential status to reputable third-party contractors to develop and operate the project. The company continues to engage these parties as the Project develops. |
| The Project is reliant on developing its own infrastructure including, processing plant, water and roads. | The Group has detailed plans to develop these infrastructures and continue to engage with reputable contractors. |
| 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. |

Directors' Report

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 2019 were:

Directors

| | |
|--------------|--|
| S Cornelius | Non-Executive Chairman (Transitioned from Non-Executive Chairman to Executive Chairman 14 June 2018, and resumed Non-Executive Chairman role 25 June 2019) |
| P Donaldson | Non-Executive Director |
| J Fitzgerald | Non-Executive Director |
| J Zhang | Non-Executive Director |
| R Connochie | Non-Executive Director |
| A Liebenberg | Non-Executive Director |

Key Management Personnel

| | |
|-----------------|---|
| N Wage | Chief Executive Officer (Appointed 25 March 2019) |
| 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 2019 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 | <ul style="list-style-type: none">• 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. |

Directors' Report

| Remuneration Component | Item | Purpose | Link to Performance |
|--|---|--|--|
| Performance Based Short Term Incentive (STI) | <ul style="list-style-type: none"> 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) | <ul style="list-style-type: none"> 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

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 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.

Directors' Report

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.

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 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 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 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.

The remuneration and reward framework for 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 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.

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 key management personnel is reviewed annually to ensure the executives' pay is competitive with the market. The pay of key management personnel is also reviewed on promotion. There is no guaranteed pay increase included in any key management personnel's contract.

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 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.

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. Subject to Board approval, an offer of zero exercise price options (ZEP Options) is proposed to be made to eligible employees. As the terms of these offers have not yet been agreed, the share based payment expense associated with a potential grant of ZEP Options will be recognised over the vesting period, and as such no value has been recorded in the 31 December 2019 financial statements in respect of any such these securities.

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. Rather, long term incentives have been provided to employees during the year via the issue of options and performance rights (using its capacity under ASX Listing Rule 7.1). During the year, 1,000,000 performance rights (Class 9) were issued to Mr Wage as part of his remuneration package.

In previous financial years, long term incentives were provided to directors and employees through the issue of options and performance rights. The Company previously issued performance rights to its employees (including KMP) under the Performance Rights Plan (PRP). The PRP was re-approved by shareholders at the general meeting held 17 November 2014. The PRP provided incentives, which promote the long-term performance and growth of the Company. The performance conditions were chosen to strengthen the links between the Company objectives

Directors' Report

and the role performed by its Directors and employees. The PRP was designed to increase the range of potential incentives available to Directors and employees and to recognise their contribution to the Company's success.

Under the PRP, performance rights were granted over ordinary shares in the Company on an annual basis, up until 17 November 2017 (three years from re-approval date of PRP). The vesting conditions in respect of performance rights issued to KMP under the PRP that are outstanding at 31 December 2019 are as follows:

Class 4:

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

Details of options issued to key management personnel can be found in section f(i) below.

Details of performance rights issued to 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.

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 99% of votes in favour of its Remuneration Report for the financial year ending 31 December 2019 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 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 2019:

| Financial Year to 31 December 2019 | Short-Term | Post- Employment | Long Term Benefits | LTI ^(d) Share Based Payments | | | Total | Options percentage of total remuneration |
|---|-----------------------------------|---------------------|--------------------------------------|--|------------------------|--------------------------------------|------------------|---|
| | Salary and Fees ^(e) | Super- annuation | Long Service Leave ^(f) | Shares | Options ^(g) | Performance Rights ^(g) | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % |
| Non-Executive Directors | | | | | | | | |
| S Cornelius ^(a) | 99,497 | - | - | - | - | - | 99,497 | - |
| P Donaldson | 78,514 | 7,459 | - | - | - | 18,919 | 104,892 | - |
| 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 Key Management Personnel | | | | | | | | |
| N Wage ^(b) | 306,504 | 29,668 | 4,189 | - | 130,241 | 160,138 | 630,740 | 21% |
| 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 | 15% |

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).

Directors' Report

Key management personnel of the Company for the financial year to 31 December 2018:

| Financial Year to 31 December 2018 | Short-Term | Post- Employment | Long Term Benefits | LTI ^(d) Share Based Payments | | | Total | Options percentage of total remuneration |
|---|--------------------|---------------------|--------------------------------------|--|------------------------|--------------------------------------|------------------|---|
| | Salary and Fees | Super- annuation | Long Service Leave ^(f) | Shares | Options ^(g) | Performance Rights ^(g) | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % |
| Non-Executive Directors | | | | | | | | |
| S Cornelius ^(a) | 43,269 | - | - | - | - | - | 43,269 | - |
| P Donaldson | 171,819 | 6,293 | - | - | - | 3,600 | 181,712 | - |
| J Fitzgerald | 56,154 | 5,335 | - | - | - | - | 61,489 | - |
| J Zhang | 38,987 | - | - | - | - | - | 38,987 | - |
| R Connochie | 44,987 | - | - | - | - | - | 44,987 | - |
| A Liebenberg | 64,987 | - | - | - | 17,101 | - | 82,088 | 21% |
| Executive Directors | | | | | | | | |
| S Cornelius ^(a) | 110,878 | - | - | - | - | - | 110,878 | - |
| Other Key Management Personnel | | | | | | | | |
| D Goeman ^(b) | 225,406 | 14,729 | (8,178) | - | - | - | 231,957 | - |
| S Tarrant | 270,997 | 24,146 | 10,377 | - | - | 3,880 | 309,400 | - |
| C Grant-Edwards ^(c) | 43,000 | - | - | - | - | - | 43,000 | - |
| M Chapman ^(c) | 43,000 | - | - | - | - | - | 43,000 | - |
| TOTAL | 1,113,484 | 50,503 | 2,199 | - | 17,101 | 7,480 | 1,190,767 | 1% |

Note:

- (a) Mr S Cornelius transitioned from the role of Non-Executive Chairman to Executive Chairman on 14 June 2018.
- (b) Mr Goeman resigned as Chief Executive Officer on 3 August 2018. At resignation Mr Goeman retained 900,000 unlisted vested options exercisable at \$0.558 expiring 8 August 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 Director Options and performance rights (refer details below).

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 2019 | | |
|---------------------------------------|------------------------------------|---------------|---------------|
| | Fixed Remuneration | At risk – STI | At risk - LTI |
| Non-Executive Directors | | | |
| S Cornelius | 100% | - | - |
| P Donaldson | 82% | - | 18% |
| J Fitzgerald | 100% | - | - |
| J Zhang | 100% | - | - |
| R Connochie | 100% | - | - |
| A Liebenberg | 83% | - | 17% |
| Executive Directors | | | |
| S Cornelius | 67% | - | 33% |
| Other Key Management Personnel | | | |
| N Wage | 54% | - | 46% |
| S Tarrant | 80% | - | 20% |
| 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.

S Cornelius, Non-Executive Chairman (Transitioned from Non-Executive to Executive Chairman 14 June 2018, resumed role as Non-Executive Chairman 25 June 2019):

- Under an executive services agreement for the provision of executive duties, Mr Cornelius received:
 - For the period 1 January 2019 to 24 June 2019: \$69,028
- In addition, Mr Cornelius remained entitled to receive his pre-existing director fees during the period that he performed the executive role

S Tarrant, Chief Financial Officer

- Appointed 12 June 2017
- Engaged as a permanent full-time employee
- Remuneration of \$300,000 per annum inclusive of statutory superannuation
- Notice period of three months, required to be given by either party for termination

N Wage, Chief Executive Officer:

- Appointed 25 March 2019 to role of CEO
- Engaged as a permanent full-time employee
- Remuneration of €250,000 per annum plus superannuation at the Australian statutory rate and health insurance for Mr Wage and his dependents
- Notice period of six 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:

- 500,000 unlisted options with an exercise price of \$0.912 each expiring 11 May 2020 to the nominee of Mr Andre Liebenberg, as approved by shareholders at the AGM;
- 301,040 unlisted options with an exercise price of \$1.031 each expiring 24 January 2022 (subject to vesting conditions) to the nominee of Mr Seamus Cornelius, as approved by shareholders at the AGM;
- 583,000 unlisted options with an exercise price of \$1.108 each expiring 13 March 2022 (subject to vesting conditions) to Mr Stuart Tarrant; and
- 1,450,000 unlisted options with an exercise price of \$1.114 each expiring 30 May 2022 (subject to vesting conditions) to Mr Niels Wage.

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 2019 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 % |
|----------------------|---------------------------------|-----------------|-------------------|----------------|--------------------------------|--------------------------|
| 19 May 2017 | 19 May 2017 ^(a) | 19 May 2020 | 1,250,000 | \$0.940 | \$0.202 | 100% |
| 27 May 2019 | 27 May 2019 ^(a) | 11 May 2020 | 500,000 | \$0.912 | \$0.066 | 100% |
| 27 May 2019 | 24 January 2020 ^(b) | 24 January 2022 | 301,040 | \$1.031 | \$0.124 | - |
| 13 March 2019 | 13 March 2020 ^(b) | 13 March 2022 | 583,000 | \$1.108 | \$0.161 | - |
| 30 May 2019 | 31 January 2020 ^(b) | 30 May 2022 | 725,000 | \$1.114 | \$0.130 | - |
| 30 May 2019 | 31 July 2020 ^(b) | 30 May 2022 | 725,000 | \$1.114 | \$0.130 | - |
| Total Options | | | 4,084,040 | | | |

Note:

(a) The options were issued in recognition of skill and expertise brought to the Company and therefore, there were no conditions attached to the options.

(b) Vesting of options is conditional on director or employee remaining engaged or employed by the Company at this date.

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

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.

| Name | Year of grant | Year in which options vest | Number of options granted | Value of options at grant date | Unamortised value of options at 31 Dec 2019 | Number of options vested | Vested and exercisable | Number of options forfeited during the period |
|----------------------|---------------|----------------------------|---------------------------|--------------------------------|---|--------------------------|------------------------|---|
| S Cornelius | 2017 | 2017 | 300,000 | \$60,734 | - | 300,000 | 100% | - |
| S Cornelius | 2019 | 2020 | 301,040 | \$37,234 | \$3,568 | - | - | - |
| P Donaldson | 2017 | 2017 | 100,000 | \$20,245 | - | 100,000 | 100% | - |
| J Fitzgerald | 2017 | 2017 | 250,000 | \$50,612 | - | 250,000 | 100% | - |
| Z Jing | 2017 | 2017 | 100,000 | \$20,245 | - | 100,000 | 100% | - |
| R Connochie | 2017 | 2017 | 500,000 | \$101,224 | - | 500,000 | 100% | - |
| A Liebenberg | 2018 | 2019 | 500,000 | \$32,967 | - | 500,000 | 100% | - |
| N Wage | 2019 | 2020 | 1,450,000 | \$188,676 | \$58,434 | - | - | - |
| S Tarrant | 2019 | 2020 | 583,000 | \$93,670 | \$18,588 | - | - | - |
| Total Options | | | 4,084,040 | | | 1,750,000 | | - |

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

(ii) Performance Rights

During the year, 1,000,000 performance rights (Class 9) were issued to Mr Wage as part of his remuneration package. There were no other 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 2019 are as set out in the following table:

| Name | Year of grant | Performance rights granted | | Number of performance rights vested | | Performance rights cancelled | Total Unvested |
|---------------|---------------|----------------------------|-----------|-------------------------------------|-------------------|------------------------------|----------------|
| | | Class | Number | In prior periods | In current period | | |
| P M Donaldson | 2014 | Class 4 | 2,450,000 | 1,650,000 | - | - | 33% |
| S Tarrant | 2017 | Class 6 | 50,000 | 10,000 | 40,000 | - | - |
| S Tarrant | 2017 | Class 7 | 50,000 | 20,000 | - | 30,000 | - |
| N Wage | 2019 | Class 9 ^(a) | 1,000,000 | - | 100,000 | - | 90% |

^(a) 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 2019, the unamortised value of the rights is \$589,862.

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

Directors' Report

conditions:

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.

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 not met at December 2019 and rights cancelled January 2020); and
- 15,000 on signing a debt term sheet for project financing or debt is secured from a strategic investor (cancelled 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;
- 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.

No performance rights held by key management personnel were forfeited during the year, other than those detailed above.

g) Equity Instruments Held by Key Management Personnel

(i) Shares

No shares were granted as remuneration during the year ended 31 December 2019.

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 2019 | Balance at 31 December 2018 | 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 2019 |
|------------------------------------|-----------------------------|-------------------------|--|--|------------------------------|----------|-----------------------------|
| Shares | | | | | | | |
| Directors | | | | | | | |
| S Cornelius | 10,328,965 | - | - | - | - | - | 10,328,965 |
| P Donaldson | 2,957,751 | - | - | - | - | - | 2,957,751 |
| J Fitzgerald | 526,453 | - | - | - | - | - | 526,453 |
| J Zhang | - | - | - | - | - | - | - |
| R Connochie | - | - | - | - | - | - | - |
| A Liebenberg | - | - | - | - | - | - | - |
| Other KMP | | | | | | | |
| N Wage | - | - | - | 100,000 ^(a) | - | - | 100,000 |
| S Tarrant | 189,857 | - | - | 40,000 ^(b) | - | - | 229,857 |
| C Grant-Edwards | - | - | - | - | - | - | - |
| M Chapman | - | - | - | - | - | - | - |
| TOTAL | 14,003,026 | - | - | 140,000 | - | - | 14,143,026 |

Directors' Report

Note:

- (a) Refers to 100,000 shares issued to Mr Wage on 28 January 2020 in respect of class 9 performance rights that vested 20 December 2019.
- (b) Includes 15,000 shares issued to Mr Tarrant on 7 October 2019 following the vesting of class 6 performance rights. Additionally, a further 25,000 shares were issued to Mr Tarrant on 13 January 2020 in respect of class 6 performance rights that vested 23 December 2019.

(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 2019 | Balance at 31 December 2018 | Granted | Exercised | Expired / Cancelled | Other | Balance at 31 December 2019 | Vested and exercisable | Unvested |
|------------------------------------|-----------------------------|------------------|-----------|---------------------|----------|-----------------------------|------------------------|------------------|
| Options | | | | | | | | |
| Directors | | | | | | | | |
| S Cornelius | 300,000 | 301,040 | - | - | - | 601,040 | 300,000 | 301,040 |
| P Donaldson | 100,000 | - | - | - | - | 100,000 | 100,000 | - |
| J Fitzgerald | 250,000 | - | - | - | - | 250,000 | 250,000 | - |
| J Zhang | 100,000 | - | - | - | - | 100,000 | 100,000 | - |
| R Connochie | 500,000 | - | - | - | - | 500,000 | 500,000 | - |
| A Liebenberg ^(a) | 500,000 | - | - | - | - | 500,000 | 500,000 | - |
| Other KMP | | | | | | | | |
| N Wage | - | 1,450,000 | - | - | - | 1,450,000 | - | 1,450,000 |
| S Tarrant | - | 583,000 | - | - | - | 583,000 | - | 583,000 |
| C Grant-Edwards | - | - | - | - | - | - | - | - |
| M Chapman | - | - | - | - | - | - | - | - |
| TOTAL | 1,750,000 | 2,334,040 | - | - | - | 4,084,040 | 1,250,000 | 2,334,040 |

Note:

- (a) Refers to 500,000 unlisted options which were granted to Mr Liebenberg in 2018 and issued in 2019, following receipt of shareholder approval at the Company's 27 May 2019 AGM.

(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 2018 | Balance At 31 December 2018 | Granted as Remuneration | Vested | Cancelled | Other | Unvested Balance at 31 December 2019 |
|------------------------------------|-----------------------------|-------------------------|------------------|-----------------|----------|--------------------------------------|
| Performance Rights | | | | | | |
| Directors | | | | | | |
| S Cornelius | - | - | - | - | - | - |
| P Donaldson | 800,000 | - | - | - | - | 800,000 |
| J Fitzgerald | - | - | - | - | - | - |
| J Zhang | - | - | - | - | - | - |
| R Connochie | - | - | - | - | - | - |
| A Liebenberg | - | - | - | - | - | - |
| Other KMP | | | | | | |
| N Wage | - | 1,000,000 | (100,000) | - | - | 900,000 |
| S Tarrant | 70,000 | - | (40,000) | (30,000) | - | - |
| C Grant-Edwards | - | - | - | - | - | - |
| M Chapman | - | - | - | - | - | - |
| TOTAL | 870,000 | 1,000,000 | (140,000) | (30,000) | - | 1,700,000 |

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.

Directors' Report

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, there was a high level of corporate and project development activity 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 investing surplus funds from capital raisings. The net losses after tax reflect the Group's ongoing development costs of the Colluli Potash Project. The table below shows the performance of the Group over the last 5 reporting periods:

| Financial Year | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2015 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Basic (loss)/income EPS (Cents) | (1.16) | (2.66) | (2.85) | (2.35) | (4.01) |
| Share Price | \$0.60 | \$0.74 | \$0.715 | \$0.48 | \$0.29 |
| (Loss)/income for the period | (\$3,148,734) | (\$6,944,413) | (\$6,839,936) | (\$4,925,558) | (\$6,792,685) |

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

NON-EXECUTIVE CHAIRMAN

Perth, 31 March 2020

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.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 (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 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

Directors' Report

assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements.

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

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

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

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

The distribution of this announcement outside the United Kingdom may be restricted by law and therefore any persons outside the United Kingdom into whose possession this announcement comes should inform themselves about and observe any such restrictions in connection with the distribution of this announcement. Any failure to comply with such restrictions may constitute a violation of the securities laws of any jurisdiction outside the United Kingdom.



**Building a better
working world**

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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 2019, 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.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive script.

Ernst & Young

A handwritten signature in black ink that reads 'Gavin Buckingham' in a cursive script.

Gavin Buckingham
Partner
Perth
31 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

| | Notes | 2019 \$ | 2018 \$ |
|--|-------|--------------------|--------------------|
| REVENUE | | | |
| Interest revenue | 4 | 81,338 | 172,252 |
| Sundry | | 2,169 | 1,959 |
| EXPENSES | | | |
| Depreciation expense | 9 | (5,880) | (8,282) |
| Loss on disposal of plant and equipment | 9 | (3,074) | - |
| Administration expenses | 5 | (2,780,202) | (2,747,713) |
| Share based payment expense | 22 | (730,096) | (91,257) |
| Net gain/(loss) on financial assets classified at fair value through profit or loss | 8 | 4,400,730 | (4,862,775) |
| Share of net loss of joint venture | 10 | (2,957,269) | (389,239) |
| Foreign exchange gain/(loss) | | (1,156,450) | 980,642 |
| LOSS BEFORE INCOME TAX | | (3,148,734) | (6,944,413) |
| Income tax expense | 7 | - | - |
| LOSS FOR THE YEAR | | (3,148,734) | (6,944,413) |
| 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 | (18,178) | 873,940 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | (18,178) | 873,940 |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | (3,166,912) | (6,070,473) |
| Earnings per share for loss attributable to the ordinary equity holders of the Company: | | | |
| Basic loss per share (cents per share) | 17 | (1.16) | (2.66) |
| Diluted loss per share (cents per share) | 17 | (1.16) | (2.66) |

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 2019

| | Notes | 2019 \$ | 2018 \$ |
|--------------------------------------|-------|-------------------|-------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 6 | 33,800,104 | 9,550,585 |
| Receivables | 8 | 281,804 | 108,477 |
| Prepayments | | 269,878 | 17,474 |
| TOTAL CURRENT ASSETS | | 34,351,786 | 9,676,536 |
| NON-CURRENT ASSETS | | | |
| Receivables | 8 | 15,204,815 | 9,283,670 |
| Investment in joint venture | 10 | 27,975,738 | 19,829,489 |
| Plant and equipment | 9 | 13,998 | 22,952 |
| TOTAL NON-CURRENT ASSETS | | 43,194,551 | 29,136,111 |
| TOTAL ASSETS | | 77,546,337 | 38,812,647 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 11,794,757 | 223,854 |
| Provisions | 12 | 80,623 | 86,180 |
| TOTAL CURRENT LIABILITIES | | 11,875,380 | 310,034 |
| NON-CURRENT LIABILITIES | | | |
| Provisions | 12 | 45,229 | 58,903 |
| TOTAL NON-CURRENT LIABILITIES | | 45,229 | 58,903 |
| TOTAL LIABILITIES | | 11,920,609 | 368,937 |
| NET ASSETS | | 65,625,728 | 38,443,710 |
| EQUITY | | | |
| Issued capital | 13 | 109,194,951 | 79,576,117 |
| Reserves | 14 | 13,923,271 | 13,211,353 |
| Accumulated losses | 15 | (57,492,494) | (54,343,760) |
| TOTAL EQUITY | | 65,625,728 | 38,443,710 |

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 2019

| | Notes | Issued Capital \$ | Reserves | | Accumulated Losses \$ | Total Equity \$ |
|--|-------|----------------------|-------------------------------|---------------------------------------|-----------------------------|--------------------|
| | | | Share Based Payments \$ | Foreign Currency Translation \$ | | |
| 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 income | 14 | - | - | (18,178) | - | (18,178) |
| Total comprehensive income for the period | | - | - | (18,178) | (3,148,734) | (3,166,912) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Shares issued | 13 | 32,413,295 | - | - | - | 32,413,295 |
| Costs of capital raised | 13 | (2,794,461) | - | - | - | (2,794,461) |
| Options and performance rights issued | 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 |
| | | | | | | |
| BALANCE AT 1 JANUARY 2018 | | 75,415,034 | 11,416,109 | 1,105,490 | (47,399,347) | 40,537,286 |
| Loss for the period | | - | - | - | (6,944,413) | (6,944,413) |
| Other comprehensive income | 14 | - | - | 873,940 | - | 873,940 |
| Total comprehensive income for the period | | - | - | 873,940 | (6,944,413) | (6,070,473) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Shares issued | 13 | 4,161,083 | - | - | - | 4,161,083 |
| Costs of capital raised | 13 | - | - | - | - | - |
| Options and performance rights issued | 14 | - | (184,186) | - | - | (184,186) |
| BALANCE AT 31 DECEMBER 2018 | | 79,576,117 | 11,231,923 | 1,979,430 | (54,343,760) | 38,443,710 |

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 2019

| | Notes | 2019 \$ | 2018 \$ |
|---|----------|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Interest received | | 81,693 | 171,783 |
| Payments to suppliers and employees | | (2,620,388) | (3,640,750) |
| NET CASH OUTFLOW USED IN OPERATING ACTIVITIES | 16 | (2,538,695) | (3,468,967) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Funding of joint venture | | (4,407,612) | (6,448,446) |
| Payments for plant and equipment | | - | (16,124) |
| NET CASH OUTFLOW USED IN INVESTING ACTIVITIES | | (4,407,612) | (6,464,570) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issues of ordinary shares | | 32,413,295 | 3,885,638 |
| Costs of capital raised | | (126,994) | - |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | | 32,286,301 | 3,885,638 |
| NET INCREASE / (DECREASE) IN CASH | | 25,339,994 | (6,047,899) |
| Cash at the beginning of the financial year | | 9,550,585 | 15,559,980 |
| Net foreign exchange differences | | (1,090,475) | 38,504 |
| CASH AT THE END OF THE YEAR | 6 | 33,800,104 | 9,550,585 |

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 2019

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 2019 comprises the Company and its subsidiaries (together referred to as the **Group**). The address of the registered office is Level 11, 125 St George's Terrace, Perth, WA, 6000.

The financial statements are presented in the Australian currency.

The financial report of Danakali for the year ended 31 December 2019 was authorised for issue by the Directors on 31 March 2020. 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 2019, including:

AASB 16 Leases

The Group has adopted AASB 16 with the date of initial application being 1 January 2019. AASB 16, which supersedes AASB 117 *Leases* (AASB 117) and related interpretations, sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted AASB 16 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application, with no restatement to comparative information. The Group elected to use the transition practical expedient allowing AASB 16 to be applied only to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation 4 *Determining whether an Arrangement contains a Lease* at the date of initial application.

At the date initial application of AASB 16 the Group had a lease contract for office accommodation. Before the adoption of AASB 16, the Group classified a lease (as lessee) at the contract inception date as either a finance lease or an operating lease. For operating leases, the leased property was not capitalised, and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Upon adoption of AASB 16, the Group has applied the single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Under AASB 16, where the election is made, 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. During the year ended 31 December 2019, the Group made short-term lease payments of \$74,595.

For the lease contract previously accounted for as an operating lease the Group elected to use the practical expedient on transition to apply the short-term lease exemption to the lease contract that ended within 12 months of the date on initial application of the Standard. Accordingly, the adoption of AASB 16 had no impact on the Group at date of initial application. The accounting policy for leases applied from 1 January 2019 is disclosed in note 2(i).

AASB Interpretation 23, and relevant amending standards - Uncertainty over Income Tax Treatments

The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

At 1 January 2019 it was determined that the adoption of AASB Interpretation 23 had no impact on the Group.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures

This Standard amends AASB 128 Investments in Associates and Joint Ventures to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128.

At 1 January 2019 it was determined that the adoption of AASB 2017-7 had no impact on the Group.

AASB 2018-1 Australian Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle

The amendments clarify certain requirements in:

- AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation
- AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity
- AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation.

At 1 January 2019 it was determined that the adoption of AASB 2018-1 had no impact on the Group.

(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 2019 are outlined in the table below. The potential effect of these Standards is yet to be fully determined.

| 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 |
| Conceptual Framework AASB 2019-1 | Conceptual Framework for Financial Reporting and relevant amending standards | The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows: <ul style="list-style-type: none"> • 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 <p>AASB 2019-1 has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying IFRS 3 and developing accounting policies for regulatory account balances using IAS 8, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework.</p> | 1 January 2020 | 1 January 2020 |

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

| Reference | Title | Summary | Application date | |
|-------------|--|---|------------------|----------------|
| | | | of standard | for Group |
| AASB 2018-7 | Definition of Material (Amendments to AASB 101 and AASB 108) | This Standard amends AASB 101 <i>Presentation of Financial Statements</i> and AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> 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. | 1 January 2020 | 1 January 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 balance date, the Group had cash and cash equivalents of \$33,800,104 (31 December 2018: \$9,550,585) and a net working capital surplus of \$22,476,406 (31 December 2018: \$9,366,502). Whilst the existing cash reserves are sufficient to cover the working capital requirements of the Group for the next 12 months, the Group has commenced execution of the project development and as such, additional funding will be necessary to carry out these planned activities.

Under the mining agreement entered into between the Government of the State of Eritrea and Colluli Mining Share Company (**CMSC**) dated 31 January 2017 (**Mining Agreement**), CMSC is obliged to spend US\$200 million on infrastructure and mine development within the area of the Colluli project mining licences in the 36 months following the provision of formal notice to the Ministry of Energy and Mines (**MoEM**) that development has commenced. The notice, not a primary obligation under the mining agreement, was submitted by CMSC to MoEM on 16 December 2019 as sufficient funding had been raised to allow the advancement of development. As at the date of this report, formal confirmation has not been received from MoEM however the directors are satisfied that this confirmation will be received confirming the development status.

At the date of this report, the directors are satisfied there are reasonable grounds to believe that the Group will be able to continue its planned activities and the Group will be able to meet its obligations as and when they fall due. The directors are confident that the Group will be able to obtain the additional funding requirement. Where such financing was likely to be delayed, the directors would seek to defer its planned capital expenditure on the project.

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

(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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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 – policy applied from 1 January 2019

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

Notes to the Consolidated Financial Statements

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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.

Group as Lessee – policy applied prior to 1 January 2019

Leases of property, plant and equipment where the Group had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, was included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the shorter of the asset's useful life and the lease term.

Leases, where a significant portion of the risks and rewards of ownership was not transferred to the Group, were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

(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 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. This latter category includes the loan to Colluli Mining Share Company.

(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

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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.

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.

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(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 up to that point is maintained on the consolidated balance sheet as a non-current asset. 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 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 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 initially recognised at the fair value of the consideration received 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. 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

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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 2019 the Group assessed that, no indicator of impairment existed (31 December 2018: 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 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. These shareholder voting rights are considered to be substantive rights particularly in the early stages of the project development.

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. Judgements include consideration of inputs including foreign exchange risk, interest rate risk, and credit risk. At 31 December 2019 a discount rate of 21% (31 December 2018: 25%) 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 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

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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 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.

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

4. REVENUE

| | 2019 \$ | 2018 \$ |
|----------|------------|------------|
| Interest | 81,338 | 172,252 |

5. EXPENSES

| | 2019 \$ | 2018 \$ |
|--|------------------|------------------|
| Employee benefits (net of recharges) | 361,103 | 309,176 |
| Directors' fees | 519,301 | 439,612 |
| Compliance and regulatory expenses | 1,422,582 | 1,386,915 |
| Lease payments relating to short term leases (2018 - operating leases) | 125,974 | 91,893 |
| Other administration expenses | 351,242 | 520,117 |
| | <u>2,780,202</u> | <u>2,747,713</u> |

6. CASH AND CASH EQUIVALENTS

| | 2019 \$ | 2018 \$ |
|--------------------------|-------------------|------------------|
| Cash at bank and on hand | 19,543,204 | 9,550,585 |
| Short term deposits | 14,256,900 | - |
| | <u>33,800,104</u> | <u>9,550,585</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

| | 2019 \$ | 2018 \$ |
|--|--------------------|--------------------|
| (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 | <u>(3,148,734)</u> | <u>(6,944,413)</u> |
| Prima facie tax benefit at the Australian tax rate of 30.0% (2018: 27.5%) | (944,620) | (1,909,712) |
| Adjustment of under-provision of deferred tax in prior year | (25,372) | (433,978) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| <i>Share-based payments</i> | 219,029 | 25,096 |
| <i>Share of net loss of joint venture</i> | 887,180 | 107,041 |
| <i>Net (gain)/loss on financial assets at fair value through profit or loss</i> | (1,320,219) | 1,337,263 |
| Movements in unrecognised temporary differences and tax effect of current year tax losses: | 1,184,002 | 874,290 |
| Income tax expense/(benefit) | <u>-</u> | <u>-</u> |

Notes to the Consolidated Financial Statements

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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 | |
|--|------------------------------------|-------------|--------------------------------------|------------|
| | 2019 \$ | 2018 \$ | 2019 \$ | 2018 \$ |
| <i>Deferred Tax Liabilities:</i> | | | | |
| Interest receivable | (34) | (129) | 95 | (129) |
| <i>Deferred Tax Assets:</i> | | | | |
| Provision for employee entitlements | 37,756 | 39,898 | (2,142) | (13,460) |
| Accrued expenditure | 18,107 | 1,973 | 16,134 | (10,336) |
| Unrealised foreign exchange gain/loss | 324,850 | - | 324,850 | - |
| Share issue expenses | 786,410 | 188,041 | 598,369 | (81,988) |
| Revenue tax losses | 5,917,891 | 5,228,743 | 689,148 | 980,074 |
| Deferred tax assets not brought to account as realisation is not probable | (7,084,980) | (5,458,526) | (1,626,454) | (874,161) |
| | - | - | - | - |

8. RECEIVABLES

| | 2019 \$ | 2018 \$ |
|--|-------------------|------------------|
| Current | | |
| Net GST receivable | 225,023 | 31,863 |
| Accrued interest | 114 | 469 |
| Other receivables at amortised cost | 1,667 | 1,895 |
| Security bonds at amortised cost | 55,000 | 74,250 |
| | <u>281,804</u> | <u>108,477</u> |
| Non-Current | | |
| Loan to Colluli Mining Share Company – at fair value | 15,204,815 | 9,283,670 |
| Carrying value of loans | <u>15,204,815</u> | <u>9,283,670</u> |

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% (2018: 25%).

During the years ended 31 December 2019 and 31 December 2018, 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 gain of \$4,400,730 through profit or loss (2019: loss of \$4,862,775) (see note 10).

The undiscounted underlying loan balance at 31 December 2019 is \$40,053,560 (USD 28,061,524) (31 December 2018: \$33,571,559) (USD 23,676,610).

| | 2019 \$ | 2018 \$ |
|---|-------------------|------------------|
| Reconciliation of movement in loan to Colluli Mining Share Company | | |
| Opening carrying amount at beginning of the year | 9,283,670 | 12,216,952 |
| Additional loans during the year | 1,586,388 | 987,356 |
| Foreign exchange gain/(loss) | (65,973) | 942,137 |
| Net (gain)/loss on financial assets at fair value through profit or loss | 4,400,730 | (4,862,775) |
| Closing carrying amount at end of the year | <u>15,204,815</u> | <u>9,283,670</u> |

Notes to the Consolidated Financial Statements

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9. PLANT AND EQUIPMENT

| | 2019 \$ | 2018 \$ |
|--|------------|------------|
| Plant and equipment | | |
| Gross carrying value – at cost | 39,874 | 74,561 |
| Accumulated depreciation | (25,875) | (51,609) |
| Net book amount | 13,998 | 22,952 |
| Plant and equipment | | |
| Opening net book amount at beginning of the year | 22,952 | 15,110 |
| Additions | - | 16,124 |
| Disposals | (3,074) | - |
| Depreciation charge | (5,880) | (8,282) |
| Closing net book amount at end of the year | 13,998 | 22,952 |

10. INVESTMENT IN JOINT VENTURE

The Group has an interest in the following joint arrangement:

| Project | Activities | Equity Interest | | Carrying Value | |
|----------------|---------------------|-----------------|-----------|----------------|------------|
| | | 2019 % | 2018 % | 2019 \$ | 2018 \$ |
| Colluli Potash | Mineral Exploration | 50 | 50 | 27,975,738 | 19,829,489 |

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 2019.

| | 2019 \$ | 2018 \$ |
|---|-------------|------------|
| Reconciliation of movement in investments accounted for using the equity method: | | |
| Opening carrying amount at beginning of the year | 19,829,489 | 13,811,946 |
| Additional investment during the year | 11,121,696 | 5,532,842 |
| Share of net (loss)/profit for the year | (2,957,269) | (389,239) |
| Other comprehensive income for the year | (18,178) | 873,940 |
| Closing carrying amount at end of the year | 27,975,738 | 19,829,489 |

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Summarised financial information of joint venture:

| | 2019 \$ | 2018 \$ |
|--|---------------------|--------------------|
| Financial position (Aligned to Danakali accounting policies) | | |
| <i>Current Assets:</i> | | |
| Cash | 81,067 | 110,666 |
| Other current assets | 109,984 | 104,928 |
| | <u>191,051</u> | <u>215,594</u> |
| <i>Non-current assets</i> | | |
| Fixed Assets | 114,708 | 135,013 |
| Development costs capitalised | 204,109 | - |
| Prepaid finance costs | 12,046,633 | - |
| Mineral Property | 31,302,663 | 31,125,894 |
| | <u>43,668,113</u> | <u>31,260,907</u> |
| <i>Current liabilities</i> | | |
| Trade & other payables and provisions | (4,786,610) | (311,850) |
| | <u>(4,786,610)</u> | <u>(311,850)</u> |
| <i>Non-current liabilities</i> | | |
| Loan from Danakali Ltd – at amortised cost | (12,901,373) | (9,283,670) |
| | <u>(12,901,373)</u> | <u>(9,283,670)</u> |
| NET ASSETS | <u>26,171,181</u> | <u>21,880,981</u> |
| Group's share of net assets | <u>13,085,590</u> | <u>10,940,491</u> |
| Reconciliation of Equity Investment: | | |
| Group's share of net assets | 13,085,590 | 10,940,491 |
| 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 | 19,195,255 | 13,194,105 |
| Carrying amount at the end of the period | <u>27,975,738</u> | <u>19,829,489</u> |

| | 2019 \$ | 2018 \$ |
|--|--------------------|------------------|
| Financial performance | | |
| Interest expense relating to the unwinding of discount on joint venture loan | (2,340,278) | (3,859,850) |
| (Loss)/gain on re-measurement of loan to joint venture carried at amortised cost | 323,465 | 8,722,625 |
| Exploration and evaluation expenditure | (3,897,725) | (5,641,253) |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | <u>(5,914,538)</u> | <u>(778,478)</u> |
| Group's share of total loss for the year | <u>(2,957,269)</u> | <u>(389,239)</u> |

During the year ended 31 December 2019 no dividends were paid or declared (2018: Nil).

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Colluli Mining Share Company has the following commitments or contingencies at 31 December 2019:

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, CMSC is obliged to spend US\$200 million on infrastructure and mine development within the area of the Colluli project mining licences in the 36 months following the provision of formal notice to the Ministry of Energy and Mines that development has commenced. The formal notice was submitted on 16 December 2019 which means that US\$200 million is required to be spent by 15 December 2022.

Development

At 31 December 2019, development work had commenced including the engagement of DRA Global (**DRA**), CMSC's EPCM contractor. There were no material commitments at 31 December 2019.

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 2019, CMSC has commitments of \$0.4M in annual agent fees. CMSC will be liable for facility fees of \$2.9M to the MLAs on the draw down of the facility. This commitment is subject to the performance of additional services by the MLAs in connection with the facility.

CONTINGENCIES

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

11. TRADE AND OTHER PAYABLES

| | 2019 \$ | 2018 \$ |
|----------------------|-------------------|----------------|
| Trade payables | 4,213,886 | 122,362 |
| Accrued expenses (i) | 7,580,871 | 65,868 |
| Other payables | - | 35,624 |
| | <u>11,794,757</u> | <u>223,854</u> |

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

12. PROVISIONS

| | 2019 \$ | 2018 \$ |
|-----------------------|----------------|----------------|
| Current | | |
| Employee entitlements | 80,623 | 86,180 |
| Non-Current | | |
| Employee entitlements | <u>45,229</u> | <u>58,903</u> |
| | <u>125,852</u> | <u>145,083</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 2019

13. ISSUED CAPITAL

| | 2019 | | 2018 | |
|--|------------------|-------------|------------------|------------|
| | Number of shares | \$ | Number of shares | \$ |
| (a) Share capital | | | | |
| Ordinary shares fully paid | 318,546,306 | 109,194,951 | 264,422,398 | 79,576,117 |
| Total issued capital | 318,546,306 | 109,194,951 | 264,422,398 | 79,576,117 |
| (b) Movements in ordinary share capital | | | | |
| Balance at the beginning of the year | 264,422,398 | 79,576,117 | 251,697,687 | 75,415,034 |
| <i>Issued during the year:</i> | | | | |
| – Issued at \$0.350 per share on option exercise | - | - | 10,381,821 | 3,633,640 |
| – Issued at \$0.405 per share on option exercise | - | - | 400,000 | 162,000 |
| – Issued at \$0.450 per share on option exercise | - | - | 200,000 | 90,000 |
| – 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 at \$0.652 per share via cashless exercise of 1,949,000 options with an exercise price of \$0.405 | - | - | 738,346 | - |
| – Issued at \$0.624 per share via cashless exercise of 750,000 options with an exercise price of \$0.527 | - | - | 116,586 | - |
| – Issued at \$0.648 per share via cashless exercise of 1,600,000 options with an exercise price of \$0.550 | - | - | 241,974 | - |
| – Issued at \$0.773 per share via cashless exercise of 750,000 options with an exercise price of \$0.550 | - | - | 216,364 | - |
| – Issued on vesting of performance rights | 15,000 | - | 65,000 | - |
| – Issued at \$0.755 per share in lieu of advisor fees (refer note 22(b)) | - | - | 356,049 | 268,817 |
| – Issued at \$0.773 per share in lieu of advisor fees (refer note 22(b)) | - | - | 8,571 | 6,626 |
| – Issued at \$0.60 per share pursuant to placement (i) | 52,958,908 | 31,775,345 | - | - |
| – Costs of capital raised (ii) | - | (2,794,461) | - | - |
| Balance at the end of the year | 318,546,306 | 109,194,951 | 264,422,398 | 79,576,117 |

- (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. The second tranche, which is subject to shareholder approval and other conditions, will consist of approximately 70M new Shares at the same issue price to raise the remaining A\$42.0M (US\$28.5M).

Success fees of \$2.27M will be payable to financial advisors upon completion of the second tranche of the Placement.

Refer to Note 28 for further details on the status of the second tranche.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

(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.

| | 2019 Options | 2018 Options |
|---|-----------------|-----------------|
| (d) Movements in options on issue | | |
| Balance at beginning of the year | 2,990,000 | 19,195,821 |
| <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 | - |
| <i>Exercised, lapsed or expired during the year:</i> | | |
| – Exercised, exercisable at \$0.350 on or before 30 March 2018 | - | (9,656,821) |
| – Exercised, exercisable at \$0.350 on or before 13 May 2018 | - | (725,000) |
| – Exercised, exercisable at \$0.405 on or before 13 May 2018 | - | (2,349,000) |
| – Exercised, exercisable at \$0.450 on or before 23 June 2018 | - | (200,000) |
| – Exercised, exercisable at \$0.527 on or before 29 May 2018 | - | (750,000) |
| – Exercised, exercisable at \$0.543 on or before 7 October 2019 | (250,000) | - |
| – Exercised, exercisable at \$0.550 on or before 31 May 2018 | - | (600,000) |
| – Exercised, exercisable at \$0.550 on or before 4 November 2018 | - | (750,000) |
| – Exercised, exercisable at \$0.550 on or before 31 December 2018 | - | (1,000,000) |
| – Exercised, exercisable at \$0.558, on or before 8 August 2019 | (900,000) | (100,000) |
| – Expired, exercisable at \$0.350, on or before 13 May 2018 | - | (75,000) |
| – Expired, exercisable at \$0.96 on or before 20 June 2019 | (400,000) | - |
| – Lapsed, exercisable at \$1.031 on or before 24 January 2022 | (555,743) | - |
| Balance at end of the year | 6,004,112 | 2,990,000 |

14. RESERVES

| | 2019 \$ | 2018 \$ |
|--|------------|------------|
| (a) Reserves | | |
| Share-based payments reserve | | |
| Balance at beginning of the year | 11,231,923 | 11,416,109 |
| Employee and contractor share options and performance rights (note 22) | 730,096 | (184,186) |
| Balance at end of the year | 11,962,019 | 11,231,923 |
| Foreign currency translation reserve | | |
| Balance at beginning of the year | 1,979,430 | 1,105,490 |
| Currency translation differences arising during the year/ period | (18,178) | 873,940 |
| Balance at end of the year | 1,961,252 | 1,979,430 |
| Total reserves | 13,923,271 | 13,211,353 |

(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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

15. ACCUMULATED LOSSES

| | 2019 | 2018 |
|----------------------------------|--------------|--------------|
| | \$ | \$ |
| Balance at beginning of the year | (54,343,760) | (47,399,347) |
| Loss for the year | (3,148,734) | (6,944,413) |
| Balance at end of the year | (57,492,494) | (54,343,760) |

16. STATEMENT OF CASH FLOWS

| | 2019 | 2018 |
|--|-------------|-------------|
| | \$ | \$ |
| (a) Reconciliation of net loss after income tax to net cash outflow from operating activities | | |
| Net loss for the year | (3,148,734) | (6,944,413) |
| <i>Non-Cash Items:</i> | | |
| Depreciation of plant and equipment | 5,880 | 8,282 |
| Loss of disposal of plant and equipment | 3,074 | - |
| Share-based payment expense | 730,096 | 91,257 |
| Share of net loss of associate | 2,957,269 | 389,239 |
| Unrealised foreign exchange (gain)/loss | 1,156,446 | (942,138) |
| Net (gain)/loss on financial assets at fair value through profit or loss | (4,400,730) | 4,862,775 |
| <i>Change in operating assets and liabilities:</i> | | |
| Decrease/(increase) in trade and other receivables | 28,521 | 17,602 |
| Decrease/(increase) in trade and other payables | 148,714 | (864,120) |
| Increase/(decrease) in provisions | (19,231) | (48,947) |
| Net cash outflow from operating activities | (2,538,695) | (3,430,463) |
| (b) Funding of joint venture operations | | |
| Cash contribution to joint venture operations during the period | (4,407,612) | (6,448,446) |

17. EARNINGS PER SHARE

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

| | 2019 | 2018 |
|---|-------------|-------------|
| | \$ | \$ |
| Loss attributable to the owners of the Company used in calculating basic and diluted loss per share | (3,148,734) | (6,944,413) |

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

| | 2019 | 2018 |
|--|---------------|---------------|
| | No. of Shares | No. of Shares |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share | 270,813,912 | 261,076,051 |

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 6,004,112 (2018: 2,990,000) share options and 1,285,000 (2018: 1,315,000) 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.

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.

Notes to the Consolidated Financial Statements

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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.

(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 \$15,204,815 (2018: \$9,283,670) to Colluli Mining Share Company is denominated in US Dollars.

As at 31 December 2019, the Group held \$30,659,500 (2018: \$132) of cash and term deposits denominated in US Dollars.

Included within trade and other payables are \$2,836,192 (2018: nil) trade payables and \$7,520,545 (2018: nil) 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 \$ |
|--------------------------|----------------------------|------------------------------------|
| Year to 31 December 2019 | +5% | (1,775,379) |
| | -5% | 1,775,379 |
| Year to 31 December 2018 | +5% | (464,183) |
| | -5% | 464,183 |

(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 \$33,800,104 (2018: \$9,550,585) 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 0.95% (2018: 1.30%).

Sensitivity analysis

At 31 December 2019, 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 \$270,401 higher/lower (2018: \$76,405 higher/lower) as a result of lower/higher interest income from cash and cash equivalents and changes in the fair value of loans.

(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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

(c) Credit risk

The Group's significant concentration of credit risk is cash, which is held with a major Australian bank with AA3 credit rating, accordingly the credit risk exposure is minimal. 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.

(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 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 |

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 31 December 2018:

| | At amortised cost \$ | Fair value through profit and loss \$ | Fair value through other comprehensive income \$ |
|-------------------------------|-------------------------|--|--|
| Financial Assets: | | | |
| Receivables | 108,477 | - | - |
| Total current | 108,477 | - | - |
| Receivable | - | 9,283,670 | - |
| Total non-current | - | 9,283,670 | - |
| Total Assets | 108,477 | 9,283,670 | - |
| Financial liabilities: | | | |
| Trade and other payables | 223,854 | - | - |
| Total current | 223,854 | - | - |
| Total Liabilities | 223,854 | - | - |

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 31 December 2018:

| | Carrying Value \$ | Fair Value \$ |
|-------------------------------|----------------------|------------------|
| Financial Assets: | | |
| Receivables | 108,477 | 108,477 |
| Total current | 108,477 | 108,477 |
| Receivable | 9,283,670 | 9,283,670 |
| Total non-current | 9,283,670 | 9,283,670 |
| Total Assets | 9,392,147 | 9,392,147 |
| Financial liabilities: | | |
| Trade and other payables | 223,854 | 223,854 |
| Total current | 223,854 | 223,854 |
| Total Liabilities | 223,854 | 223,854 |

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 (2018: 25%). 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 2024 quarter. The fair value measurement for 2019 and 2018 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 50bps movement in the discount rate would change the valuation by \$313,663 (2018: \$209,105).

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 \$65,625,728 (2018: \$38,443,710). 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.

20. CONTINGENCIES

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

21. COMMITMENTS

| | 2019 \$ | 2018 \$ |
|--|------------|------------|
| <i>Short-term lease commitments (2018 – Operating leases commitments):</i> | | |
| Minimum lease payments | | |
| - within one year | 13,640 | 11,667 |
| - later than one year but not later than five years | - | - |
| Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities | 13,640 | 11,667 |
| Advisory fees pursuant to contracts | 206,104 | - |
| Total Commitments | 219,744 | 11,667 |

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:

| | 2019 \$ | 2018 \$ |
|---|------------|------------|
| Shares | - | 275,443 |
| Options issued to directors, employees and contractors | 486,427 | 31,894 |
| Performance Rights issued to directors, employees and contractors | 243,669 | (216,080) |
| | 730,096 | 91,257 |

(b) Shares

There were no shares issued to advisors during the current year.

During the prior year, the Company issued a total of 364,620 shares to advisors in consideration for services rendered (refer note 13(b)). The share-based payment expense recorded in respect of these shares was determined in reference to the prevailing market value of the shares at time of issue.

(c) 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).

| | 2019 | | 2018 | |
|--|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding at the beginning of the year | 3,490,000 | \$0.811 | 8,739,000 | \$0.591 |
| Granted | 4,619,855 | \$1.077 | 500,000 | \$0.912 |
| Exercised | (1,150,000) | \$0.555 | (5,649,000) | \$0.483 |
| Lapsed / expired | (955,743) | \$1.001 | (100,000) | \$0.558 |
| Outstanding at end of the year | 6,004,112 | \$1.035 | 3,490,000 | \$0.811 |
| Exercisable at end of the year | 1,940,000 | \$0.933 | 2,990,000 | \$0.794 |

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 2018 | Granted | Exercised | Lapsed / Expired | Closing balance 31 Dec 2019 |
|---|--------------------------------|--------------|-------------|---------------------|-----------------------------------|
| Exercise price \$0.558 expiry date 08/08/2019 | 900,000 | - | (900,000) | - | - |
| Exercise price \$0.543 expiry date 07/10/2019 | 250,000 | - | (250,000) | - | - |
| Exercise price \$0.940 expiry date 19/05/2020 | 1,440,000 | - | - | - | 1,440,000 (i) |
| Exercise price \$0.960 expiry date 20/06/2019 | 400,000 | - | - | (400,000) | - |
| Exercise price \$0.912 expiry date 11/05/2020 | 500,000 | - | - | - | 500,000 (i) |
| Exercise price \$1.031 expiry date 24/01/2022 | - | 1,724,015 | - | (555,743) | 1,168,272 |
| Exercise price \$1.031 expiry date 24/01/2022 | - | 301,040 (ii) | - | - | 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 |
| | 3,490,000 (iii) | 4,619,855 | (1,150,000) | (955,743) | 6,004,112 |

(i) Vested options.

(ii) Options issued following receipt of shareholder approval at the 2019 AGM held on 27 May 2019.

(iii) The number of unlisted options on issue at 31 December 2018 is 2,990,000 (as detailed at note 13(d)). This table includes reference to an additional 500,000 unlisted options (being the Director Options as referred to below), the issue which was approved by shareholders at the AGM held on 27 May 2019.

Remaining contractual life

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.82 years (31 December 2018: 0.97 years), with exercise prices ranging from \$0.94 to \$1.119.

Options granted during the year

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% |

A summary of options granted during the year ended 31 December 2018 is included in the following table. The weighted average fair value of the options granted during the year ended 31 December 2018 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 |
|-------------------|-------------------------|-------------|-----------------------|----------------|---------------------------|-------------------------|----------------------|
| 500,000 | 27/05/2019 ¹ | 11/05/2020 | \$0.105 | \$0.912 | \$0.740 | 1.95% | 45.17% |

¹ Options issued following receipt of shareholder approval

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.

Notes to the Consolidated Financial Statements

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(d) Performance Rights

The Company has a Performance Rights Plan which was re-approved at the annual general meeting of the Company held 17 November 2014. The purpose of the Plan is to provide recognition to employees and advisors of the Company and its subsidiaries for their continued and ongoing support of the Company.

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

| Performance Rights - Class | Opening balance 31 Dec 2018 | Granted | Vested | Cancelled | 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.

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

| Performance Rights - Class | Opening balance 31 Dec 2017 | Granted | Vested | Cancelled | Closing balance 31 Dec 2018 |
|----------------------------|--------------------------------|---------|----------|-----------|--------------------------------|
| Class 1 | 308,000 | - | - | (28,000) | 280,000 |
| Class 4 | 800,000 | - | - | - | 800,000 |
| Class 5 | 100,000 | - | - | - | 100,000 |
| Class 6 | 50,000 | - | (10,000) | - | 40,000 |
| Class 7 | 50,000 | - | (20,000) | - | 30,000 |
| Class 8 | 100,000 | - | (35,000) | - | 65,000 |
| | 1,408,000 | - | (65,000) | (28,000) | 1,315,000 |

Under the Performance Rights Plan, shares are issued in the future subject, to the performance-based vesting conditions being met. The 2,095,000 Performance Rights on issue at 31 December 2019 are subject to the following performance conditions:

Class 1:

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

Class 4:

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

Class 5:

- 20,000 upon commencement of the first development work on the ground at the Colluli site within 1 week of the scheduled development time;
- 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 8:

- 5,000 on completion of an approval and issued CSR report befitting an ASX200 company prior to the London listing; and
- 10,000 on finalising broker mandates which support the equity capital market strategy.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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

| | 2019 | 2018 |
|--|------------------|------------------|
| | \$ | \$ |
| Short-term benefits | 1,179,495 | 1,113,484 |
| Post-employment and long-term benefits | 72,961 | 52,702 |
| Share-based payments | 434,056 | 24,581 |
| | <u>1,686,512</u> | <u>1,190,767</u> |

(e) Transactions with directors, director related entities and other related parties

There were no material related party transactions.

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:

| | 2019 | 2018 |
|---------------------------------------|---------------|----------------|
| | \$ | \$ |
| Assurance related | 54,393 | 44,837 |
| Tax compliance services | 22,073 | 55,973 |
| Fees for other services (LSE listing) | - | 123,332 |
| | <u>76,466</u> | <u>224,142</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 | |
|---------------------|----------------------------------|--------------------------|-----------------|----------------|--------|
| | | | | 2019 % | 2018 % |
| 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

| | 2019 \$ | 2018 \$ |
|--|---------------------|--------------------|
| Current assets | 34,351,786 | 9,676,536 |
| Non-current assets | 20,461,260 | 29,136,115 |
| Total assets | 54,813,046 | 38,812,651 |
| Current liabilities | 11,875,379 | 310,034 |
| Non-current liabilities | 45,229 | 58,903 |
| Total liabilities | 11,920,608 | 368,937 |
| Net Assets | 42,892,438 | 38,443,714 |
| Issued capital | 109,194,951 | 79,576,117 |
| Share-based payments reserve | 11,962,020 | 11,231,923 |
| Accumulated losses | (78,264,533) | (52,364,326) |
| Total equity | 42,892,438 | 38,443,714 |
| Loss for the year | (25,900,207) | (6,070,468) |
| Total Comprehensive loss for the year | (25,900,207) | (6,070,468) |

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

Non-adjusting event (s) after the balance sheet date

Subsequent to year end, in response to the Coronavirus (**COVID-19**) pandemic, Danakali has taken a range of steps to minimise the risks to its people and its operations. Despite COVID-19 disruption, the Company remains committed to development of the Colluli Project.

As a non-adjusting subsequent event, the COVID-19 disruption has not had any impact on the carrying value of the group's investment in and receivable from CMSC as at 31 December 2019.

Danakali is continuing to monitor the situation and adjust its continuity measures as the situation evolves. The Company continues to assess the potential short and long term impacts.

The duration and intensity of this global health crisis and related disruptions is uncertain. As at the date of this report given the fluid and evolving nature of COVID-19, the Company is unable to assess the impact COVID-19 may have on the group's ability to raise additional capital to continue with the development as required or the future carrying value of the group's investment in and receivable from CMSC.

AFC Tranche 2

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

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

Movements in Securities

On 13 January 2020, the Company issued 75,000 fully paid ordinary shares on the vesting of performance rights.

On 28 January 2020, the Company issued 100,000 fully paid ordinary shares on the vesting of performance rights.

On 14 February 2020, 15,000 performance rights lapsed and were cancelled in accordance with the terms of issue.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 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 2019 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

NON-EXECUTIVE CHAIRMAN

Perth, 31 March 2020



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working world**

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Independent auditor's report to the shareholders of Danakali Limited

Report on the audit of the financial report

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 2019, 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 Group's consolidated financial position as at 31 December 2019 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 *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia; and we have 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.



Subsequent events - Impact of the Coronavirus (COVID-19) outbreak

We draw attention to Note 28 of the financial report which notes the World Health Organisation's declaration of the outbreak of COVID-19 as a global pandemic subsequent to 31 December 2019 and how this has been considered by the Directors in the preparation of the financial report. As set out in Note 28, no adjustments have been made to the financial statements as at 31 December 2019 for the impacts of COVID-19. 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 statements. 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 timing and 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 2019, the Investment in CMSC amounted to \$28.0 million (refer to Note 10 in the financial statements) and the shareholder loan receivable from CMSC amounted to \$15.2 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 statements and auditor's report

The directors are responsible for the other information. The other information comprises the information included in the Group's 2019 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 related 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 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 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 entity'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 in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity 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 statements represent 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, related safeguards.

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 Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Danakali Limited for the year ended 31 December 2019, 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.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Gavin Buckingham'.

Gavin Buckingham
Partner
Perth
31 March 2020

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 29 February 2020.

(a) Distribution of equity securities

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

| | | Holders | Securities | % |
|--------------|-----------|--------------|--------------------|----------------|
| 1 | - 1,000 | 539 | 219,838 | 0.07% |
| 1,001 | - 5,000 | 724 | 1,883,300 | 0.59% |
| 5,001 | - 10,000 | 321 | 2,449,068 | 0.77% |
| 10,001 | - 100,000 | 584 | 19,745,967 | 6.20% |
| 100,001 | and over | 173 | 294,423,133 | 92.37% |
| TOTAL | | 2,341 | 318,721,306 | 100.00% |

The number of shareholders holding less than a marketable parcel was 475.

(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 | 16.62 |
| 2 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 52,394,510 | 16.44 |
| 3 | CITICORP NOMINEES PTY LIMITED | 41,316,151 | 12.96 |
| 4 | MR LIAM CORNELIUS | 16,464,015 | 5.17 |
| 5 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 14,507,820 | 4.55 |
| 6 | MR SEAMUS CORNELIUS | 10,406,795 | 3.27 |
| 7 | ELEMENT 25 LIMITED | 7,950,097 | 2.49 |
| 8 | BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C> | 7,915,266 | 2.48 |
| 9 | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 5,801,957 | 1.82 |
| 10 | COMPUTERSHARE CLEARING PTY LTD <CCNL DI A/C> | 5,642,925 | 1.77 |
| 11 | BNP PARIBAS NOMS PTY LTD <DRP> | 5,366,825 | 1.68 |
| 12 | WELL EFFICIENT LIMITED | 5,000,000 | 1.57 |
| 13 | ALPHA BOXER LIMITED | 3,910,000 | 1.23 |
| 14 | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 3,220,843 | 1.01 |
| 15 | RANGUTA LIMITED | 3,195,685 | 1.00 |
| 16 | MR PAUL MICHAEL DONALDSON | 2,957,751 | 0.93 |
| 17 | MR JOHN JOSEPH WALLACE <WALLACE FAMILY A/C> | 2,498,983 | 0.78 |
| 18 | DONGARRA LIMITED | 2,163,398 | 0.68 |
| 19 | MRS NERIDA RUTH SCOTT <SCOTT FAMILY A/C> | 2,000,000 | 0.63 |
| 20 | MR ROHAIN IAN CORNELIUS | 1,935,000 | 0.61 |
| | | 247,606,929 | 77.69 |

(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 |
| JPMorgan Chase & Co. and its affiliates | 21,779,506 |
| The Capital Group Companies, Inc. | 15,011,458 |
| Liam Cornelius | 16,464,015 |

(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 28 February 2020 the Company has on issue 6,004,112 unlisted options over ordinary shares and 2,080,000 performance rights.

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

| Holder | Unlisted Options | | | | | |
|--|------------------|------------------|----------------|----------------|----------------|------------------|
| | \$0.94 | \$1.031 | \$1.108 | \$1.119 | \$0.912 | \$1.114 |
| | 19/5/2020 | 24/01/2022 | 13/03/2022 | 28/03/2022 | 11/05/2022 | 30/05/2022 |
| Mr Seamus Ian Cornelius | 300,000 | - | - | - | - | - |
| Mr Robert Connochie | 500,000 | - | - | - | - | - |
| 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 | - | - |
| Jane Liebenberg | - | - | - | - | 500,000 | - |
| Niels Wage | - | - | - | - | - | 1,450,000 |
| Seamus Ignatius Quan Cornelius | - | 301,040 | - | - | - | - |
| Holders individually less than 20% | 640,000 | - | - | - | - | - |
| Total | 1,440,000 | 1,469,312 | 583,000 | 561,800 | 500,000 | 1,450,000 |

| Holder | Performance Rights | | | |
|------------------------------------|--------------------|----------------|----------------|----------------|
| | Class 1 | Class 4 | Class 5 | Class 9 |
| Mr Zeray Lake | 75,000 | - | - | - |
| Mascots International Ltd | 85,000 | - | - | - |
| Mr Paul Donaldson | - | 800,000 | - | - |
| Mr Tony Harrington | - | - | 100,000 | - |
| Niels Wage | - | - | - | 900,000 |
| Holders individually less than 20% | 120,000 | - | - | - |
| Total | 280,000 | 800,000 | 100,000 | 900,000 |

(f) Schedule of Interests in Mining Tenements

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