DANAKALI CHIEF EXECUTIVE

NIELS WAGE

Danakali is developing the Colluli Potash Project, a world class greenfield Sulphate of Potash development project based in Eritrea expected to become one of the world’s most significant and lowest cost potassium sulphate production centres. Emma Davies spoke with chief executive Niels Wage about development at Colluli and the company’s goal to help address global food challenges by becoming a leading producer of SOP, and leading sustainable development in Africa.

Q. How is development progressing at the Colluli Project in Eritrea? What is the expected timeline?

We continue to progress well through our planned timeline. In August, following an extensive due diligence process, we hit another milestone and secured credit approval for US$390M in senior debt from leading African development finance institutions, Africa Finance Corporation (AFC) and Afrexportbank.

This funding provides a large proportion of the development capex for Module I (US$390M).

With the majority of the necessary project funding in place, we are on target to commence development in late 2019.

The development phase is expected to take two and a quarter years.

We are now assessing a range of options for funding the balance of the capital required to bring Colluli into production, including advanced discussions with a number of potential strategic investors who have expressed interest in supporting the development of the Project.

Standard Chartered Bank is acting as corporate financial advisor to Danakali on these financing options.

Q. Can you please explain how the mine size, shallow depth and operating economics place the company in the potash market?

If operating in 2018, Colluli would have been the lowest cost producer in the Sulphate of Potash (SOP) industry.

SOP is the premium potash type. The Colluli deposit is unrivalled in the SOP industry, firstly because it is the shallowest known SOP deposit at 16m below surface, which minerals can be mined in solid form via open-cut mining.

This is significantly more cost-effective than other primary and secondary production methods – including brines and the environmentally unfriendly Mountherm Process, which is higher energy, higher cost and has hydrochloric acid as a by-product.

Colluli has the lowest capital intensity of the current greenfield SOP projects around the world.

It has an exceptionally high resource to reserve conversion at c. 85%, thanks to the shallowness of the deposit allowing simple open-cut mining methods.

Secondly, the product is very high quality. The best-in-class, high grade deposit comprises a JORC-2012 compliant ore reserves estimate of 1100Mt @ 10.5% K2O for 203M of contained SOP equivalent, which will deliver an almost 200-year mine life.

The Project is also very well positioned at only 270km by road to the well-established Massawa port, with the potential to develop a future port even nearer to the site at Anfale Bay, just 8km away.

The Front-End Engineering Design (FEED) results show that the operating costs for Colluli are low (first quartile) relative to currently prevailing and expected SOP prices.

This means attractive margins exist, which should provide healthy profitability for Colluli in the future.

The FEED estimates average total cash costs of US$52 per t (Module I and II) for the Project versus current SOP prices of US$500-.

Q. How will the size of this project impact the Eritrean economy?

In January this year, an independent report released by the United Nations stated that Colluli is forecast to comprise 3pc of the country’s GDP by 2051, 50pc of the country’s exports by 2030, and support 10,000 direct and indirect jobs.

The report also identifies how Colluli can meaningfully advance the Sustainable Development Agenda of Eritrea, in particular on 15 specific Sustainable Development Goals (SDGs).

These include: no poverty, zero hunger, quality education, gender equality, clean water and sanitation, sustainable economic growth and decent work, industry, innovation and infrastructure, reduced inequalities, climate action, peace, justice and strong institutions and partnerships for the SDGs.

Q. What offtake agreements are in place?

Following our binding take-or-pay offtake agreement with leading global fertiliser producer, trader and distributor EuroChem, announced in June 2018, we have secured future cash flow for Module I production.

EuroChem will take or pay up to 100pc of production (minimum 5pc) for a period of 10 years, with a 3-year extension option. EuroChem is an outstanding partner for the Project, with global reach and extensive fertiliser expertise and experience, which will be very valuable as we work with EuroChem on developing and allocating our product to the international markets.

Q. What plans are in place to ramp up to 1 million tonnes of production per annum after five years of operation?

Our main focus for the time-being is the delivery of Module I of Colluli, and then in due course developing Module II to deliver 544ktph.

Module II is effectively a duplicate of Module I and it is expected that economies of scale and lessons learnt from Module I will ensure positive and profitable outcomes.

A diversification into the broader potash resources and other agricultural and industrial salts from Colluli is certainly an option after Modules I and II and presents substantial upside for investors.

Q. Where do you see Danakali in the next three to five years?

This is an exciting time for fertiliser companies. Our product will help to address a global food challenge as the world’s population continues to rapidly grow and people’s diets change – the need to ensure a stable and sustainable food supply will increase as the amount of arable land per person is expected to decrease from 4500ha/pc in 1960 to a forecast 1800ha/pc by 2050.

Once we are in production following the 2.25 year development phase, we will then move into annual production of 472ktph for the initial years of operation during Module I.

The 472ktph relates to about 13pc of current worldwide demand outside of China.

Theoretically, the resource is large enough to supply the entire world (outside of China) for over 60 years.

Our aim is to become a leading producer of SOP, and a leading exponent of sustainable development in Africa.

Q. Is there anything else you would like to add?

Danakali, with our partner ENAMCO, through our joint venture CMSC, is focused on unlocking value for all stakeholders.

The completion of project funding and the construction and production milestones that will follow provide strong catalysts for value accretion from environmental, social and economic perspectives.

Colluli will provide a fertiliser solution for the farmers around the world that need to grow more food and due to restraint on availability of arable land they need to increase yields.

Also, the change in diets to more fruits, nuts and vegetables will support the demand for SOP.

SOP is a fertiliser that is very low chlorine and therefore very suitable for these crops as it does not affect the taste of the fruits, nuts and vegetables.

We are committed to developing Colluli in a sustainable way and provide economic and social development opportunities to the region.