

Danakali Signs 10-year Potash Offtake Agreement with EuroChem

Olivia Da Silva - June 12th, 2018



Australia's Danakali has come to an offtake agreement with EuroChem Trading for up to 100 percent of Module I production from its Colluli potash project.

Danakali (ASX:DNK) has come to a binding take-or-pay offtake agreement with EuroChem Trading for the acquisition, sale and distribution of up to 100 percent of Module I sulfate of potash (SOP) from Colluli Mining Share Company's (CMSC) Colluli potash project.

CMSC is a 50/50 joint venture between Danakali and the Eritrean National Mining Corporation, and Colluli is located in Eritrea in East Africa.

Through the agreement, EuroChem is set to take, pay, market and distribute at least 87 percent of Colluli Module I SOP production. Sales are to take place through EuroChem's international channels, while the company will retain the option to sell up to 13 percent through alternative sales channels.

"We could not be happier with this result. EuroChem is an outstanding partner for the Project. EuroChem has a wealth of experience and expertise in the fertiliser sector," said Danakali CEO Danny Goeman.

He added, "[t]he Agreement encourages the maximisation of netback pricing through the marketing and distribution of products into the highest value markets. This is a huge step in de-risking the Colluli and Danakali investment propositions."

The agreement is set for a 10-year term, with the option for a three-year extension if both EuroChem and CMSC agree to it. The term is set to start at the date of commissioning at the Colluli SOP processing plant, though EuroChem has the ability to terminate the agreement if commercial production does not begin by July 1, 2022.

Both companies also have the option to end the offtake deal if a project financing agreement has not been executed within 14 months of signing.

The Colluli resource consists of three potassium-bearing salts in solid form — sylvinitite, carnallitite and kainitite — which can produce SOP, a high-quality potash fertilizer.

Danakali's JORC-compliant resource estimate for the project sits at 1.289 billion tonnes at 11 percent K₂O for 260 million tonnes of contained SOP, while the ore reserve estimate for Colluli stands at 1.1 billion tonnes at 10.5 percent K₂O for 203 million tonnes of contained SOP.

The mine life for the Colluli asset is estimated at 200 years, with annual Module I production being predicted to start in 2020 and to hit 472,000 tonnes per year. Module II, set to start six years into the project, is expected to bring annual SOP production to 944,000 tonnes.

As of 12:30 p.m. EST on Tuesday (June 12), Danakali's share price was up 9.16 percent at AU\$0.715. The company is up 3.62 percent year-to-date.

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Securities Disclosure: I, Olivia Da Silva, hold no direct investment interest in any company mentioned in this article.