

Niels Wage, CEO of Danakali explains how the Colluli Potash Project can change the destiny of Eritrea

Translated by Danakali using Google translate, original can be found here:

<https://www.agenceecofin.com/hebdop3/2706-67331-niels-wage-dg-de-danakali-explique-en-quoi-le-projet-de-potasse-de-colluli-peut-changer-le-destin-de-l-erythree>

(Ecofin Hebdo) – Eritrea has been trying for the past year to heal the wounds left by 20 years of [no peace, no war] with its Ethiopian neighbor. Since the peace agreement concluded last year between the two countries, Eritrea is trying to revive its economy by attracting new foreign direct investment. In the Afar depression, the Australian company Danakali runs a potash project, presented as having the potential to be a "game changer" for the country. Niels Wage, the CEO of the company explains to the Ecofin Agency the reasons for all these hopes that this project encourages.

Interviewed by Louis-Nino Kansoun.

Ecofin Agency (EA): In a report published in January 2019 and funded by UNDP, independent consultants attempted to analyze Colluli's potential contributions to Eritrea's sustainable development goals. What explains such an interest in a potash project?

Niels Wage (NW): Colluli is a large potassium sulphate project, a fertilizer used for high value crops. The project is interesting because it is very shallow, the resource is only 16 metres deep. Other deposits of potash or sulphate of potash are normally deeper. For this one, we will only have to dig 16 metres, remove some land, some rock salt and extract the product itself, which can then be easily treated and transported by truck to a port from where it will be shipped to the sales destinations. The other aspect to emphasize is that it contains 1.1 billion tonnes of essentially convertible reserves in about 200 years of production. This allows us to truly build a long-term project with ENAMCO, the Eritrean mining company we work with, and to work for the development of this very remote Eritrea region, where there is virtually nothing.

Because it's unique and shallow, and because it's an open-pit mine, the costs of production are very low, and that's a huge benefit.

EA: Precisely you present Colluli as the most advanced potash project in the world. Where are you exactly in terms of development?

NW: The project is quite advanced in that we have finalized all the studies, we have all the necessary permits to start the construction and we have also concluded a 10-year offtake agreement with EuroChem (one of the largest producers of fertilizer in the world, ed). Colluli will be developed into two modules, the first of which will produce 472,000 tonnes of potassium sulphate [once developed]. The second module is expected to go into production 5 years after the start of the first and also deliver 472,000 tonnes of additional product, bringing the total annual production to 944,000 tonnes. We say it's the most advanced potash project in the world right now because all the studies have been done. If you look at most projects in the world, the FEED study is virtually the most accurate project design. We have finalized it and are now working on funding. In this regard, we entered into a mandate with Afreximbank and AFC, two banks with which we are familiar, for US\$200 million. We hope that the agreement will be finalized soon and that we will reach the necessary capital to enter the construction phase in the [short term].

EA: As presented, Colluli is a unique mining project. What does it bring to Eritrea and your company?

NW: First of all, it should be noted that the impact on the environment is very low and that, at the same time, the impact on the economy is very important. Eritrea is, it should be remembered, a developing country and the project can be a "game changer" for the country: [the UNDP has forecast that] it will represent about 50% (US\$537 million) of the country's total exports in 2030, and an important part of GDP (3% by 2021, ed).

It will have a strong impact on a number of people, in the sense that it is estimated [by the UNDP] that there will be more or less 10,000 total indirect jobs it will create. The project [is forecast by UNDP to] provide the Eritrean tax authorities with US\$204 million annually by 2026. Beyond this, it should be noted that Colluli will also impact Eritrea's agricultural productivity. Fertilizers will help local and regional farmers improve the yield of their crops.

For Danakali shareholders, Colluli will obviously generate good financial results. For example, the FEED study predicts a net present value of US\$902 million for both modules and an after-tax internal rate of return of 29.9%.

EA: Does the current state of the potash market lend itself to the development of a project like Colluli?

NW: If you look at the market today, there is an increase in demand that is really driven by a growing population that could reach 9 billion by 2050. To feed everyone, we will need a larger volume of agricultural products from the land and this requires fertilizer. Fertilizers and potassium sulphate (SOP) are important factors in increasing farmers' yields and production. In addition, the middle class is also growing and the amount of money available is increasing in many countries, allowing people to switch from a basic diet to a diet rich in fruits and vegetables. As a result, the demand for these products is also increasing. This is also what drives the demand for SOP. On the supply side, there are not many primary projects like this one. There are two or three smaller ones in Australia, but nothing that reaches the size and breadth of Colluli.

In China, there is also some primary production, but it is mainly for local consumption. There is therefore a great need for new sources of supply and Colluli is in a good position to supply tonnes on the market.

EA: Whenever it comes to evoking the African mining sector, the question of the "difficult" environment comes back. Recently, many countries have revised their mining codes. What does this situation inspire in the context of Eritrea?

NW: In Eritrea, there are three other mines, namely Bisha, Asmara and Zara. We have been in contact with several players in the country's mining sector and have participated in public events over the past ten years. So far, all interactions with ENAMCO and the government are very stable and they are very reliable. They respect what they have provided for in the agreements and during the granting of permits.

I think it is also in Eritrea's interest to see the project succeed. They will not change the rules of the game because changing them would mean there is a risk that the project will not be developed. It is in

Eritrea's interest to create and maintain a stable environment to create 10,000 jobs [UNDP forecast], obtain royalties and dividends through this project. We are not worried.

The good thing is that we work with ENAMCO, a national mining company whose two directors are the ministers of finance and the ministers of economic development. It is clear that they are very interested in the success of this project and in creating an environment where royalties and dividends will be paid and jobs created. It has been barely a year since a peace agreement was signed with Ethiopia after 20 years of no peace, no war. In this new context of peace, the Eritrean authorities want to see their country develop.

EA: What are your plans for expansion in Africa?

NW: Right now, we're focusing on bringing Colluli Project Module 1 into production and we really want to show the world that we can deliver a quality product. For the moment, the idea of expansion only concerns module 2, which will be developed thanks to the cash flow generated by the first module.

The potential for expansion of this project is however very important because of the other products that could be developed there (including muriate of potash, sulphate of potash-magnesia, magnesium sulphate, rock salt).

Personally, I find that the Colluli project is making a difference in economic development for Eritrea. It can also make a difference for African farmers and for the development of agriculture in Africa. It's a great opportunity to get involved in such a big project.