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ASX Release:

3 October 2022

Term Sheet Executed in Asmara for Sale of Colluli Interest

Highlights

- Term sheet executed for the sale of DNK's 50% shareholding in CMSC to Sichuan Road and Bridge Group Co., Ltd.
- Total consideration of US\$166 million pre-tax consisting of:
 - US\$135 million consideration for the CMSC equity; and
 - US\$31 million (subject to adjustment for deferred payment) for the loan purchase.
- The deal, net of all government taxes means DNK will receive approximately US\$121 million.
- The term sheet is non-binding and remains subject to the Purchaser's satisfactory completion of due diligence and the parties entering into definitive agreements.
- Key conditions precedent to completion of the Transaction include:
 - DNK shareholder approval
 - ENAMCO and Eritrean Government Ministry approval
 - Chinese regulatory approvals being obtained by the Purchaser
- Subject to shareholders approval and following the Transaction, DNK plans to distribute 90% of the net proceeds to DNK shareholders and DNK will continue as a listed company to identify new projects and potential new alternative growth opportunities.
- Transaction expected to be completed between 31 March 2023 and 31 May 2023.

Danakali Limited (ASX:DNK) (DNK, Danakali, or the **Company**) is pleased to announce that it has executed a term sheet (**Term Sheet**) with Sichuan Road and Bridge Group Co., Ltd. (**SRBG**) (the **Purchaser**) for US\$166 million in upfront cash and deferred payments (**Transaction**).

Pursuant to the Term Sheet, the Purchaser has agreed to purchase 100% of the shares held by Danakali's wholly owned subsidiary, STB Eritrea Pty Ltd (**STB**), in Colluli Mining Share Company (**CMSC Equity**) plus the STB-ENAMCO shareholder loan (**STB Loan**) for US\$135 million and US\$31 million (subject to adjustment for deferred payment) respectively, for a total sum of US\$166 million. The STB Loan purchase price payment schedule will be split into an upfront cash payment of US\$15.5 million, equating to approximately 50% of the STB Loan and a deferred payment for the balance of the STB Loan on the 6-month anniversary of the completion date of a definitive Share Purchase Agreement (**SPA**). The Purchaser must pay an amount equal to the exact outstanding STB Loan amount.

The Colluli Potash Project (**Project, Colluli**) is 100% owned by Colluli Mining Share company (**CMSC**), a 50:50 Joint Venture between Danakali Limited (**DNK**) and Eritrean National Mining Corporation (**ENAMCO**)



Codes:

ASX: DNK, SO3-FRA,
SO3-BER.
US Level 1 ADR's OTC-
DNKLY,
CUSIP.23585T101

Highlights:

Term sheet executed
for sale of DNK's 50%
shareholding in CMSC

Financial facts:

Issued capital: 368.3m
Share price: A\$0.26
Market cap: A\$95.8m



A summary of the material terms of the Term Sheet is set out in Annexure A.

The Term Sheet is subject to definitive agreements being executed. DNK and the Purchaser will negotiate and execute the SPA and related documents for the Transaction upon the Purchaser's satisfactory completion of due diligence investigations on CMSC and its assets. As at the date of this announcement, there is no certainty that the proposed Transaction will be completed.

The Board of DNK has formed the view that the sale of STB's shareholding in CMSC to the Purchaser on the terms and conditions of the Term Sheet provides DNK shareholders with an attractive post-tax value outcome in the absence of a full equity funded solution for the Project.

As the Transaction constitutes the disposal of Danakali's main undertaking, the Transaction is subject to Danakali obtaining shareholder approval under ASX Listing Rule 11.2. The Company will prepare a notice of general meeting for this purpose, which will contain further details about the Transaction.

Subject to all conditions being satisfied or waived, DNK currently expects the Transaction to be completed between 31 March 2023 and 31 May 2023.

DNK's Plans Post Transaction Completion

If the conditions precedent are satisfied, and the Transaction proceeds to completion, DNK intends to distribute 90% of the net proceeds to DNK shareholders and continue as a listed company to identify new projects and growth opportunities.

Background on the Purchaser

SRBG is listed on the Shanghai Stock Exchange. Its parent company, Shudao Investment Group Co., Ltd. (**SDIG**), is globally competitive in transportation infrastructure design and construction. SDIG's diversified business covers minerals and new materials investment, clean energy investment, transportation and logistics, new urbanization construction, etc. SDIG's business covers more than 30 countries and regions.

The Company undertook due diligence on the Purchaser's assets and liabilities, financial position and their controlling entity to satisfy the Company of the Purchaser's financial capacity to perform its obligations under the Transaction.

A disposal by a listed entity of its main undertaking can raise issues under ASX Listing Rule 12.1 and 12.2, which oblige a listed entity to satisfy ASX on an ongoing basis that the level of its operations is sufficient, and its financial condition adequate, to warrant its continued quotation of its securities.

ASX have advised that DNK will be afforded a period of 6 months from the date of the announcement of the disposal of its interest in STB to demonstrate to the ASX that it is compliant with Listing Rule 12.1. The ASX also advises that if DNK does not demonstrate compliance with this Rule to ASX's satisfaction by the 6-month anniversary, ASX will suspend trading in DNK's securities.



The consequences of a disposal of the main undertaking are that any transaction DNK proposes to enter into may, if required by ASX, attract the application of Listing Rule 11.1.3 and as a result the Company may, if required by ASX, be required to re-comply with Chapters 1 and 2 of the Listing Rules.

Please refer to ASX Guidance Note 12: Significant Change to Activities which provides further information on significant changes to activities and how the Listing Rules apply to those changes.

Advisers

DNK's legal advisers are Steinepreis Paganin in Australia and the Law Office of Kebreab Habte Michael in Eritrea.

The Purchaser's legal advisers are Zhong Lun Law Firm in China, Hamilton Locke in Australia, and the Law Office of Berhane Gila-Michael & Associates in Eritrea.

This announcement is intended to lift the trading halt requested by the Company on 29 September 2022 in relation to its securities.

This announcement has been authorised for release by the Board of Danakali Limited.

For more information, please contact:

Danakali

Seamus Cornelius
Executive Chairman
+61 8 6266 8368

Mark Riseley
Head of Corporate Development & IR
+61 8 6266 8368

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Forward looking statements and disclaimer

The information in this document is published to inform you about DNK and its activities. DNK 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 corporate transactions and events or developments that the Company expects to occur, are forward looking statements. Although the Company believes the expectations expressed in such statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual events may differ materially from those in forward-looking statements.

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Annexure A - Summary of Terms of Transaction

Consideration

The Purchaser or its designated affiliate shall pay to DNK US\$135 million cash as consideration for the CMSC Equity on the closing date of the SPA (without set-off or deductions).

Simultaneously with the acquisition of the CMSC Equity, the Purchaser (or its designated affiliate) shall pay at least US\$31 million cash to DNK to acquire the STB Loan as follows:

- 50% of the STB Loan to be paid upon the closing of the SPA; and
- the remaining balance of the STB Loan to be paid on the 6-month anniversary of the closing date of the SPA.

The Purchaser must pay the exact outstanding STB Loan amount.

Conditions Precedent

The key conditions precedent to completion of the Transaction include:

1. Prior to execution of the SPA, completion of due diligence on CMSC and its assets to the Purchaser's satisfaction.

Completion of the SPA will be subject to satisfaction of the following conditions precedent:

1. Receipt of standard regulatory approval in Australia, including but not limited to, approvals from ASX.
2. Receipt of standard regulatory approvals in Eritrea, including but not limited to, approvals from the Ministry of Mines and Energy.
3. Termination of the existing Sulphate of Potash Offtake Agreement with EuroChem Trading GmbH.
4. Termination of the Common Terms Agreement and related documents regarding the facilities borrowed from Africa Export Import Bank and Africa Finance Corporation (including the settlement of fees CMSC is obligated to pay).
5. Confirmation to the Purchaser that there is no ongoing contractual relationship or outstanding claims pertaining to the On-Shore EPCM Contract and Off-Shore EPCM Contract.
6. Confirmation from the Director General of Mining at the Ministry of Energy and Mines that the mining licenses held by CMSC are valid, in full effect and in good standing.
7. DNK Board and Shareholder approval (pursuant to Listing Rule 11.2) and STB Board and Shareholder approval.
8. ENAMCO's approval of the Transaction.
9. Receipt of standard regulatory approvals in China including, but not limited to, approvals from the State-owned Assets Supervision and Administration Commission of the State Council, National Development and Reform Commission and Ministry of Commerce.
10. Any other customary condition precedents as agreed to by the parties.



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Indicative Timeline

The indicative timeline for the Proposed Transaction is as follows:

- The Purchaser completes its due diligence by 30 October 2022.
- The parties enter the Definitive Documents by 30 November 2022.
- Completion between 31 March 2023 and 31 May 2023.