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ASX Release:

12 January 2023

Binding Share Sale Agreement Executed for Sale of Colluli Interest

Highlights

- Binding share sale agreement 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.
- The deal, net of all government taxes means DNK will receive approximately US\$121 million.
- 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 shareholder approval and following completion of the Transaction, DNK currently plans to distribute approximately 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.
- Parties aim to complete the transaction in the second quarter of 2023.

Further to ASX announcements of 3 October 2022 and 1 December 2022, Danakali Limited (ASX:DNK) (DNK, Danakali, or the **Company**) is pleased to announce that it has executed a binding share sale agreement (SSA) with Sichuan Road and Bridge Group Co., Ltd. (SRBG or the **Purchaser**) for US\$166 million in upfront cash and deferred payments (**Transaction**).

Pursuant to the SSA, 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) (CMSC Equity); and
- the outstanding amount owed by CMSC to STB pursuant to the terms of the shareholders agreement between ENAMCO and STB (Shareholder Loan),

for US\$135 million and US\$31 million (subject to an adjustment for deferred payment) respectively, for a total sum of US\$166 million. The Transaction, net of all government taxes, will result in Danakali receiving approximately US\$121 million.

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

Financial facts:

Issued capital: 368.3m
Share price: A\$0.42
Market cap: A\$154.7m



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

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 SSA 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, together with seeking shareholder approval to distribute approximately 90% of the net proceeds of the Transaction (as is the Company's current intention), which will contain all details that shareholders will require in order to vote on the Transaction.

Subject to all conditions being satisfied or waived, the parties are aiming to complete the Transaction in the second quarter of 2023.

DNK's Plans Post Transaction Completion

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

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.

The Purchaser's financial advisor is Deloitte & Touche Financial Advisory Services Limited.

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

For more information, please contact:

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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.

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. 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.



Annexure A - Summary of Terms of SSA

Parties

The parties to the SSA are Danakali, STB and SRBG (**Parties**).

Prior to Completion, SRBG may nominate its subsidiary, Sichuan Shudao Advanced Material Science Group Co., Ltd (or another nominee) to acquire the Vendor Shares provided that SRBG will remain responsible to STB for the performance of SRBG's obligations under the SSA.

Consideration

The Purchaser shall pay US\$135 million cash (inclusive of income tax owed by STB to the Eritrean Inland Revenue Department) as consideration for the CMSC Equity at Completion of the SSA (without set-off or deductions).

Pursuant to a loan transfer agreement which has been entered into by STB, SRBG and CMSC concurrently with the SSA (**Loan Transfer Agreement**), simultaneously with the acquisition of the CMSC Equity, SRBG shall pay approximately US\$31 million cash to acquire the Shareholder Loan as follows:

- (a) 50% of the Shareholder Loan to be paid at Completion of the SSA; and
- (b) the remaining balance of the Shareholder Loan to be paid on the 6-month anniversary of Completion.

Conditions Precedent

Completion of the SSA is subject to satisfaction of the following conditions precedent:

- (a) Danakali convening and holding a general meeting of its shareholders, and shareholders approving the Transaction by resolution of the requisite majorities.
- (b) STB procuring CMSC to:
 - (i) obtain the approval of shareholders for the Transaction with the requisite majorities in accordance with the applicable law and the CMSC shareholders agreement;
 - (ii) obtain approval from ENAMCO for the Transaction;
 - (iii) obtain the approval of the Transaction by the Ministry of Energy and Mines of Eritrea;



- (iv) renew CMSC's business license at the Business Licensing Office for 2023;
 - (v) obtain a tax clearance for financial year 2022 for CMSC from the Eritrean Inland Revenue Department;
 - (vi) provide evidence satisfactory to SRBG (acting reasonably) showing that there are no encumbrances over the CMSC Equity or the Mining Licences;
 - (vii) obtain an extension from the Ministry of Energy and Mines of Eritrea for the timeline of the development expenditure and the commencement of commercial production in the Mining Agreement in a form that is satisfactory SRBG;
- (c) STB confirming to SRBG in writing with evidence satisfactory to the Purchaser (acting reasonably) that the Marketing Agreement has been terminated;
 - (d) the receipt of evidence satisfactory to SRBG (acting reasonably) that Eurochem Trading GmbH has no outstanding claims against CMSC;
 - (e) the receipt of evidence satisfactory to SRBG (acting reasonably) evidencing the termination of the Common Terms Agreement, Security Arrangements and Direct Agreement and providing to the Purchaser copies the deed of release (or similar) for the termination of documents above;
 - (f) the receipt of evidence satisfactory to SRBG (acting reasonably) that Norton Rose Fulbright has no outstanding claims against CMSC;
 - (g) the receipt of evidence satisfactory to SRBG (acting reasonably) that the African Export Import Bank and African Finance Corporation have no outstanding claims against CMSC;
 - (h) SRBG providing written confirmation that is satisfactory to SRBG (acting reasonably) that there is no ongoing contractual relationship or outstanding claims between CMSC and DRA Projects (Pty) Ltd and DRA Eritrea pertaining to the On-Shore EPCM Contract and Off-Shore EPCM Contract;
 - (i) the board of directors of Danakali providing approval of the Transaction;
 - (j) the board of directors of STB providing a board resolution to SRBG giving final, formal approval of the Transaction that is duly notarised, diplomatically authenticated, and recognised by the high court of Eritrea (as applicable) pursuant to the applicable law;
 - (k) Danakali and STB obtaining (and procuring that CMSC obtain) all necessary governmental, regulatory and court consents, waivers and approvals (including antitrust clearance and the



compliance with the securities exchange rules, to the extent applicable) in all and any jurisdictions that it requires to close the Transaction;

- (l) SRBG and ENAMCO entering into a deed of accession (or similar) in SRBG agreeing to be bound by the Shareholders Agreement and CMSC's constitutional documents;
- (m) STB providing to SRBG written confirmation from the Inland Revenue Department of Eritrea specifying the amount of income tax to be paid by STB for the Transaction;
- (n) STB providing receipts to SRBG showing that STB or Danakali has provided interim funding of US\$320,000 to CMSC;
- (o) SRBG receiving:
 - (i) from the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China or their competent local counterpart (as applicable), approval of the Transaction;
 - (ii) from the National Development and Reform Commission and of Ministry of Commerce of the People's Republic of China or their competent local counterpart (as applicable), certificates showing the successful completion of outbound direct investment filings or approvals with respect to the completion of the Transaction;
 - (iii) from the State Administration of Foreign Exchange of the People's Republic of China or their competent local counterpart (as applicable), authorisation of the Transaction,
- (p) the board of directors of SRBG (or its designated nominee) providing to STB a board resolution giving final, formal approval of the Transaction that is duly notarised, diplomatically authenticated, and recognised by the high court of Eritrea (as applicable) pursuant to the applicable law;
- (q) the warranties given by STB and Danakali under the SSA remaining true, accurate and not misleading at Completion in all material aspects;
- (r) STB and Danakali having not materially breached any of their material obligations under the SSA;
- (s) the absence of any material adverse effect under the SSA;
- (t) no person has commenced, or threatened to commence (in the view of the Parties acting reasonably), any proceedings or investigation by any court, Government Authority or



arbitrator for the purpose of prohibiting or otherwise challenging or interfering with the Transaction;

- (u) no person (including any Government Authority) has enacted or proposed any applicable law which would or could prohibit, materially restrict or materially delay the implementation of the Transaction or the operations of CMSC; and
- (v) the Parties and ENAMCO (or any third party appointed to act as escrow agent) entering into a document escrow agreement in relation to the documents to be delivered by STB at Completion,

(together, the **Conditions Precedent**).

The Parties have agreed to use their best efforts to satisfy the Conditions Precedent and complete the Transaction by 31 May 2023.

The long stop date for satisfaction of the Conditions Precedent is 31 August 2023 (unless otherwise extended by mutual written agreement between the SRBG and STB).

Completion

Completion of the sale and purchase of the CMSC Equity in accordance with the terms of the SSA (**Completion**) shall take place on that date which is seven (7) business days after the satisfaction or waiver of the last of the Conditions Precedent (or such other date agreed between SRBG and STB) in Asmara or at such other location as the Parties may otherwise agree.

Termination

STB may terminate the SSA at any time before Completion by serving a written notice to SRBG if:

- (a) SRBG is in material breach of any of its warranties under the SSA or the Loan Transfer Agreement;
- (b) SRBG is in material default of any material term of the SSA or the Loan Transfer Agreement;
or
- (c) SRBG fails to deliver any documents or undertake any actions it is required to do at Completion.

SRBG may terminate the SSA at any time before Completion by serving a notice to STB if:

- (a) STB is in material breach of any of its warranties under the SSA or the Loan Transfer Agreement;



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- (b) Danakali is in material breach of any of its warranties under the SSA;
- (c) STB or Danakali is in material default of any material term of the SSA or the Loan Transfer Agreement; or
- (d) STB fails to deliver any documents or undertake any actions it is required to do at or for Completion.