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Kodal Minerals Plc / Index: AIM / Epic: KOD / Sector: Mining

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Kodal Minerals plc
("Kodal Minerals", "Kodal" or the "Company")

**Major funding package for development of the Bougouni Lithium Project:
US\$100 million (£82 million) to be invested into Project Company and
US\$17.75 million (£14.6 million) subscription for ordinary shares in Kodal; and
proposed sale of Bougouni West Project for a consideration of £2 million in cash**

Kodal Minerals, the mineral exploration and development company focused on lithium and gold assets in West Africa, is pleased to announce it has agreed a conditional funding package of US\$117.75 million which will provide full financing for the development and commencement of production at the Bougouni Lithium Project in Mali and support a major exploration and development programme.

The funding package has been agreed with Hainan Mining Co. Limited ("**Hainan**" or "**Hainan Mining**") and its wholly owned UK-incorporated subsidiary Xinmao Investment Co. Limited ("**Xinmao**" and together the "**Hainan Group**"). Hainan is a subsidiary of Fosun International Limited ("**Fosun**") and is the industrial platform for mining and resources within Fosun. The Hainan Group are highly experienced mining and development professionals and will be working in partnership with Kodal which will continue to provide the Mali and project expertise to develop the Bougouni Lithium Project ("**Bougouni Project**", "**Bougouni**" or the "**Project**").

Highlights:

- US\$100 million committed to Kodal's newly incorporated UK subsidiary, Kodal Mining UK Limited ("**KMUK**"), by the Hainan Group to, inter alia, acquire 51% of KMUK to finance the construction of the mine at the Bougouni Lithium Project.
- US\$17.75 million equity subscription by Hainan Group into Kodal at a price of 0.5p per share, being a premium of approximately 100% to the previous 10-days' VWAP (the "**Subscription**").
- KMUK would be fully funded for the US\$65 million capital cost of the Dense Media Separation ("**DMS**") development scenario at Bougouni and is targeting delivery of first production within 12 months of receipt of funds.
- The additional funds received by KMUK beyond the DMS funding will be directed to expansion activities to increase the Bougouni Project JORC compliant resource inventory currently at 21Mt @1.11% Li₂O and extend production beyond the initial four-year mine life.
- The US\$17.75 million raised from the Subscription will be used to advance the Company's portfolio of gold exploration assets in Mali and Cote d'Ivoire, as well as the assessment of new exploration and development opportunities in West Africa.

Closing of the funding transactions is conditional on approval of certain authorities and regulators in China.

Bernard Aylward, CEO of Kodal Minerals, commented: *"This is a great outcome for Kodal following a competitive and complex process to ensure we received appropriate recognition for the underlying value of this asset.*

"We are very pleased to welcome the Hainan Group as investors into Kodal and as partners for the development of the Bougouni Lithium Project. This investment provides us with a great opportunity to fast track to production of spodumene concentrate in a very strong market. The level of funding will allow us to fully fund the dense media separation plant with mining planned to commence at the high grade Ngoulana deposit as well as to support major drilling and exploration campaigns to discover and define additional lithium mineralisation to seek to increase the life of the mining operation at Bougouni.

"The Hainan Group have completed extensive due diligence of the Bougouni Project and confirmed the potential of this quality project leading to this new partnership.

"The lithium sector remains very buoyant with high demand and market prices for spodumene concentrate. The demand is supported by the increasing take-up of electric vehicles ('EVs') and the demand for secure supply is very high. Kodal will be looking to complete an off-take agreement for the amount of product that it is free to sell outside of existing arrangements and will also review the potential to become involved in downstream processing to enhance the value of the product if viable."

Liu Mingdong, Chairman of Hainan Mining, commented *"This investment in Kodal and Kodal Mining UK Ltd is in line with Hainan Mining's strategy of improving the level of resource and feedstock security, and commencing the building of our lithium hydroxide supply chain. It is a milestone for Hainan Mining's African footprint and globalisation. We are looking forward to working closely with our partner and jointly developing the Bougouni Lithium Project in an effective way, aiming to start production and reach full scale operations as quickly as possible and create value for both partners shareholders and the people of Mali."*

Details of the funding and its terms

Kodal has agreed a major funding package with the Hainan Group which will acquire a 51% shareholding in Kodal's newly incorporated UK subsidiary, Kodal Mining UK Limited (the "**KMUK Funding Transaction**"). KMUK will become the shareholder of a new Mali mining company to be formed by Kodal to own and develop the Bougouni Lithium Project. In addition, the Hainan Group will complete an equity subscription into Kodal Minerals for US\$17.75 million (the "**Kodal Subscription**") and together with the KMUK Funding Transaction the "**Kodal Group Funding Transaction**"), becoming the largest shareholder in the Company at approximately 14.8%.

A summary of the key terms of the various agreements for the Kodal Group Funding Transaction is provided below in this announcement. Completion of the Kodal Group Funding Transaction, including receipt of funds, is conditional upon satisfying various conditions precedent on or before 30 April 2023, or such later date as the parties may agree (the "**Long Stop Date**") and whilst the parties have entered legally binding agreements, there is no guarantee that the transaction will ultimately proceed. The conditions include the approval in China from each of the National Development and Reform Commission (NDRC), the Ministry of Commerce (MOFCOM) and the State Administration of Foreign Exchange (SAFE). Completion of the Kodal Group Funding Transaction is also subject to the admission of shares issued pursuant to the Kodal Subscription to trading on the AIM market of the London Stock Exchange ("Admission") becoming effective. Further announcements will be made on the progress of satisfying the conditions and timing for completion in due course.

Transaction summary:

- Through the KMUK Funding Transaction, Kodal's new subsidiary, KMUK, will become the indirect owner of Bougouni and the Hainan Group will acquire a 51% shareholding in KMUK by way of a US\$94.34 million (£77.3 million) share subscription. The Hainan Group will at the same time extend a US\$5.66 million (£4.6 million) loan to KMUK (the "**KMUK Loan**").
- The proceeds from the KMUK Loan will be used by KMUK to partially repay to Kodal the loan from Kodal to KMUK representing capital invested by Kodal in the development of Bougouni to date.
- A deposit towards the KMUK Funding Transaction of US\$7 million (£5.7 million) is to be paid by Hainan Group into an escrow account within the next 10 business days.
- Under the Kodal Subscription, the Hainan Group is conditionally subscribing for 2,937,801,971 ordinary shares in Kodal (the "**Kodal Subscription Shares**") for a total subscription amount of US\$17.75 million (£14.6 million), equating to a subscription price of 0.5p per share, being a premium of approximately 100% to the previous 10-days' VWAP (volume weighted average share price).
- On completion of the Kodal Subscription, Hainan will become the largest shareholder of Kodal and

- On completion of the Kodal Subscription, Xinmao will become the largest shareholder of Kodal and will have the right to appoint a director to the Board of Kodal, with the potential in certain circumstances to appoint a second director.
- The Kodal Group Funding Transaction, including receipt of funds, is conditional upon satisfying various conditions precedent on or before 30 April 2023, or such later date as the parties may agree.
- The parties have entered into a shareholder's agreement, the "**KMUK Shareholders Agreement**" which, amongst other things, provides a 12-month exclusivity period during which Kodal and the Hainan Group will seek to negotiate an off-take agreement over that portion of spodumene production from Bougouni which KMUK is able to sell free without breaching any prior agreement or triggering any existing rights of first refusal.

Use of funds

Kodal Minerals plc

The focus of Kodal will remain on the successful development of the Bougouni Lithium Project and Kodal expects to continue working closely with its new partner, the Hainan Group, to support this development. In regard to funds raised by the Kodal Subscription, a reserve of funds will be maintained by the Company in the event that further financial support is required for the development of Bougouni or other lithium opportunities in Mali identified by KMUK.

In addition, the funds to be received from the Kodal Subscription will be used to undertake a comprehensive exploration programme on the Company's gold exploration assets in Mali and Cote d'Ivoire, as well as the assessment of new exploration and development opportunities in West Africa.

A draft budget has been prepared to undertake a major exploration campaign on the high priority targets at the Company's Fatou, Nielle and Dabakala projects with the aim of defining significant new gold resources. The exploration programmes will include detailed geological review, geochemical sampling, geophysical surveys, and extensive drilling campaigns.

In addition to the existing portfolio of projects, Kodal will continue to review and assess opportunities that may add further high-quality assets to the Company.

KMUK - Development of Bougouni

The funds from the KMUK Funding Transaction will be used by KMUK primarily to complete the construction of the lithium mine at Bougouni as follows:

- Fast track mine construction using the DMS processing plant option outlined in previous announcements.
- Total capital cost estimated at US\$65 million.
- Expected processing capacity of 1Mtpa of lithium ore to produce up to 130,000 tonnes per annum of spodumene concentrate.
- Short construction period with the plant estimated to be operational 12 months from receipt of funds.
- Funds from the KMUK Funding Transaction will be available to KMUK to, amongst other things, undertake further exploration activities to seek to further extend the Bougouni mine resource, develop other lithium pegmatite veins within the project area and assess opportunities for additional projects.

Kodal has continued the engineering, environmental and social work at Bougouni to ensure it has been able to maintain momentum to fast track the mine development. Kodal is expecting to commence diamond drilling this January to provide additional engineering information for geotechnical review and metallurgical testing, to undertake hydrological testing and provide monitoring bores for environmental monitoring of the Project.

Following completion of the KMUK Funding Transaction and receipt of funds, a budget for the capital development and resource definition and exploration activities will be finalised for approval by the Board of KMUK. The capital costs for all construction work and development of the mine are estimated at US\$65 million, as previously announced by Kodal.

In addition, a programme of extensional and definition drilling is expected to be undertaken by KMUK within the vicinity of the DMS plant where previous work completed by Kodal has indicated the presence of lithium bearing pegmatites. The Board of Kodal believes that these additional veins near the plant have the potential

bearing pegmatites. The Board of Kodal believes that these additional veins near the plant have the potential to be economically mined and processed following the completion of construction.

About Hainan Mining Co. Limited

Hainan is committed to becoming a "leading industrial development group based on strategic resources with international presence" through the twin-driver strategy of industry operations and industrial investment. Fosun is the controlling shareholder of Hainan holding a 45.9% equity interest. Hainan was established in August 2007 and listed on the Shanghai Stock Exchange in December 2014 (stock code: SH 601969).

Hainan's core businesses are iron ore mining, processing and sales through its Shilu iron ore mine; oil and gas exploration, development, production and sales through its subsidiary Roc Oil Limited; and resource investment and financing. Based on Hainan's strategic plan, it is developing its new energy business (mining and processing new energy metals) to become its third business line.

In August 2021, Hainan announced the proposed investment of 1.065 billion yuan (US\$164 million) to develop a new processing plant to make battery-grade lithium hydroxide as a starting point of its move into the lithium sector and look to support the booming demand in the EV sector. In June 2022, Hainan announced that the project (Phase I), with an annual battery-grade lithium hydroxide production capacity of 20,000 tonnes, will be in Yangpu Economic Development Zone, with construction commenced to accelerate the project completion.

The Kodal Group Funding Transaction is Hainan's first entry into the mining and processing of hard rock pegmatite hosted mineralisation given its long and strong experience in iron ore mining and processing.

About Fosun International Limited

In 2007, Fosun International Limited listed on the main board of the Hong Kong Stock Exchange (stock code: 00656.HK). As of 30 June 2022, Fosun's total assets amounted to RMB 849.7 billion (US\$126 billion). Fosun International ranks No.589 on the 2022 Forbes Global 2000 List, with a MSCI ESG rating of AA.

Summary of the key agreements

The agreements entered into today for the Kodal Group Funding Transaction are inter-conditional and are subject to the satisfaction or waiver of certain conditions by the Long Stop Date.

It is a condition to completing the Kodal Group Funding Transaction that Kodal's existing subsidiary in Mali, Future Minerals SARM, which currently owns the Bougouni Project, including the mining licence and other lithium exploration licences in Mali, will become a wholly owned subsidiary of KMUK. The parties have also agreed that following completion, any future investment and operations in lithium in Mali will be conducted by them through the KMUK joint venture. After completion of the Kodal Group Funding Transaction, it is intended that a new subsidiary company of KMUK will be formed in Mali with the name Les Mines de Lithium de Bougouni S.A, to be the owner of the Bougouni Project, and the exploitation licence pertaining to the Bougouni Project will also be transferred to this company. The Mali government has a right to a 10% shareholding in the entity that owns the Bougouni Project for nil cost (the "**Mali Stake**"), and the right to buy a further 10%.

The principal terms of the agreements pursuant to the Kodal Group Funding Transaction are set out below.

Kodal Subscription Agreement

Kodal and Xinmao have entered into a subscription agreement (the "**Kodal Subscription Agreement**") pursuant to which Xinmao has agreed to subscribe for the Kodal Subscription Shares for an aggregate subscription price of US\$17,750,000 (£14.5 million), equating to a subscription price of 0.5p per share, being a premium of approximately 100% to the previous 10-days' VWAP. Upon completion of the Kodal Subscription, Xinmao will be the Company's largest shareholder with a shareholding of approximately 14.81%.

Pursuant to Suay Chin International Pte Limited's ("**Suay Chin**") existing contractual pre-emption rights, the Company has offered Suay Chin the right to subscribe for up to 485,568,717 ordinary shares in Kodal on the same terms and conditions as set out in the Kodal Subscription Agreement to maintain its shareholding at its

current level of 14.18%. If Suay Chin does not elect to subscribe for these shares it will be diluted to a shareholding in Kodal of 12.08% on completion of the Kodal Subscription. If Suay Chin elects to take up its entitlement in full, Xinmao's holding in the Company will be reduced to 14.45% of the issued share capital.

The Kodal Subscription is conditional on a number of conditions, including Admission of the Kodal Subscription Shares. The Kodal Subscription Shares will be issued within the Company's existing share allotment authorities which were granted at the Company's annual general meeting held on 29 September 2022. A further announcement will be made by Kodal once the timing of Admission is known.

Relationship and Lock-in Deed

Due to level of the Hainan Group's shareholding in the Company on completion of the Kodal Subscription, Xinmao has entered into a relationship and lock-in deed (the "Relationship and Lock-in Deed") with the Company, Allenby Capital Limited and SP Angel Corporate Finance LLP (**SP Angel**). Pursuant to the Relationship and Lock-in Deed, Xinmao has agreed to not dispose of any Kodal Subscription Shares for a period of 12 months following Admission and, for a further period of 12 months, to only dispose of Kodal Subscription Shares through SP Angel or the Company's then broker on an orderly market basis.

In addition, Xinmao has agreed to do all things it is reasonably able to do, including the exercise of its voting rights, to, amongst other things, ensure that the Company is able to act independently of the Hainan Group, having regard to the shareholders of the Company as a whole, and that any transactions between Kodal and the Hainan Group are concluded on arm's length commercial terms.

Further, for so long as the Hainan Group holds an interest in 10% or more of Kodal's issued ordinary shares, Xinmao shall have the following director nomination rights:

- (a) for such time as there are five or fewer independent directors on the Board of Kodal (being directors independent of the Hainan Group), Xinmao may nominate one director to the Board of Kodal; and
- (b) for such time as there are six or more independent directors on the Board of Kodal, Xinmao may nominate two directors to the Board of Kodal

The Relationship and Lock-in Deed also provides that for such time as the Hainan Group holds an interest in 10% or more of Kodal's issued ordinary shares, the Company shall not, without the prior written consent of Xinmao or save for certain exempt issuances, allot or issue any equity securities to any person, without having prior to or at the same time made an offer to Xinmao to subscribe for such equity securities on a pro-rata basis in proportion to Xinmao's percentage interest in the issued ordinary shares on the same terms, and at the same price, as such equity securities are to be offered to any other person.

KMUK Implementation and Subscription agreement

Kodal, KMUK and Xinmao have entered into an implementation and subscription agreement (the '**KMUK Implementation and Subscription Agreement**') pursuant to which Xinmao has conditionally agreed to subscribe for 5,100 ordinary shares in KMUK (representing 51% of the issued shares on completion (prior to the Mali Stake)) for an aggregate subscription amount of US\$94.34 million (£77.3 million). Xinmao has agreed to pay a deposit of US\$7 million into an escrow account within the next 10 business days.

Kodal and KMUK have given various warranties to the Hainan Group in relation to, amongst other things, their ability to enter into and perform the various transaction documents for the Kodal Group Funding Transaction and the validity and title to the various licences and permits necessary to carry on the business and operations of Kodal, KMUK and the Bougouni Project.

Kodal has also agreed to guarantee the performance of KMUK's obligations under the KMUK Implementation and Subscription Agreement.

KMUK Shareholders' Agreement

The Company and Xinmao have entered into the KMUK Shareholders' Agreement in order to regulate the ownership, governance and operation of KMUK as a joint venture between Kodal and the Hainan Group.

Pursuant to the KMUK Shareholders' Agreement, Kodal and Xinmao will each be entitled to appoint two directors of KMUK and each of its subsidiaries. The Hainan Group will appoint the Chair of KMUK, who will have a casting vote.

The KMUK Shareholders' Agreement contains certain reserved matters in relation to KMUK and its subsidiaries which may not be effected without the prior approval of both Kodal and Xinmao. These reserved matters include the entry into third party borrowing arrangements or project finance in excess of certain agreement amounts, the making by KMUK of cash calls from its shareholders, incurring capital expenditure in excess of a certain threshold and disposing of KMUK's assets and licences. As is usual for agreements of this nature, the KMUK Shareholders' Agreement contains provisions for dealing with a deadlock situation where reserved matters are not approved.

The KMUK Shareholders' Agreement contains pre-emption provisions relating to the sale of shares in KMUK by one of the shareholder parties in favour of the other, together with tag along provisions.

Under the KMUK Shareholders' Agreement, KMUK has agreed for a period of 12 months to exclusively negotiate with the Hainan Group to agree an off-take agreement over that portion of spodumene production from Bougouni which KMUK is able to sell free of any rights of first refusal in favour of Suay Chin (currently 20% of annual production) ("**Available Product**"). If at the expiry of the exclusivity period, the parties have been unable to agree the terms of an offtake agreement then the Hainan/Fosun Group shall have a right to match the offtake terms KMUK may agree with any third parties in relation to the Available Product.

Loan Agreement

Xinmao and KMUK have entered into a loan agreement pursuant to which Xinmao has agreed to make a loan of US\$5,660,000 to KMUK on completion of the KMUK Funding Transaction. The KMUK Loan shall bear interest at a rate of 4% per annum, which shall accrue from the date of draw down but only be payable following the commencement of commercial production from Bougouni. The KMUK Loan is repayable on demand. KMUK may use the proceeds of the KMUK Loan to partially repay to Kodal the historic expenditure incurred by the Company in relation to Bougouni.

Update on Bougouni West

With the Company's focus on Bougouni, Kodal has entered a non-binding term sheet for the sale of its Bougouni West project (which for the avoidance of doubt, is unconnected to the Bougouni Project) for a consideration of £2 million in cash (the "**Disposal**"). The Disposal is subject, amongst other things, to completion of due diligence, and agreement of final contractual terms, and therefore there is no guarantee on timing or whether the Disposal will ultimately proceed. Further updates will be provided in due course.

****ENDS****

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Glossary

Exchange rate utilised is US\$1=£0.8198 (£1=US\$1.2198)

JORC - 'Australasian Code for Reporting of Mineral Resources and Ore Reserves' of December 2012 ("JORC Code") as prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy. Terms including Measured, Indicated and Inferred Resources as defined therein.

1Mtpa - One million tonnes per annum, pertaining to throughput of the proposed processing plant.

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