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DekelOil Public Limited / Index: AIM / Epic: DKL / Sector: Food Producers

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DekelOil Public Limited ("DekelOil" or the "Company")
Option to acquire majority interest in Cashew Processing Company

DekelOil Public Limited, the West African focused agricultural company, is pleased to announce it has agreed an option to acquire 58.5% of the existing issued share capital of Pearlside Holdings Ltd ("Pearlside"), an investment holding company (the "Option"). Pearlside has one wholly owned subsidiary Capro CI SA ('Capro'), a raw cashew nut ("RCN") business which is developing a large-scale 30,000tpa RCN processing project at Tiebissou in Côte d'Ivoire. Tiebissou complements DekelOil's existing projects in Côte d'Ivoire: Ayenouan, which produced 38,736 tonnes of Crude Palm Oil in 2017; and Guitry, a second 'seed to oil' palm oil project which is currently under development.

Acquisition provides exposure to global cashew market

- Tiebissou is located in the heart of Côte d'Ivoire's cashew producing region and three hours from the port of Abidjan
- Similar collaborative model to DekelOil's producing palm oil project at Ayenouan including a state-of-the-art plant which will process RCNs grown by local smallholders
- Phase 1 – construction of plant with an initial capacity to process 10,000tpa of RCNs produced by smallholders and in time, a cashew nut shell liquid ('CNSL') processing facility is also under consideration
 - First production at 6ha site in Tiebissou targeted Q3-2019
 - Development capital and turnkey contract with leading manufacturer are close to completion
- Phase 2 – increase capacity to 30,000tpa over five years which is expected to be funded from operating cash flows

Attractive economics of cashew processing in Côte d'Ivoire

- High margin business:
 - sale price for high quality processed cashews in Côte d'Ivoire currently stands at US\$11.05/kg for whole nuts and US\$7.50/kg for broken nuts compared to US\$1.18/ kg purchase price for RCN
- Established relationships with local co-operatives for the supply of RCNs to the project

Favourable dynamics of global and regional cashew markets

- 830,000Mt consumed globally in 2017 – primary end markets are food and healthcare

- 8% forecast annual growth in demand due to increased consumption of cashews as a source of protein – outstrips 6% annual increase in supply since 1990
- Côte d’Ivoire second largest producer globally and largest exporter of RCNs
- Significant lack of value-adding processing capacity in Côte d’Ivoire: only 7% of total 720,000 tonnes of RCNs produced annually processed in-country

Acquisition process fixed at value accretive terms for DekelOil

- Option to acquire 58.5% of Pearlside, which may be exercised at any time following the date on which Pearlside is due to publish its audited annual accounts for the year ending 31 December 2020 until the date falling 6 months after Pearlside issues its audited annual accounts for the year ending 31 December 2021
 - The exercise price will be calculated by reference to the higher of (i) 4.5x reported EBITDA of Pearlside in its last published audited annual accounts prior to exercise of the option and (ii) the valuation of €18 million for the entire issued share capital of Pearlside
 - If Pearlside has not achieved an EBITDA of €4 million for the 2020 year, DekelOil may acquire the shares of Pearlside under option based on an €18 million valuation of Pearlside, at any time until the 2021 accounts are published at which point the valuation will be reset at the higher 4.5 times EBITDA or €18 million for 100% of Pearlside’s equity
 - In the event that the exercise price is determined by reference to the EBITDA of Pearlside, and the EBITDA is €7 million or more, the EBITDA applied will be capped at €7 million

DekelOil Executive Director Lincoln Moore said, “The Tiebissou Cashew Project would not only transform DekelOil into a multi-project, multi-commodity agricultural company focused on West Africa, but it also has the potential to be a much larger operation than Ayenouan in terms of revenues and profitability. Based on today’s sale prices, processing 10,000tpa of RCNs in the first full year of operations could generate substantial revenues, which would rise considerably further once the capacity of the plant at Tiebissou has been expanded to 30,000 tpa. Combine this with our producing palm oil project at Ayenouan and there is tangible potential to rapidly scale up DekelOil’s revenue profile.

“We are confident this potential will be realised. With a lack of local processing capacity and a large smallholder community, Tiebissou shares many similar characteristics to Ayenouan before we built our state-of-the-art processing operation. Tiebissou therefore represents an excellent opportunity to deploy the same collaborative model which has been so successful at Ayenouan, not just for DekelOil but also for local stakeholders and smallholders. Furthermore it was our proven track record in rolling out the vertically integrated model at Ayenouan on time and on budget that has enabled us to secure this option to acquire a majority interest in Tiebissou at no initial cost. With first production at Tiebissou expected in mid-2019, this is an exciting period for the Company and I look forward to providing further updates, as we focus on building a leading West African focused agricultural company.”

Related Party Transaction

Youval Rasin, CEO and 16.0% shareholder of DekelOil, presently has an indirect interest of 13.8% in Pearlside. In addition, Yehoshua Shai Kol, CFO and 3.6% shareholder of DekelOil, and Lincoln Moore, Executive Director and 0.5% shareholder of DekelOil, both of whom are indirect investors in Pearlside with interests of 13.8% and 3.0% respectively, will join the board of Pearlside. Accordingly, the Acquisition constitutes a related party transaction in accordance with AIM Rule 13. Therefore, Andrew Tillery and Bernard Francois, Non-Executive Chairman and Non-Executive Director respectively at DekelOil, and who are independent of the Transaction, and having consulted with the Company's Nominated Adviser, consider the terms of the Option to be fair and reasonable insofar as DekelOil's shareholders are concerned. In forming this opinion, Mr Tillery and Mr Francois have taken into account the conclusions of an independent valuation report prepared by PKF Littlejohn LLP on Pearlside, and in particular the forecast cashflows of the Capro project.

Further Information

Pearlside is a privately-owned investment holding company, which wholly owns Capro, a cashew business in Côte d'Ivoire. Out of the 720,000 tonnes of RCNs produced in Côte d'Ivoire in 2017 only 7% (45,000 tonnes) were processed in-country. Via its relationships with local smallholders, Capro recognised the lack of higher margin RCN processing capacity within Côte d'Ivoire. In order to focus on evaluating the feasibility of constructing a RCN processing plant, Capro undertook a full feasibility analysis during 2017. As a result, for the year ended 31 December 2017, Capro generated zero revenues and reported a loss after tax of €219,000 and gross assets of €144,000.

To capture more of the value on offer and help address the shortfall in capacity in Côte d'Ivoire, Capro is constructing a 10,000 tpa (expandable to 30,000 tpa) plant at Tiebissou, which is located in a cashew producing region and within three hours of the port at Abidjan. Capro has secured 6ha of land at Tiebissou on which the processing plant will be built, plus an additional 3ha for expansion and 1ha for a warehouse. Once operational, the processing plant at Tiebissou will aim to process up to 10,000 and 15,000 tonnes per annum of RCNs in 2020 and 2021 respectively, gradually increasing to 30,000 tonnes per annum by 2024. Capro is also considering the construction of a cashew nut shell liquid ('CNSL') processing facility. CNSL is used in the vehicle brake industry. Processing of RCNs at the plant is scheduled to begin in Q3 2019.

The total cost to build and commission the 10,000 tpa processing plant at Tiebissou is estimated at US\$15 million. This comprises US\$6 million for working capital and US\$9 million capital expenditure, specifically for the construction of the processing plant. Capro has secured the following financing for the project at Tiebissou:

- US\$5.0 million BIDC (plant development loan) which is expected to be drawn down over six months as works progress. It is a 7 year loan with a grace period of 24 months (only interest paid) and an interest rate of 8.5%.
- US\$7.5 million RCN stock financing loan which is expected to be drawn down over the 3-4 month RCN buying season. This will allow Capro to pay the smallholders in advance for the RCN to secure supplies. The loan is then repayable over the 12 months from when the processed nuts are sold. The interest rate is 8.7%.

In addition, Capro expects to enter into a:

- US\$2.5 million capital facility - offers from a number of Côte d'Ivoire local banks with similar terms as outlined above for the BIDC loan.
- Credit line facility with a local bank for up to approximately US\$1.8 million, with interest payable of 8.0%. The credit line facility will be used to support general working capital requirements.

Proposed transaction

DekelOil has been granted an option to acquire an interest in Pearlside by Trustland provided that the exercise of the option shall result in DekelOil holding at least 50.1% of the issued share capital of Pearlside. Trustland presently holds 100% of the issued share capital of Pearlside. The Option may be exercised at any time following the date on which Pearlside is due to publish its audited annual accounts for the year ending 31 December 2020 until the date falling 6 months after Pearlside issues its audited annual accounts for the year ending 31 December 2021. The exercise price will be calculated by reference to the higher of (i) 4.5x reported EBITDA of Pearlside in its last published audited annual accounts prior to exercise of the option and (ii) the valuation of €18 million for the entire issued share capital of Pearlside. In the event that the exercise price is determined by reference to the EBITDA of Pearlside, and the EBITDA is €7 million or more, the EBITDA applied will be capped at €7 million.

At its own discretion, Trustland can elect whether proceeds from the exercise of the option are settled in cash or shares in DekelOil based on the 90 day volume-weighted average price of the shares of DekelOil on the Business Day immediately prior to the date of completion of the exercise of the option.

With regards to the option to acquire a 58.5% interest in Pearlside, the independent valuer has opined that the proposed Option investment "appears reasonable and on an arm's length basis as at 30 April 2018."

If there is a change of control of DekelOil at a valuation of less than 12x the EBITDA of DekelOil within 3 years of completion of the option being exercised, the Pearlside shareholders shall have an option to re-acquire the shares of Pearlside from DekelOil at the higher of (i) the price paid for the share (ii) the value for the shares based on a valuation of

€18 million for the entire issued share capital of Pearlside and (iii) 4.5x EBITDA of Pearlside reported in its most recently published annual accounts.

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