

ASX ANNOUNCEMENT

6 November 2020



VALUATION OF SOUTH AFRICA BUSINESS

Following requests to provide shareholders with a more comprehensive overview of the South Africa business, TerraCom Limited (**TerraCom** or **Company**) recently commissioned an independent specialist advisory company in South Africa to prepare an independent valuation report (the **Report**) of the assets purchased as part of the Universal Coal acquisition completed earlier in the year.

The South African based independent advisory firm specialises in advisory related matters on mergers and acquisitions, divestitures, corporate restructuring, capital raising (equity and debt), Black Economic Empowerment transactions and valuations of listed and unlisted companies operating in Sub-Saharan Africa across various sectors. The firm is well regarded throughout Sub-Saharan Africa and has proven capabilities and a successful track record of both origination and execution of major projects.

The outcomes of the Report are summarised in this announcement and should provide shareholders with a better understanding of the Company's decision to acquire the 100% equity in Universal Coal plc (**Universal**) and also clearly demonstrate the value add of the transaction.

Valuation Summary

The valuation of the assets was completed as a combination of discounted cash flow nominal basis method (DCF) for the operating assets mine plan, and resource multiples for resources outside the mine plan (Resource)¹.

	Discounted Cash Flow ²	Resource Multiples	Valuation Total	Valuation Total
Asset	(South African Rand, ZAR)	(South African Rand, ZAR)	(South African Rand, ZAR)	(Australian Dollars, AUD) ³
North Block Complex	2,118,123,759	25,000,000	2,143,123,759	187,664,077
New Clydesdale Colliery	1,661,151,272	126,000,000	1,787,151,272	156,493,106
Eloff & Kangala	3,646,218,604	487,000,000	4,133,218,604	361,928,074
Ubuntu	421,807,480	81,000,000	502,807,480	44,028,676
Total	7,847,301,115	719,000,000	8,566,301,115	750,113,933

As stakeholders are aware, TerraCom's equity interest in the South African assets is 49% and therefore its equity interest in the valuation of the assets is **\$367.5 million**. This valuation compares favourably to TerraCom's final acquisition purchase price of Universal of \$118.0 million⁴ – representing more than 3 times value acquired compared to purchase price.

¹ Refer Appendix for macro assumptions summary for this valuation.

² The nominal discount rate (weight average cost of capital) utilised is 12.27%.

³ Converted from ZAR to AUD using 11.42:1.

⁴ Purchase price comprised of \$59.1 million cash and \$58.9 million in TerraCom equity as disclosed within the Audited Financial Report for the year ended 30 June 2020. This acquisition price was calculated in accordance with prescribed accounting standards.

This announcement has been approved by the Company's Disclosure Committee for release.

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About TerraCom Limited

*TerraCom Limited (**ASX: TER**) is an emerging company originating as a resource explorer with a large portfolio of operating assets in Australia and South Africa. We are currently enacting a growth strategy towards delivering a Mid-Tier diversified operating and trading business and have a global focus on the development of a high yielding diversified asset portfolio for its investors. To learn more about TerraCom visit terracomresources.com.*

APPENDIX - VALUATION ASSUMPTIONS SUMMARY – SOURCED FROM ISSUED THIRD PARTY VALUATION REPORT

TABLE 1 – RUN OF MINE PRODUCTION (BY MINING COMPLEX)

Year	NBC (Mt)	NCC (Mt)	Eloff/ Kangala (Mt)	Ubuntu (Mt)	Total (Mt)
2021	3.56	3.45	2.54	1.30	10.84
2022	4.00	4.31	3.70	1.90	13.90
2023	4.00	4.29	5.08	1.62	14.99
2024	4.00	4.34	10.29	1.58	20.21
2025	4.00	4.39	12.03	1.87	22.29
2026	4.00	4.57	12.08	1.85	22.50
2027	4.00	4.56	5.04	0.43	14.04
2028	4.00	4.55	5.10	0.00	13.65
2029	4.00	4.54	5.22	0.00	13.77
2030	3.98	3.17	5.23	0.00	12.39
2031	4.00	2.40	5.19	0.00	11.59
2032	4.01	3.44	1.45	0.00	8.89
2033	3.99	0.00	0.00	0.00	3.99
2034	4.00	0.00	0.00	0.00	4.00

TABLE 2 – COAL SALES (BY MINING COMPLEX)

Year	NBC (Mt)	NCC (Mt)	Eloff/ Kangala (Mt)	Ubuntu (Mt)	Total (Mt)
2021	2.75	3.00	1.80	1.30	8.86
2022	3.02	3.65	3.00	1.90	11.57
2023	2.95	3.72	4.20	1.62	12.49
2024	2.83	3.72	8.12	1.58	16.25
2025	2.82	3.82	9.57	1.87	18.08
2026	2.85	3.94	9.57	1.85	18.22
2027	2.86	3.97	4.77	0.43	12.04
2028	2.83	3.97	4.77	0.00	11.57
2029	2.83	3.96	4.77	0.00	11.56
2030	2.89	2.94	4.77	0.00	10.6
2031	2.97	2.38	4.77	0.00	10.13
2032	2.95	3.74	1.34	0.00	8.02
2033	3.03	0.00	0.00	0.00	3.03
2034	3.12	0.00	0.00	0.00	3.12

APPENDIX (continued) - VALUATION ASSUMPTIONS SUMMARY – SOURCED FROM ISSUED THIRD PARTY VALUATION REPORT

TABLE 3 – COAL SALES SPLIT (DOMESTIC AND EXPORT)

Year	Domestic (Mt)	Export (Mt)	Total (Mt)
2021	6.43	1.93	8.36
2022	9.05	1.92	10.97
2023	10.04	1.85	11.89
2024	13.85	1.81	15.65
2025	15.67	1.81	17.48
2026	15.65	1.97	17.62
2027	9.75	1.7	11.44
2028	9.39	1.58	10.97
2029	9.35	1.61	10.96
2030	8.63	1.38	10.00
2031	8.31	1.22	9.53
2032	5.34	1.48	6.82
2033	2.35	0.68	3.03
2034	2.38	0.74	3.12

TABLE 4 – MACRO REVENUE ASSUMPTIONS (NOMINAL)

Year	Export Coal Price – RB1 (USD)	Export Coal Price – RB3 (USD)	Foreign Exchange Rate – USD/ZAR
2021	58.00	45.00	16.47
2022	61.77	48.24	16.95
2023	68.91	54.51	17.45
2024	74.08	59.01	17.95
2025	77.81	62.20	18.48
2026	81.66	65.51	18.48
2027	85.64	68.92	18.48
2028	89.75	72.45	18.48
2029	94.00	76.10	18.48
2030	98.38	79.86	18.48
2031	102.91	83.76	18.48
2032	107.59	87.78	18.48
2033	112.41	91.93	18.48
2034	117.39	96.22	18.48

This Table 4 is the basis for the revenue to be earned on the Export coal sales in Table 3.

APPENDIX (continued) - VALUATION ASSUMPTIONS SUMMARY – SOURCED FROM ISSUED THIRD PARTY VALUATION REPORT

TABLE 5 – RESOURCES AND RESERVES SUMMARY

	Reserves			Resources			
	Proved	Probable	Total	Measured	Indicated	Inferred	Total
NBC	48.2	-	48.2	56.0	11.3	12.1	79.4
NCC	41.7	5.9	47.5	81.2	32.6	6.5	120.4
Eloff/ Kangala	1.3	-	1.3	60.1	281.0	282.9	623.9
Ubuntu	9.0	-	9.0	31.4	39.4	4.7	75.5
Total	100.2	5.9	106.1	228.7	364.3	306.2	899.2

Refer to ASX Announcement on 30 October 2020 for further information and clarification on the Resources and Reserves in South Africa. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original announcement, and that all material assumptions and technical parameters in the announcement made in the original announcement continue to apply and have not materially changed.

TABLE 6 – DISCOUNT RATE (NOMINAL)

The conversion from free cash flow from the operations relative to the discounted cash flow is shown in the below table:

Year	Portion of Free Cash Flow in Year that gets allocation to the discounted cash flow
2021	0.96
2022	0.86
2023	0.76
2024	0.68
2025	0.61
2026	0.54
2027	0.48
2028	0.43
2029	0.38
2030	0.34
2031	0.30
2032	0.27
2033	0.24
2034	0.21

Forward Looking Statement

This document contains summary information about, TerraCom, its subsidiaries, and its activities which are current as at the date of this document. The information in this document is general in nature and does not purport to be complete nor does it contain all the information which a prospective investor may require in evaluating a possible investment in TerraCom or that would be required in a prospectus or product disclosure statement prepared in accordance with the *Corporations Act 2001 (Cth)*. Information in this document should therefore be read in conjunction with other announcements made by TerraCom to the ASX.

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