

## ASX: TER

### Equity Research

4<sup>th</sup> July 2022

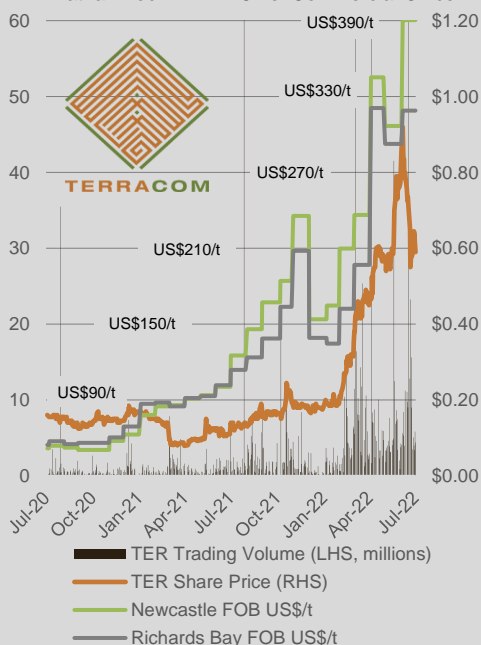
**BUY**

|              |        |
|--------------|--------|
| Share Price  | \$0.59 |
| Valuation    | \$1.71 |
| Price Target | \$1.45 |

|   |                   |
|---|-------------------|
| 52-Week Range                                     | \$0.105 - \$0.945 |
| Shares Outstanding                                | 797.8m            |
| Options & Warrants                                | 1.7m              |
| Market Capitalisation                             | A\$470.7m         |
| Cash (30 Jun 2022 estimated)                      | A\$109.7m         |
| Debt including Prepayment (30 Jun 2022 estimated) | A\$131.7m         |
| Enterprise Value                                  | A\$492.7m         |

#### Board and Management

|                  |                          |
|------------------|--------------------------|
| Craig Ransley    | Executive Chairman       |
| Danny McCarthy   | Managing Director        |
| Matthew Hunter   | Non-Executive Director   |
| Glen Lewis       | Non-Executive Director   |
| Shane Kyriakou   | Non-Executive Director   |
| Graeme Campbell  | Independent NED          |
| Mark Lochtenberg | Independent NED          |
| Craig Lyons      | Independent NED          |
| Megan Etccl      | Chief Financial Officer  |
| Nathan Boom      | Chief Commercial Officer |



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. TerraCom is 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 investors.

## TerraCom Limited

### Update – Bolted from the gate, and clearing hurdles

We initiated coverage of TerraCom Limited (ASX:TER) on 7 March 2022 with a Buy rating and positive outlook for the future. At the time the current share price was A\$0.42, with our valuation and price target set at A\$0.87 and A\$1.30 respectively. At that stage the company had A\$12.4m in Cash and A\$202m in estimated debt.

It has been just over three months and TER has cemented its position as a significant coal company underpinned by strong production and exports, with operations focused in Australia and South Africa.

Since our initiation report, the company has delivered the following:

- Fully repaid the Euroclear Bond;
- Implemented a 40-70% NPAT dividend policy;
- Fully sold its Blair Athol (BA) coal until October 2022 with BA remaining on track for coal sales in FY 2022 of ~2.3mt;
- In consideration of the outstanding Convertible Bond, issued 39.91m shares for ~A\$27.8m consideration; and
- Secured a long term off-take agreement of up to 1.25mt of coal over 13 cargoes from the Blair Athol operation for the period of August 2022 to August 2023.

In addition to the excellent operational performance of TER, a number of key factors have also been in the company's favour: 1. macroeconomic factors 2. increased production and 3. rising coal and energy prices which have translated into significant cashflow and positive sentiment for the sector.

A significant shock to the share price and our valuation was the recent announcement of the update to the Queensland royalty regime which in effect added 3 additional taxation tiers to the coal royalty, being, 20% for prices above A\$175/t, 30% for prices above A\$225/t, and 40% for prices above A\$300/t. The net effect of this change, on our numbers, was an additional A\$289m of royalty being paid by TerraCom through the life of its Blair Athol project.

| Scenario / Item             | Unit        | Base Case         | Expansion Case               |
|-----------------------------|-------------|-------------------|------------------------------|
|                             |             | Proved + Probable | Proved + Probable + Measured |
| <b>Total Production ROM</b> | <b>Mt</b>   | 56.5              | 161.9                        |
| <b>Total Sales</b>          | <b>Mt</b>   | 41.8              | 118.1                        |
| Total Revenue               | A\$m        | 6,468             | 14,969                       |
| Total Opex                  | A\$m        | 2,894             | 7,291                        |
| Update QLD Royalty          | A\$m        | 288.6             | 508.9                        |
| Ongoing Capex               | A\$m        | 193.5             | 340.8                        |
| <b>Total Valuation</b>      | <b>A\$m</b> | <b>1,365.8</b>    | <b>2,127.7</b>               |
| <b>Total/share</b>          | <b>A\$</b>  | <b>1.71</b>       | <b>2.67</b>                  |

**TER Valuation:** The first half of 2022 calendar year was, and remains, a watershed year for TER with the company becoming an established and significant producer, significant increases in forward curves on coal prices, both out of Australia and South Africa, the announcement of a company dividend policy and the significant reduction in corporate debt and increase in cash position. On our numbers the increase in the Queensland royalty does have a significant impact on revenues and share price, however, this is more than offset by the increase in revenues generated by the company.

Our initiation report had a valuation of A\$0.87/share and a price target of A\$1.30/share. In line with improved coal prices, reduction in debt and factoring in the new Queensland coal royalty, our revised valuation comes to A\$1.71/share representing a 2.9x uplift to the current share price. Considering the weakness of the equity markets, we have applied a 15% discount factor to derive a price target of \$1.45/share.

## FINANCIAL SUMMARY

| TOTAL TER CASHFLOW                          |       | Quarterly | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 |
|---|-------|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Exchange Rates                              |       |           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| AUD/USD                                     | x     |           | 0.6915 | 0.6866 | 0.6899 | 0.6932 | 0.6928 | 0.6918 | 0.6908 | 0.6899 | 0.6889 | 0.6869 | 0.6849 | 0.6828 | 0.6808 | 0.6788 | 0.6767 | 0.6747 | 0.6726 | 0.6706 | 0.6686 | 0.6665 | 0.6645 |
| ZAR/USD                                     | x     |           | 0.0618 | 0.0616 | 0.0610 | 0.0605 | 0.0600 | 0.0595 | 0.0585 | 0.0579 | 0.0573 | 0.0573 | 0.0573 | 0.0573 | 0.0573 | 0.0573 | 0.0573 | 0.0573 | 0.0573 | 0.0573 | 0.0573 | 0.0573 | 0.0573 |
| Prices                                      |       |           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Australia                                   | A\$/t |           | 390.9  | 359.1  | 335.5  | 303.8  | 292.8  | 283.4  | 273.4  | 193.2  | 194.0  | 194.9  | 190.0  | 189.5  | 190.6  | 191.7  | 191.0  | 190.6  | 191.7  | 192.9  | 193.5  | 193.2  | 194.2  |
| South Africa Export                         | A\$/t |           | 235.7  | 223.6  | 212.9  | 204.8  | 202.2  | 198.8  | 192.5  | 188.5  | 183.1  | 175.8  | 170.8  | 172.6  | 166.0  | 164.1  | 162.6  | 158.5  | 156.4  | 152.6  | 151.8  | 152.0  | 151.8  |
| South Africa Internal / Eskom               | A\$/t |           | 49.1   | 49.5   | 49.1   | 48.7   | 48.6   | 48.5   | 48.0   | 47.8   | 47.6   | 47.9   | 48.3   | 48.7   | 49.1   | 49.5   | 49.9   | 50.3   | 50.7   | 51.1   | 51.5   | 51.9   | 52.4   |
| Unit Costs                                  |       |           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Australia (Includes Previous QLD Royalty)   | A\$/t |           | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     |
| South Africa                                | A\$/t |           | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     |
| Production                                  |       |           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Blair Athol                                 | 000 t |           | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    | 670    |
| New Clydesdale Colliery (NCC)               | 000 t |           | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 915    | 0      | 0      | 0      |
| North Block Complex (NBC)                   | 000 t |           | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 995    | 0      |
| Ubuntu Colliery (NCC)                       | 000 t |           | 269    | 269    | 269    | 269    | 269    | 269    | 269    | 269    | 269    | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| TOTAL ROM Coal Production                   | 000 t |           | 2,849  | 2,849  | 2,849  | 2,849  | 2,849  | 2,849  | 2,849  | 2,849  | 2,580  | 2,580  | 2,580  | 2,580  | 2,580  | 2,580  | 2,580  | 2,580  | 2,580  | 2,580  | 1,665  | 1,665  | 670    |
| Sales                                       |       |           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Blair Athol                                 | 000 t |           | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    | 572    |
| New Clydesdale Colliery (NCC)               | 000 t |           | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 560    | 0      | 0      | 0      |
| North Block Complex (NBC)                   | 000 t |           | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 684    | 0      |
| Ubuntu Colliery (NCC)                       | 000 t |           | 231    | 231    | 231    | 231    | 231    | 231    | 231    | 231    | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| TOTAL Saleable Coal                         | 000 t |           | 2,047  | 2,047  | 2,047  | 2,047  | 2,047  | 2,047  | 2,047  | 2,047  | 1,816  | 1,816  | 1,816  | 1,816  | 1,816  | 1,816  | 1,816  | 1,816  | 1,816  | 1,256  | 1,256  | 572    | 572    |
| Operating results                           |       |           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Revenue                                     | A\$m  |           | 358    | 336    | 319    | 298    | 290    | 284    | 275    | 228    | 208    | 207    | 203    | 204    | 203    | 203    | 203    | 202    | 202    | 161    | 161    | 111    | 111    |
| Operating Costs (inc. Previous QLD Royalty) | A\$m  |           | 118    | 118    | 118    | 118    | 118    | 118    | 118    | 118    | 107    | 107    | 107    | 107    | 107    | 107    | 107    | 107    | 107    | 80     | 80     | 47     | 47     |
| Royalties (Updated QLD Royalty)             | A\$m  |           | 0      | 32     | 27     | 19     | 19     | 19     | 19     | 6      | 6      | 6      | 6      | 6      | 6      | 6      | 6      | 6      | 6      | 6      | 6      | 6      | 6      |
| General & Admin Costs & Other               | A\$m  |           | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     |
| EBITDA                                      | A\$m  |           | 230    | 209    | 191    | 170    | 162    | 156    | 147    | 100    | 92     | 90     | 87     | 87     | 86     | 87     | 86     | 85     | 86     | 72     | 72     | 54     | 54     |
| Capex                                       | A\$m  |           | 7      | 7      | 7      | 7      | 7      | 7      | 7      | 7      | 7      | 7      | 7      | 6      | 6      | 6      | 6      | 6      | 6      | 6      | 5      | 5      |        |
| Interest                                    | A\$m  |           | 5      | 1      | 1      | 1      | 1      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| Tax   | A\$m  |           | 67     | 51     | 47     | 43     | 41     | 39     | 37     | 26     | 24     | 24     | 23     | 23     | 23     | 23     | 23     | 23     | 23     | 20     | 20     | 16     | 16     |
| Cash Flow Available for Debt Service        | A\$m  |           | 151    | 150    | 136    | 119    | 114    | 109    | 103    | 66     | 60     | 59     | 56     | 57     | 57     | 57     | 57     | 56     | 57     | 46     | 46     | 33     | 33     |
| Opening Cash Balance                        | A\$m  |           | 19     | 110    | 184    | 296    | 410    | 439    | 545    | 645    | 708    | 629    | 685    | 738    | 790    | 756    | 813    | 870    | 927    | 892    | 938    | 984    | 1017   |
| Blair Athol Prepayment                      | A\$m  |           | 90     |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Opening Debt Balance                        | A\$m  |           | 282    | 132    | 56     | 32     | 27     | 24     | 20     | 17     | 14     | 11     | 8      | 4      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| Repayments                                  | A\$m  |           | 150    | 76     | 24     | 4      | 4      | 3      | 3      | 3      | 3      | 3      | 4      | 4      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| Closing Debt Balance                        | A\$m  |           | 132    | 56     | 32     | 27     | 24     | 20     | 17     | 14     | 11     | 8      | 4      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| Dividend Distribution                       | A\$m  |           |        |        |        |        | 81     |        |        |        | 135    |        |        |        | 92     |        |        |        | 91     |        |        |        | 63     |
| Closing Cash Balance                        | A\$m  |           | 110    | 184    | 296    | 410    | 439    | 545    | 645    | 708    | 629    | 685    | 738    | 790    | 756    | 813    | 870    | 927    | 892    | 938    | 984    | 1017   | 987    |

| TOTAL TER CASHFLOW                          |       | Yearly | FY2022 | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 | FY2028 | FY2029 | FY2030 | FY2031 |
|---|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Exchange Rates                              |       |        |        |        |        |        |        |        |        |        |        |        |
| AUD/USD                                     | x     |        | 0.691  | 0.691  | 0.517  | 0.690  | 0.691  | 0.692  | 0.664  | 0.664  | 0.664  | 0.664  |
| ZAR/USD                                     | x     |        | 0.061  | 0.061  | 0.046  | 0.061  | 0.061  | 0.060  | 0.057  | 0.057  | 0.057  | 0.057  |
| Prices                                      |       |        |        |        |        |        |        |        |        |        |        |        |
| Australia                                   | A\$/t |        | 243    | 323    | 236    | 191    | 191    | 193    | 195    | 195    | 195    | 97     |
| South Africa Export                         | A\$/t |        | 59     | 211    | 191    | 171    | 160    | 152    | 151    | 151    | 151    | 151    |
| South Africa Internal / Eskom               | A\$/t |        | 12     | 49     | 48     | 49     | 50     | 52     | 53     | 54     | 55     | 56     |
| Unit Costs                                  |       |        |        |        |        |        |        |        |        |        |        |        |
| Australia (Includes Previous QLD Royalty)   | A\$/t |        | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     | 82     |
| South Africa                                | A\$/t |        | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     | 48     |
| Production                                  |       |        |        |        |        |        |        |        |        |        |        |        |
| Blair Athol                                 | 000 t |        | 2,683  | 2,680  | 2,680  | 2,680  | 2,680  | 2,680  | 2,680  | 2,680  | 2,680  | 1,340  |
| New Clydesdale Colliery (NCC)               | 000 t |        | 4,125  | 3,660  | 3,660  | 3,660  | 3,660  | 915    | 0      | 0      | 0      | 0      |
| North Block Complex (NBC)                   | 000 t |        | 4,260  | 3,980  | 3,980  | 3,980  | 3,980  | 2,985  | 0      | 0      | 0      | 0      |
| Ubuntu Colliery (NCC)                       | 000 t |        | 1,430  | 1,076  | 1,076  | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| TOTAL ROM Coal Production                   | 000 t |        | 12,498 | 11,396 | 11,396 | 10,320 | 10,320 | 6,580  | 2,680  | 2,680  | 2,680  | 1,340  |
| Sales                                       |       |        |        |        |        |        |        |        |        |        |        |        |
| Blair Athol                                 | 000 t |        | 2,225  | 2,289  | 2,289  | 2,289  | 2,289  | 2,289  | 2,289  | 2,289  | 2,289  | 1,144  |
| New Clydesdale Colliery (NCC)               | 000 t |        | 2,564  | 2,239  | 2,239  | 2,239  | 2,239  | 560    | 0      | 0      | 0      | 0      |
| North Block Complex (NBC)                   | 000 t |        | 2,975  | 2,735  | 2,735  | 2,735  | 2,735  | 2,052  | 0      | 0      | 0      | 0      |
| Ubuntu Colliery (NCC)                       | 000 t |        | 1,056  | 923    | 923    | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| TOTAL Saleable Coal                         | 000 t |        | 8,820  | 8,186  | 8,186  | 7,263  | 7,263  | 4,900  | 2,289  | 2,289  | 2,289  | 1,144  |
| Operating results                           |       |        |        |        |        |        |        |        |        |        |        |        |
| Revenue                                     | A\$m  |        | 1014   | 1243   | 995    | 817    | 811    | 544    | 443    | 443    | 443    | 111    |
| Operating Costs (inc. Previous QLD Royalty) | A\$m  |        | 511    | 473    | 461    | 428    | 428    | 253    | 187    | 187    | 187    | 47     |
| Royalties (Updated QLD Royalty)             | A\$m  |        | 0      | 97     | 49     | 23     | 23     | 23     | 23     | 23     | 23     | 6      |
| General & Admin Costs & Other               | A\$m  |        | 38     | 38     | 38     | 38     | 38     | 38     | 38     | 38     | 38     | 10     |
| EBITDA                                      | A\$m  |        | 466    | 732    | 495    | 351    | 345    | 252    | 218    | 218    | 218    | 54     |
| Capex                                       | A\$m  |        | 29     | 29     | 29     | 28     | 24     | 22     | 20     | 15     | 10     | 3      |
| Interest                                    | A\$m  |        | 13     | 3      | 2      | 1      | 0      | 0      | 0      | 0      | 0      | 0      |
| Tax   | A\$m  |        | 133    | 182    | 127    | 94     | 93     | 71     | 64     | 65     | 67     | 17     |
| Cash Flow Available for Debt Service        | A\$m  |        | 291    | 519    | 338    | 229    | 227    | 159    | 134    | 137    | 141    | 35     |
| Opening Cash Balance                        | A\$m  |        | 3      | 110    | 439    | 629    | 756    | 892    | 987    | 1068   | 1150   | 1234   |
| Opening Debt Balance                        | A\$m  |        | 233    | 132    | 24     | 20     | 17     | 14     | 11     | 8      | 4      | 0      |
| Repayments                                  | A\$m  |        | 255    | 108    | 13     | 11     | 0      | 0      | 0      | 0      | 0      | 0      |
| Closing Debt Balance                        | A\$m  |        | 132    | 24     | 20     | 17     | 14     | 11     | 8      | 4      | 0      | 0      |
| Dividend Distribution                       | A\$m  |        | 0      | 81     | 135    | 92     | 91     | 63     | 53     | 55     | 56     | 14     |
| Closing Cash Balance                        | A\$m  |        | 110    | 439    | 629    | 756    | 892    | 987    | 1068   | 1150   | 1234   | 1256   |
| Dividend Distribution                       |       |        |        |        |        |        |        |        |        |        |        |        |
| Dividend amount                             | A\$m  |        |        | 81     | 135    | 92     | 91     | 63     | 53     | 55     | 56     | 14     |
| Dividend per share                          | A\$   |        |        | 0.10   | 0.17   | 0.11   | 0.11   | 0.08   | 0.07   | 0.07   | 0.07   | 0.02   |

## TABLE OF CONTENTS

|   |           |
|---|-----------|
| <b>1. Developments Post Initiation.....</b>                       | <b>4</b>  |
| Prepayment on Blair Athol Coal .....                              | 4         |
| Blair Athol off-take agreement .....                              | 4         |
| Proposed Coal royalty increase in Queensland.....                 | 5         |
| <b>2. TER Valuation .....</b>                                     | <b>6</b>  |
| TER Valuation .....   | 6         |
| Revised Commodity Outlook .....                                   | 7         |
| Sensitivity Analysis on Reserves and Resources Case.....          | 9         |
| Sensitivity Analysis on Reserves, Resources & Measured Case ..... | 10        |
| <b>3. TerraCom Assets .....</b>                                   | <b>12</b> |
| TER Base Case.....  | 12        |
| Corporate Tax & Royalty Rates .....                               | 14        |
| Financial Position .....  | 14        |
| Cash.....   | 14        |
| Debt.....   | 14        |
| <b>4. Investment Risks .....</b>                                  | <b>15</b> |

**All currencies are in Australian dollars unless otherwise specified.**

## 1. Developments Post Initiation

Since our initiation, TerraCom has been very active both commercially and technically, below we summarise the key changes / updates we have factored into our model.

### Prepayment on Blair Athol Coal

On the 28<sup>th</sup> February 2022 TerraCom announced that it had signed a binding prepayment term sheet for US\$60 million and 600,000 tonnes of coal.

The key terms of the prepayment agreement were:

- Prepayment amount of US\$60 million;
- Coal sales off-take agreement for 600,000 tonnes, with pricing based on and linked to the API4 Index at the time of delivery. Delivery is during the period 1 June 2022 to 31 May 2023;
- Interest rate fixed at 8% per annum; and
- Prepayment repaid through the delivery of coal via the coal sales off-take agreement.

Prepayments to the total of US\$60m was paid to TER in April and May 2022 corresponding with payments to the Euroclear bond facility. Note we assume that interest is capitalised in this scenario.

Table 1.1 highlights the production/delivery and repayment schedule for the repay amount. It is important to highlight that since this coal has been prepaid, we have recognised this prepayment as a debt on the balance sheet and during the course of the delivery TER will reduce the outstanding debt amount.

Due the excellent current coal prices, on our numbers, TerraCom will fully repay the prepay facility by its third cargo, due in November 2022.

**Table 1.1 – US\$60m Prepay Facility Schedule**

|                                      | Jul-2022 | Sep-2022 | Nov-2022 | Jan-2023 | Mar-2023 | May-2023 |
|--------------------------------------|----------|----------|----------|----------|----------|----------|
| Tonnes                               | 100,000  | 100,000  | 100,000  | 100,000  | 100,000  | 100,000  |
| Price (US\$/t)                       | 247      | 247      | 231      | 211      | 211      | 203      |
| Total Sales (US\$m)                  | 25       | 25       | 23       | 21       | 21       | 20       |
| Opening Prepay Debt Balance (US\$m)  | 62.4     | 38.25    | 13.77    |          |          |          |
| Repayment from Sales of Coal (US\$m) | 24.7     | 24.7     | 13.77    |          |          |          |
| Interest Payable (US\$m)             | 0.3      | 0.094    | 0        |          |          |          |
| Closing Prepay Debt Balance (US\$m)  | 37.99    | 13.68    | 0        |          |          |          |

Source: Evolution Capital estimates

### Blair Athol off-take agreement

On the 16<sup>th</sup> June 2022 TerraCom announced that it had reached an off-take agreement of up to 1.25mt over 13 months with its long term Japanese trading partner.

The key terms of the prepayment agreement were

- One (1) cargo per month during the Off-take Term;
- Each cargo to deliver between 67,000 and 88,000 tonnes (+/- 10%), subject to the tonnage as nominated by the off-take partner;
- Total tonnes to be delivered between 0.78 and 1.25 million tonnes over the Off-take Term; and
- Pricing linked to the globalCOAL Newcastle Index.

Table 1.2 highlights our assumed delivery schedule, amounts and pricing. We have assumed that TER receives market prices based on our forward curves.

**Table 1.2 – Blair Athol Off-take Agreement**

|                   | Aug-2022 | Sep-2022 | Oct-2022 | Nov-2022 | Dec-2022 | Jan-2023 | Feb-2023 | Mar-2023 | Apr-2023 | May-2023 | Jun-2022 | Jul-2022 | Aug-2022 |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Tonnes            | 88,000   | 88,000   | 88,000   | 88,000   | 88,000   | 88,000   | 88,000   | 88,000   | 88,000   | 88,000   | 88,000   | 88,000   | 88,000   |
| Price US\$/t      | 359      | 359      | 335      | 335      | 335      | 304      | 304      | 304      | 293      | 293      | 293      | 283      | 283      |
| Total Sales US\$m | 31.6     | 31.6     | 29.5     | 29.5     | 29.5     | 26.7     | 26.7     | 26.7     | 25.8     | 25.8     | 25.8     | 24.9     | 24.9     |

Source: Evolution Capital estimates

### Proposed Coal Royalty Increase in Queensland

On the 21<sup>st</sup> of June 2022 Queensland Treasurer, Cameron Dick, released the updated state budget. Most relevant for TerraCom was the proposed coal royalty increases for all projects operating in Queensland. The new scheme would see three new tiers added to the coal royalty system, which is currently capped at 15% for prices above \$150 per tonne.

From 1 July 2022, new tiers would apply of 20% for prices above \$175 per tonne, 30% for prices above \$225 per tonne, and 40% for prices above \$300 per tonne.

Existing royalty:

- 7% for prices up to and including A\$100/t,
- 12.5% for prices between A\$100/t – A\$150/t,
- 15% for prices above A\$150/t,

Additional new tiers:

- 20% for prices above A\$175/t,
- 30% for prices above A\$225/t,
- 40% for prices above A\$300/t,

By way of example. If the average price received is above A\$225/t:

- If the average price is more than \$100 but not more than \$150;
  - First \$100 – 7% of value
  - Balance – 12.5% of value
- If the average price is \$175
  - First \$100 – 7% of value
  - Next \$50 – 12.5% of value
  - Next \$25 – 20% of value
- If the average price is \$225
  - First \$100 – 7% of value
  - Next \$50 – 12.5% of value
  - Next \$25 – 20% of value
  - Next \$50 – 30% of value
- If the average price is above \$225
  - First \$100 – 7% of value
  - Next \$50 – 12.5% of value
  - Next \$25 – 20% of value
  - Next \$50 – 30% of value
  - Reminder – 40% of value

According to TerraCom, the operating costs provided in the company's ASX announcements are inclusive of the Existing Royalty Regime, however we have factored in the updated royalty costs into our model which are applicable only to Blair Athol and not the South African assets. The increased costs to the Blair Athol project due to the updated royalty comes to A\$288.6m over the life of the project.

## 2. TER Valuation

### TER Valuation

Table 2.1 is our risked sum-of-the-parts valuation of TER. This underpins our Base Case of A\$1.71/share and Expansion Case of A\$2.67/share respectively, representing a 2.9x uplift to the current share price.

The valuation consists of:

1. Production of Reserves and Resources encompassing Blair Athol, New Clydesdale Colliery, North Block Complex and Ubuntu Colliery;
2. Measured development case encompassing all producing assets;
3. Risked NPV's of all other TER Coal assets; and
4. Net cash position, corporate and overhead costs.

**Table 2.1 – TER Valuation Summary**

| Scenario / Item                | Unit             | Base Case         | Expansion Case               |
|--------------------------------|------------------|-------------------|------------------------------|
|                                |                  | Proved + Probable | Proved + Probable + Measured |
| Operations                     |                  |                   |                              |
| ROM Coal Production AUS        | Mt               | 22.1              | 47.9                         |
| ROM Coal Production SA         | Mt               | 34.4              | 114.0                        |
| <b>Total ROM</b>               | <b>Mt</b>        | <b>56.5</b>       | <b>161.9</b>                 |
| Total Coal Sales AUS           | Mt               | 18.9              | 40.9                         |
| Total Coal Sales SA            | Mt               | 22.9              | 77.2                         |
| <b>Total Sales</b>             | <b>Mt</b>        | <b>41.8</b>       | <b>118.1</b>                 |
| Run Rate (ROM)                 |                  |                   |                              |
| Blair Athol                    | Mtpa             | 2.8               | 2.8                          |
| New Clydesdale Colliery        | Mtpa             | 3.7               | 3.7                          |
| North Block Complex            | Mtpa             | 4.0               | 4.0                          |
| Ubuntu Colliery                | Mtpa             | 1.1               | 1.1                          |
| Commodity Prices*              |                  |                   |                              |
| AUS Coal to market             | p/t              | 191.5             | 191.5                        |
| SA coal to market (Internal)   | p/t              | 52.1              | 52.1                         |
| SA coal to market (External)   | p/t              | 162.2             | 162.2                        |
| USD / AUD Exchange rate        |                  | 0.67              | 0.67                         |
| USD / ZAR Exchange rate        |                  | 0.06              | 0.06                         |
| Revenue, Opex, Royalty & Capex |                  |                   |                              |
| Total Revenue                  | A\$m             | 6,468             | 14,969                       |
| Total Opex**                   | A\$m             | 2,894             | 7,291                        |
| Update QLD Royalty             | A\$m             | 289               | 509                          |
| Ongoing Capex                  | A\$m             | 193               | 341                          |
| NPV's                          |                  |                   |                              |
| Blair Athol NPV                | A\$m             | 952               | 1,364                        |
| South Africa NPV (see note)    | A\$m             | 325               | 769                          |
| Springsure (AUS)***            | A\$m             | 22                | 22                           |
| Hughenden (AUS)***             | A\$m             | 161               | 161                          |
| Clyde Park (AUS)***            | A\$m             | 102               | 102                          |
| Kangala (SA)**                 | A\$m             | 8                 | 8                            |
| NCC (SA)**                     | A\$m             | 6                 | 6                            |
| NBC (SA)**                     | A\$m             | 4                 | 4                            |
| Ubuntu & Berenice (SA)***      | A\$m             | 5                 | 5                            |
| <b>TOTAL</b>                   | <b>A\$m</b>      | <b>1,584</b>      | <b>2,442</b>                 |
| Corporate and Overhead         | A\$m             | (197)             | (292)                        |
| Cash (at 30 Jun 2022)****      | A\$m             | 109.7             | 109.7                        |
| Debt (at 30 Jun 2022)****      | A\$m             | (131.7)           | (131.7)                      |
| <b>Total NPV</b>               | <b>A\$m</b>      | <b>1,365.8</b>    | <b>2,127.7</b>               |
| <b>Total per share</b>         | <b>A\$/share</b> | <b>1.71</b>       | <b>2.67</b>                  |

Source: Evolution Capital estimates.

Note: South African asset NPVs are 49% of the total value of South Africa business

\* 5 Year Average

\*\* Includes previous QLD Royalty

\*\*\* Resource Upside

\*\*\*\* Estimate of position at end June 2022

The total risked sum of the parts is \$1,365.8m or A\$1.71/share.

We view that the Australian market is factoring a discount to TER due to the current political climate towards thermal coal, particularly with the significant announcement regarding the modification of the Queensland royalty regime. This represents a significant opportunity for buyers to get into a company with substantial production, upcoming dividend and a currently low valuation. We view that, as TER continues to perform well, this discount will dissipate.

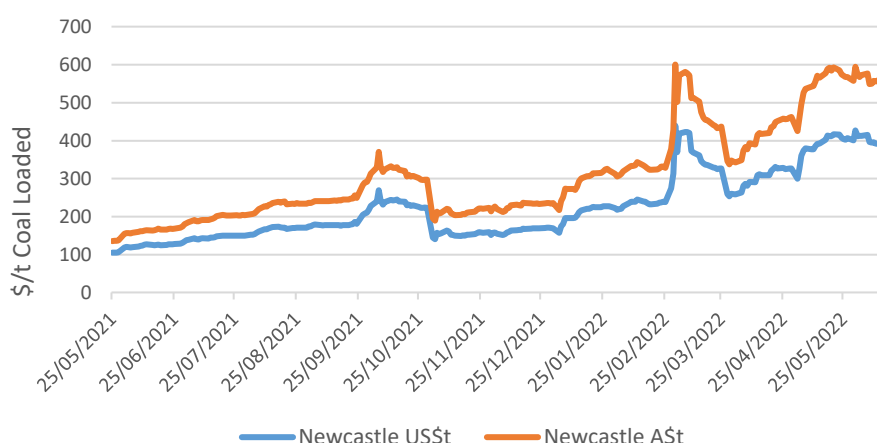
We have modeled the development cases highlighted above based on the scenarios discussed further in this note.

## Revised Commodity Outlook

Figure 2.1 highlights the Newcastle coal index, which forms the benchmark for TER sales from Blair Athol. It is only fairly recently, start 2022, that the price has made significant gains, reaching a previous peak of just over A\$600/tonne in February 2022 and now sitting at ~A\$550/tonne.

Blair Athol thermal coal generally has a lower energy value than the Newcastle Index (~5,500kcal/kg v 6,000kcal/kg). Consequently we assume that TER receive 15% discount to the index.

**Figure 2.1 – Newcastle Thermal Coal Price \$/t**

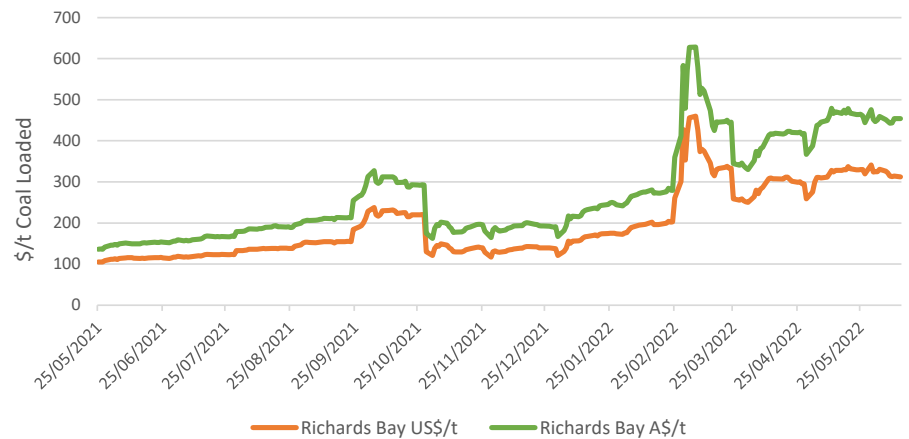


Source: Bloomberg (25/06/2022)

Figure 2.2 highlights the Richards Bay coal index, which forms the benchmark for TER's export sales from its South African operations. Like with the Newcastle coal index It is only fairly recently, beginning 2022 that the price has made significant gains, reaching peak of ~A\$620/tonne in February 2022 and now sitting above A\$450/tonne.

TER's operations in South Africa are focused on producing coal for domestic power consumption with contracts secured with Eskom, the South African public utility and largest producer of electricity in Africa. On our numbers export coal forms ~23%, of TER's African operations. Historically exports in South Africa were reduced due to Transnet (South Africa government owned rail provider) not providing the raiing capacity required to producers. If this was to normalise TER would have the ability to increase export volumes.

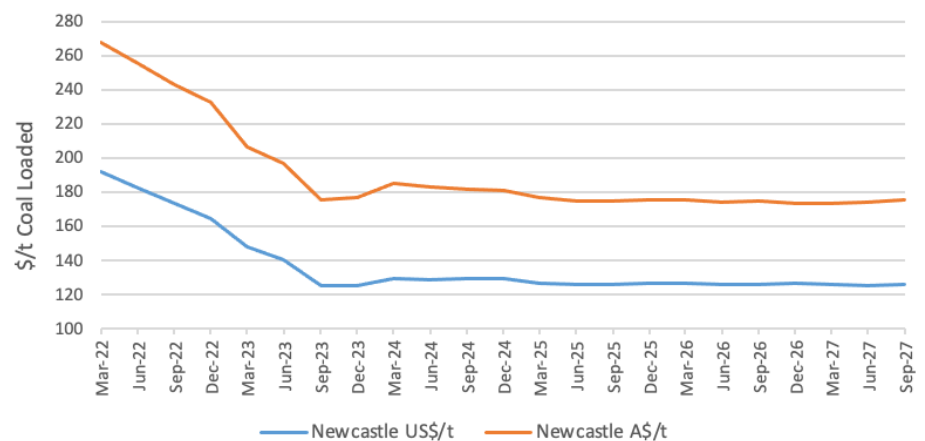
**Figure 2.2 – Richards Bay Thermal Coal Price \$/t**



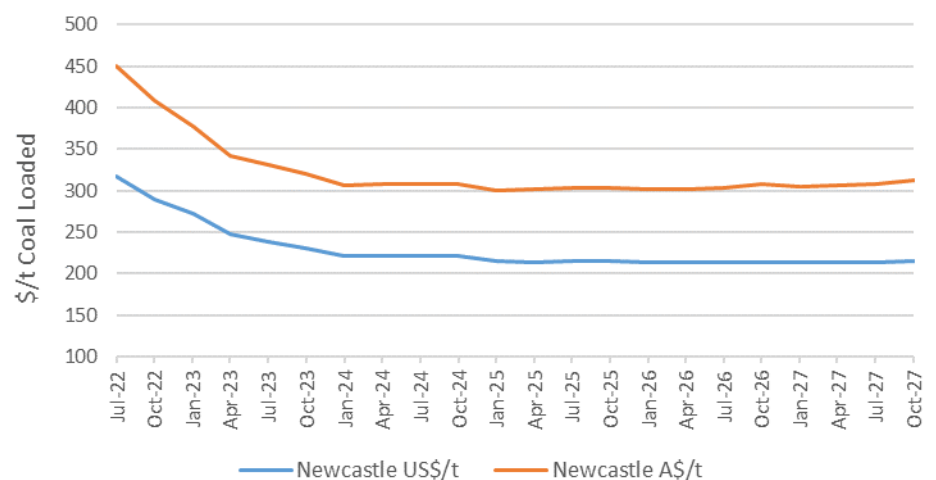
Source: Bloomberg (25/06/2022)

As highlighted in Figure 2.3, the performance and outlook for Newcastle Futures has been outstanding. The first graph highlights the prices used in our initiation note (~A\$170/tonne) while the second graph demonstrates the updated Newcastle Futures price used (~A\$300/tonne).

**Figure 2.3 – Newcastle Futures Thermal Coal Price \$/t**



Source: Bloomberg March 2022.

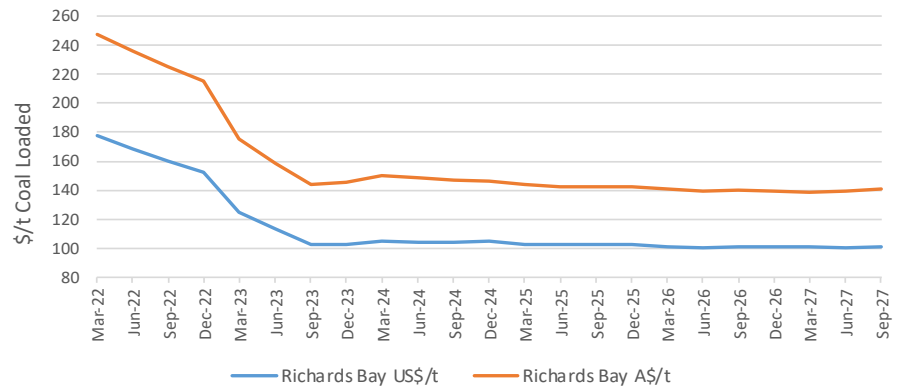


Source: Bloomberg June 2022.

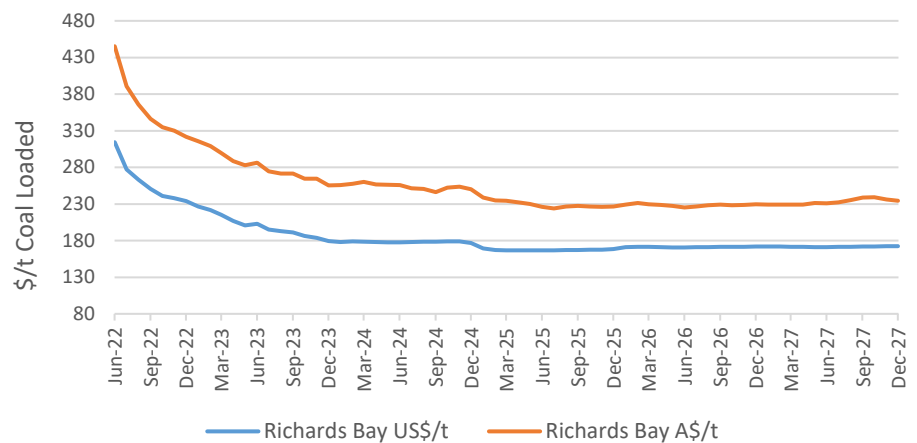


As highlighted in Figure 2.4, the performance and outlook for Richards Bay Futures has also been outstanding. The first graph highlights the prices used in our initiation note (~A\$140/tonne) with the second graph demonstrating the updated Newcastle Futures price used (~A\$230/tonne).

**Figure 2.4 – Richards Bay Futures Thermal Coal Price \$/t**



Source: Bloomberg March 2022.



Source: Bloomberg June 2022

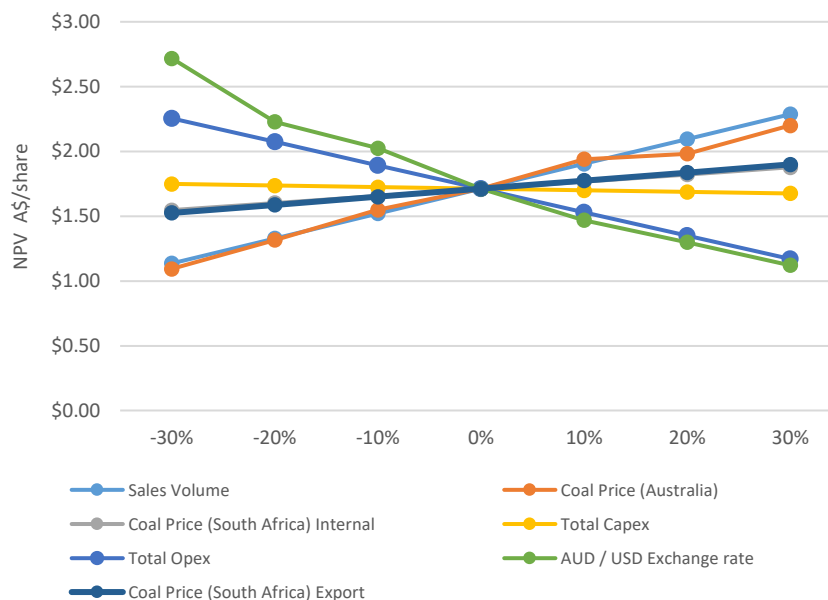
Our analysis incorporates a flat 15% discount on the selected export coal price due to quality of the thermal coal v Benchmark. Also, due to the recent severity of fluctuations of the forward curves we have adjusted the long term coal prices to longer term historical averages of the index at ~US\$215/t. Note, as these discounts change so will revenue and value received by TER.

### Sensitivity Analysis on Reserves and Resources Case

Figure 2.5 highlights the sensitivity of the TER share price on the ROM base production case (56.5Mt) with higher/lower Australian & South African international & domestic coal prices, reduced and increased capex, opex & volumes produced and variances in AUD/USD and ZAR/USD exchange rates.

The base valuation comes in at \$1,365.8m, or A\$1.71/share. As shown Figure 2.5 TER's valuation is most sensitive to AUD/USD exchange rate, operating costs and the Australian export coal price received. Positively we see that capital expenditure variations have a minimal impact on the company's share valuation.

**Figure 2.5 – Reserves and Resources Case Sensitivity Analysis**



Source: Evolution Capital estimates

Table 2.2 highlights the change in NPV for movements on each variable.

**Table 2.2 – Reserves and Resources Case Sensitivity Analysis**

| Movement                                  | -30%   | -20%   | -10%   | 0%     | 10%    | 20%    | 30%    |
|---|--------|--------|--------|--------|--------|--------|--------|
| <b>Sales Volume</b>                       |        |        |        |        |        |        |        |
| Mt  | 29.2   | 33.4   | 37.6   | 41.8   | 45.9   | 50.1   | 54.3   |
| NPV A\$m                                  | 907.1  | 1060.0 | 1212.9 | 1365.8 | 1518.7 | 1671.6 | 1824.5 |
| NPV cps                                   | 1.14   | 1.33   | 1.52   | 1.71   | 1.90   | 2.10   | 2.29   |
| <b>Coal Price (Australia)</b>             |        |        |        |        |        |        |        |
| A\$/t                                     | 134.0  | 153.2  | 172.3  | 191.5  | 210.6  | 229.8  | 248.9  |
| NPV A\$m                                  | 872.4  | 1050.2 | 1236.1 | 1365.8 | 1547.2 | 1580.7 | 1755.4 |
| NPV cps                                   | 1.09   | 1.32   | 1.55   | 1.71   | 1.94   | 1.98   | 2.20   |
| <b>Coal Price (South Africa) Internal</b> |        |        |        |        |        |        |        |
| A\$/t                                     | 36.5   | 41.7   | 46.9   | 52.1   | 57.3   | 62.5   | 67.7   |
| NPV A\$m                                  | 1234.0 | 1277.9 | 1321.9 | 1365.8 | 1409.8 | 1453.7 | 1497.7 |
| NPV cps                                   | 1.55   | 1.60   | 1.66   | 1.71   | 1.77   | 1.82   | 1.88   |
| <b>Coal Price (South Africa) Export</b>   |        |        |        |        |        |        |        |
| A\$/t                                     | 113.5  | 129.7  | 145.9  | 162.2  | 178.4  | 194.6  | 210.8  |
| NPV A\$m                                  | 1216.9 | 1266.5 | 1316.2 | 1365.8 | 1415.5 | 1465.1 | 1514.8 |
| NPV cps                                   | 1.53   | 1.59   | 1.65   | 1.71   | 1.77   | 1.84   | 1.90   |
| <b>Total Capex</b>                        |        |        |        |        |        |        |        |
| A\$/m                                     | 135.4  | 154.8  | 174.1  | 193.5  | 212.8  | 232.2  | 251.5  |
| NPV A\$m                                  | 1394.9 | 1385.2 | 1375.5 | 1365.8 | 1356.2 | 1346.5 | 1336.8 |
| NPV cps                                   | 1.75   | 1.74   | 1.72   | 1.71   | 1.70   | 1.69   | 1.68   |
| <b>Total Opex</b>                         |        |        |        |        |        |        |        |
| A\$/m                                     | 2026   | 2315   | 2605   | 2894   | 3184   | 3473   | 3762   |
| NPV A\$m                                  | 1798.6 | 1654.3 | 1510.1 | 1365.8 | 1221.6 | 1077.3 | 933.1  |
| NPV cps                                   | 2.25   | 2.07   | 1.89   | 1.71   | 1.53   | 1.35   | 1.17   |
| <b>AUD / USD Exchange rate</b>            |        |        |        |        |        |        |        |
| AUD / USD                                 | 0.47   | 0.54   | 0.61   | 0.67   | 0.74   | 0.81   | 0.88   |
| NPV A\$m                                  | 2168.3 | 1777.9 | 1615.4 | 1365.8 | 1172.6 | 1036.2 | 894.6  |
| NPV cps                                   | 2.72   | 2.23   | 2.02   | 1.71   | 1.47   | 1.30   | 1.12   |
| <b>ZAR / USD Exchange rate</b>            |        |        |        |        |        |        |        |
| ZAR / USD                                 | 0.040  | 0.046  | 0.052  | 0.058  | 0.064  | 0.069  | 0.075  |
| NPV A\$m                                  | 1234.0 | 1277.9 | 1321.9 | 1365.8 | 1409.8 | 1453.7 | 1497.7 |
| NPV cps                                   | 1.55   | 1.60   | 1.66   | 1.71   | 1.77   | 1.82   | 1.88   |

Source: Evolution Capital estimates

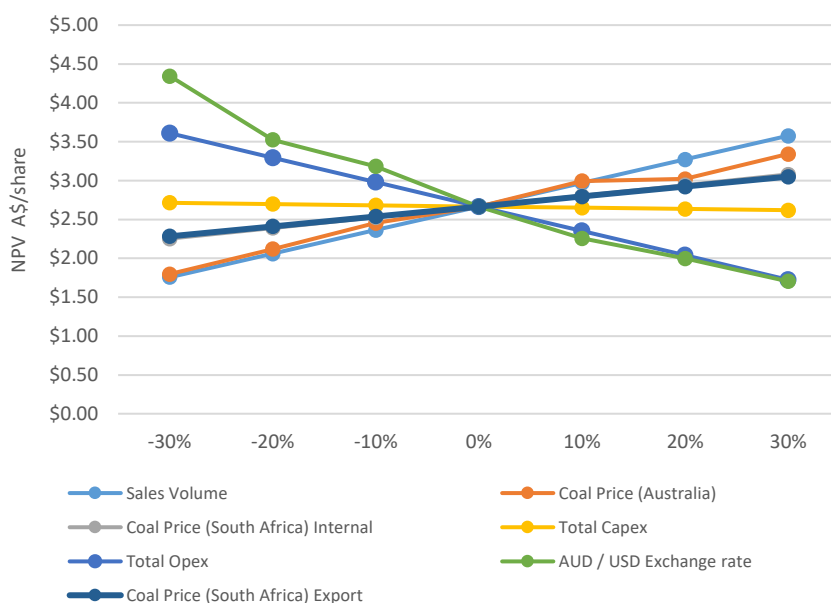
### Sensitivity Analysis on Reserves, Resources & Measured Case

Figure 2.6 highlights the sensitivity of the TER share price on the expansion production case (161Mt) with higher/lower Australian & South African

international & domestic coal prices, reduced and increased capex, opex & volumes produced and variances in AUD/USD - ZAR/USD exchange rates.

The expansion valuation comes in at \$2,127.7m, or A\$2.67/share. As shown Figure 2.6 TER's valuation is most sensitive to AUD/USD exchange rate, operating costs and the Australian export coal price received. Positively we see that capital expenditure variations have a minimal impact on the company's share valuation.

**Figure 2.6 – Reserves, Resources & Measured Case Sensitivity Analysis**



Source: Evolution Capital estimates.

Table 2.3 highlights the change in NPV for movements on each variable.

**Table 2.3 – Reserves, Resources & Measured Case Sensitivity Analysis**

| Movement                                  | -30%   | -20%   | -10%   | 0%     | 10%    | 20%    | 30%    |
|---|--------|--------|--------|--------|--------|--------|--------|
| <b>Sales Volume</b>                       |        |        |        |        |        |        |        |
| MT  | 82.7   | 94.5   | 106.3  | 118.1  | 129.9  | 141.7  | 153.5  |
| NPV A\$m                                  | 1402.6 | 1644.3 | 1886.0 | 2127.7 | 2369.4 | 2611.1 | 2852.8 |
| NPV cps                                   | 1.76   | 2.06   | 2.36   | 2.67   | 2.97   | 3.27   | 3.58   |
| <b>Coal Price (Australia)</b>             |        |        |        |        |        |        |        |
| A\$/t                                     | 134.0  | 153.2  | 172.3  | 191.5  | 210.6  | 229.8  | 248.9  |
| NPV A\$m                                  | 1433.5 | 1692.1 | 1959.0 | 2127.7 | 2390.0 | 2410.3 | 2665.9 |
| NPV cps                                   | 1.80   | 2.12   | 2.46   | 2.67   | 3.00   | 3.02   | 3.34   |
| <b>Coal Price (South Africa) Internal</b> |        |        |        |        |        |        |        |
| A\$/t                                     | 36.5   | 41.7   | 46.9   | 52.1   | 57.3   | 62.5   | 67.7   |
| NPV A\$m                                  | 1798.3 | 1908.1 | 2017.9 | 2127.7 | 2237.5 | 2347.4 | 2457.2 |
| NPV cps                                   | 2.25   | 2.39   | 2.53   | 2.67   | 2.80   | 2.94   | 3.08   |
| <b>Coal Price (South Africa) Export</b>   |        |        |        |        |        |        |        |
| A\$/t                                     | 113.5  | 129.7  | 145.9  | 162.2  | 178.4  | 194.6  | 210.8  |
| NPV A\$m                                  | 1821.9 | 1923.8 | 2025.8 | 2127.7 | 2229.7 | 2331.6 | 2433.6 |
| NPV cps                                   | 2.28   | 2.41   | 2.54   | 2.67   | 2.79   | 2.92   | 3.05   |
| <b>Total Capex</b>                        |        |        |        |        |        |        |        |
| A\$/m                                     | 238.5  | 272.6  | 306.7  | 340.8  | 374.8  | 408.9  | 443.0  |
| NPV A\$m                                  | 2166.0 | 2153.3 | 2140.5 | 2127.7 | 2115.0 | 2102.2 | 2089.4 |
| NPV cps                                   | 2.71   | 2.70   | 2.68   | 2.67   | 2.65   | 2.63   | 2.62   |
| <b>Total Opex</b>                         |        |        |        |        |        |        |        |
| A\$/m                                     | 5104   | 5833   | 6562   | 7291   | 8020   | 8749   | 9478   |
| NPV A\$m                                  | 2878.7 | 2628.4 | 2378.1 | 2127.7 | 1877.4 | 1627.1 | 1376.8 |
| NPV cps                                   | 3.61   | 3.29   | 2.98   | 2.67   | 2.35   | 2.04   | 1.73   |
| <b>AUD / USD Exchange rate</b>            |        |        |        |        |        |        |        |
| AUD / USD                                 | 0.47   | 0.54   | 0.61   | 0.67   | 0.74   | 0.81   | 0.88   |
| NPV A\$m                                  | 3465.1 | 2812.6 | 2540.4 | 2127.7 | 1801.1 | 1595.3 | 1359.7 |
| NPV cps                                   | 4.34   | 3.53   | 3.18   | 2.67   | 2.26   | 2.00   | 1.70   |
| <b>ZAR / USD Exchange rate</b>            |        |        |        |        |        |        |        |
| ZAR / USD                                 | 0.040  | 0.046  | 0.052  | 0.058  | 0.064  | 0.069  | 0.075  |
| NPV A\$m                                  | 1798.3 | 1908.1 | 2017.9 | 2127.7 | 2237.5 | 2347.4 | 2457.2 |
| NPV cps                                   | 2.25   | 2.39   | 2.53   | 2.67   | 2.80   | 2.94   | 3.08   |
|   | 82.7   | 94.5   | 106.3  | 118.1  | 129.9  | 141.7  | 153.5  |
|   | 1402.6 | 1644.3 | 1886.0 | 2127.7 | 2369.4 | 2611.1 | 2852.8 |

Source: Evolution Capital estimates

### 3. TerraCom Assets

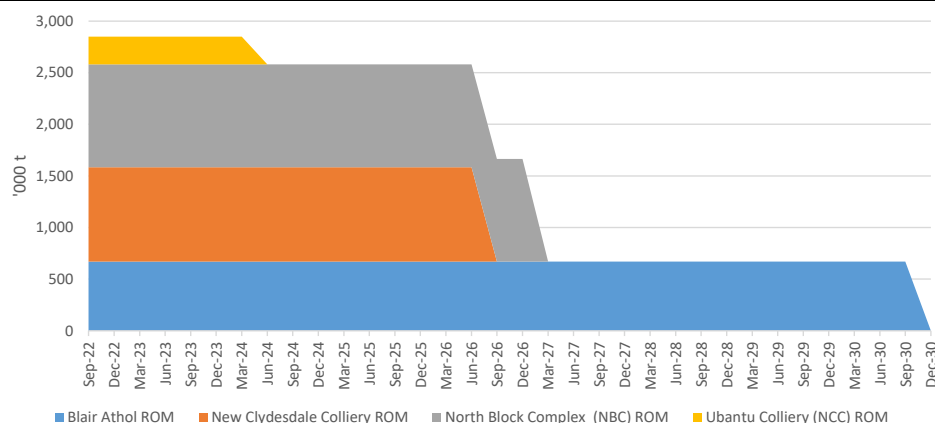
#### TER Base Case

The TerraCom base case assumes that the company is successful in developing its Proved & Probable Reserves. The base case delivers production of:

| Scenario / Item July 2022 Onwards | Unit          | Base Case     |
|-----------------------------------|---------------|---------------|
| <b>Operations</b>                 |               |               |
| Blair Athol ROM                   | '000 t        | 22,110        |
| New Clydesdale Colliery ROM       | '000 t        | 14,640        |
| North Block Complex (NBC) ROM     | '000 t        | 17,910        |
| Ubuntu Colliery (NCC) ROM         | '000 t        | 1,883         |
| <b>Total production</b>           | <b>'000 t</b> | <b>56,543</b> |

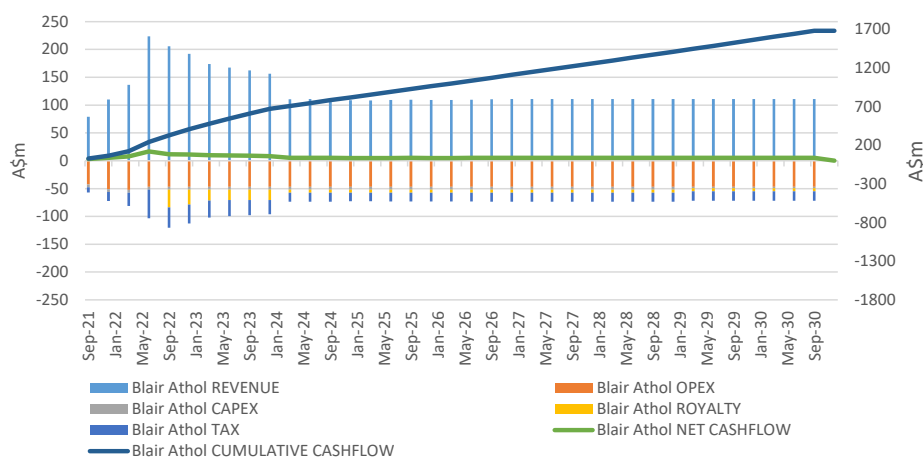
In the Base Case scenario, we assume that a total of \$2.89b of opex and \$193m of capex is spent over the production life of TER's assets. The assets produced in this scenario are Blair Athol, New Clydesdale Colliery, North Block Complex and Ubuntu Colliery.

**Figure 3.1 – TER Base Case Production**



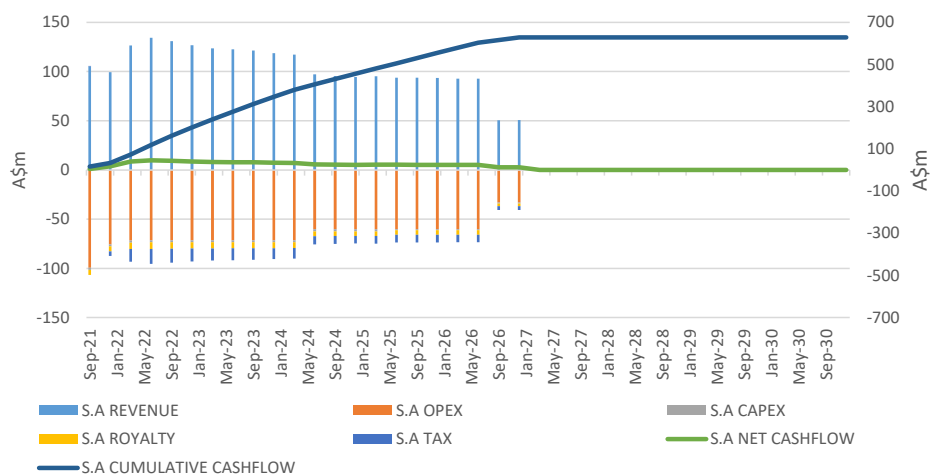
Source: Evolution Capital estimates

**Figure 3.2 – TER Blair Athol Base Case Cashflow**



Source: Evolution Capital estimates

**Figure 3.3 – TER South Africa Base Case Cashflow**



Source: Evolution Capital estimates

As shown in Figures 3.1, 3.2 and 3.3, if TER continues at steady rate production it will exhaust its South African assets by early 2027 with Blair Athol finishing by 2030 year end.

## Corporate Tax & Royalty Rates

TER is subject to two separate tax and royalty regime's. In South Africa the maximum royalty for coal is 7.5%, we assume 5%. In Australia the royalty rate for coal is calculated by reference to the average price per tonne of the coal sold, by a producer in relation to a particular mining operation. As mentioned previously, this has recently changed with the changes reflected below as follows:

Existing royalty:

- 7% for prices up to and including A\$100/t,
- 12.5% for prices between A\$100/t – A\$150/t,
- 15% for prices above A\$150/t,

Additional new tiers:

- 20% for prices above A\$175/t,
- 30% for prices above A\$225/t,
- 40% for prices above A\$300/t,

Corporate tax rates for applied are 30% for Australia and 28% for South Africa.

## Financial Position

### Cash

On our estimates TER has \$109m in cash at the end of June 2022.

### Debt

Since Initiation TER has significantly reduced its debt position from an estimated A\$202m to A\$131.7m as per our estimates as at end of June 2022.

The outstanding debt are loans due to Standard bank of South Africa and State bank of India.

This debt amount also incorporates the US\$60m prepay (~A\$90m).

In our view this debt position can be easily managed by TerraCom going forward.

## 4. Investment Risks

TER is exposed to a number of risks including:

- **Material Business Risks:** The international scope of TerraCom's operations, the nature of the thermal coal industry and external economic factors mean that a range of factors may impact results. Material macro-economic risks that could impact the Company's results and performance include Coal commodity prices, exchange rates and global factors affecting capital markets and the availability of financing.
- **Technical Risk:** Thermal coal exploration and production is speculative by nature and therefore carries a degree of risk associated with the discovery of volumes in commercial quantities. Exploration activity may be adversely influenced by a number of different factors including, amongst other things, new subsurface geological and geophysical data, drilling results including the presence, prevalence and composition of underlying resource, force majeure circumstances, drilling cost overruns for unforeseen subsurface operating conditions or unplanned events or equipment difficulties, changes to resource estimates, lack of availability of mining equipment and other integral exploration equipment and services
- **Operational Risk:** Successful production operations are still subject to a range of risks and uncertainties. These risks and uncertainties in part relate to the estimated quantities of coal that may potentially be recovered. They also relate to the costs involved of asset development and subsequent production, which are subject to a range of qualifications, assumptions and limitations. They also relate to the timing of project development and subsequent production, which is subject to a range of factors many of which are not within TerraCom's control.
- **Government and Regulator Risk:** TerraCom's rights, obligations and commercial arrangements through all stages of the coal lifecycle (exploration, development, production) in permits are commonly defined in agreements entered into with the relevant country's Government as well as in the Country's petroleum, tax and emission related legislation and other laws. These agreements and laws are at risk of amendment by a Government which accordingly could materially impact on TerraCom's rights and commercial arrangements adversely. Furthermore, due to the evolving nature of exploration work programs (as new technical data becomes available) and due to the fluctuating availability of mining equipment and services, TerraCom's may seek to negotiate variations to permit agreements in particular in relation to the duration of the exploration phase in the permit and the work program commitments.
- **Environmental Risks:** Coal operations have inherent risks and liabilities associated with ensuring operations are carried out in a manner that is responsible to the environment. Although TerraCom operates within the prevailing environmental laws and regulations, such laws and regulations are continually changing and as such, TerraCom could be subject to changing obligations or unanticipated environmental incidents that, as a result, could impact costs, provisions and other facets of TerraCom's operations
- **Resource Risk:** all resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates, which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate.
- **Commodity Price Risk:** the revenues TerraCom will derive mainly through the sale of Coal exposing the potential income to thermal coal price risk. The price of coals fluctuate and are affected by many factors beyond the control of TerraCom. Such factors include supply and

demand fluctuations, technological advancements and macro-economic factors.

- **Exchange Rate Risk:** The revenue TerraCom derives from the sale of coal exposes the potential income to exchange rate risk. International prices of coal as well some of the costs base are denominated in United States dollars, whereas the financial reporting currency of TerraCom is the Australian dollar, exposing the company to the fluctuations and volatility of the rate of exchange between the USD and the AUD and the ZAR as determined by international markets.
- **Management and Labour Risk:** an experienced and skilled management team is essential to the successful development and operation of coal projects.

#### Evolution Capital Pty Ltd

Level 6, 1 Castlereagh Street  
Sydney, NSW 2000  
Tel: +61 2 8379 2961  
[www.eveq.com](http://www.eveq.com)

## Disclosure & Disclaimer

Evolution Capital Pty Ltd (ACN 652 397 263) ("Evolution Capital") is a corporate Authorised Representative (number 1293314) of Amplus Global Pty Ltd (ACN 162 631 325), the holder of Australian Financial Services Licence number 505929.

The information contained in this report is only intended for the use of those persons who satisfy the Wholesale definition, pursuant to Section 761G and Section 761GA of the Corporations Act 2001 (Cth) ("the Act"). Persons accessing this information should consider whether they are wholesale clients in accordance with the Act before relying on any information contained

Any financial product advice provided in this report is general in nature. Any content in this report does not take into account the objectives, financial situation or needs of any person, or purport to be comprehensive or constitute investment advice and should not be relied upon as such. You should consult a professional adviser to help you form your own opinion of the information and on whether the information is suitable for your individual objectives and needs as an investor.

The content of this report does not constitute an offer by any representative of Evolution Capital to buy or sell any financial products or services. Accordingly, reliance should not be placed solely on the content of this report as the basis for making an investment, financial or other decision.

Recipients should not act on any report or recommendation issued by Evolution Capital without first consulting a professional adviser in order to ascertain whether the recommendation (if any) is appropriate, having regard to their investment objectives, financial situation and particular needs. Any opinions expressed are subject to change without notice and may not be updated by Evolution Capital.

Evolution Capital believes the information contained in this report is correct. All information, opinions, conclusions and estimates that are provided are included with due care to their accuracy; however, no representation or warranty is made as to their accuracy, completeness, or reliability.

Evolution Capital disclaims all liability and responsibility for any direct or indirect loss, or damage, which may be incurred by any recipient through any information, omission, error, or inaccuracy contained within this report.

The views expressed in this report are those of the representative who wrote or authorised the report and no part of the compensation received by the representative is directly related to the inclusion of specific recommendations or opinions.

Evolution Capital and / or its associates may hold interests in the entities mentioned in any posted report or recommendation. Evolution Capital, or its representatives, may have relationships with the companies mentioned in this report – for example, acting as corporate advisor, dealer, broker, or holder of principal positions. Evolution Capital and / or its representatives may also transact in those securities mentioned in the report, in a manner not consistent with recommendations made in the report.

Any recommendations or opinions stated in this report are done so based on assumptions made by Evolution Capital.

The information provided in this report and on which it is based may include projections and / or estimates which constitute forward-looking statements. These expressed beliefs of future performance, events, results, or returns may not eventuate and as such no guarantee of these future scenarios is given or implied by Evolution Capital. Any forward looking statements are subject to uncertainties and risks that may mean those forecasts made by Evolution Capital are materially different to actual events. As such, past performance is not an indicator of future performance.