

ASX: TER

Equity Research

6th October 2022

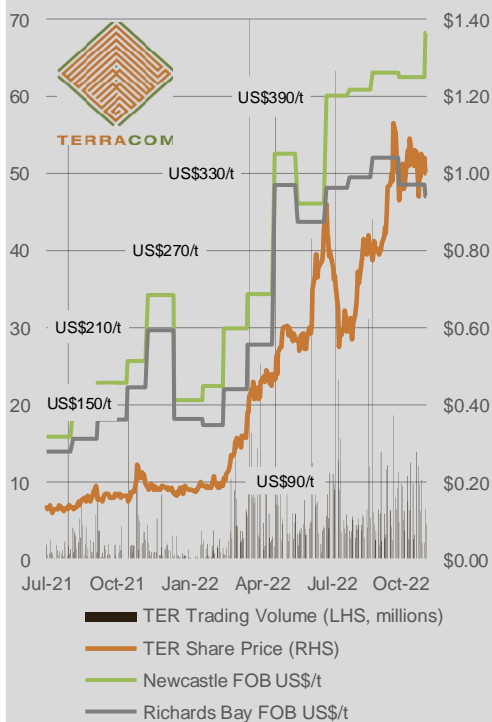
BUY

Share Price **\$1.00**
Price Target **\$1.87**

52-Week Range	\$0.105 - \$1.15
Shares Outstanding	799.5m
Market Capitalisation	A\$779.5m
Cash (30 Jun 2022)	A\$69.6m
+49% of \$32.7m in South African subsidiaries	
Debt incl. Prepayment (30 Jun 2022)	A\$94.9m
Enterprise Value	A\$824.8m

Board and Management

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



TerraCom Limited (ASX: TER) originated 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 – Prices continue Skyward: Dividends for All

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 share price was A\$0.42, the company had A\$12.4m in Cash and A\$202m in estimated debt and our valuation and price target was A\$0.87 and A\$1.30 respectively. In this report we upgrade our valuation and price target to A\$1.87/share.

Since initiation, we have seen TER undergo a metamorphosis, with the company delivering or announcing the following:

- Repayment of Euroclear Bond (Est. A\$132m of payments since initiation);
- Conversion of the A\$27.3m of OCP debt to equity by issuing 39.9m shares;
- Securing long term Blair Athol off-take agreement of up to 1.25mt of coal over 13 cargoes to August 2023;
- Executed and delivered first cargo on a US\$60m (A\$86m) coal sales prepayment facility based on a 600,000 tonne coal sales off-take agreement with pricing based on and linked to the API4 index at time of delivery;
- The retirement of Executive Chairman, Craig Ransley;
- The resignation of Non-Executive Director, Matthew Hunter;
- Declared its inaugural dividend of A\$0.10/share with an ongoing dividend policy of 60-90% of NPAT to be paid quarterly; and
- FY2022 financial report.

In addition to the excellent operational performance of TER, a number of key factors continue to work in its 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.

Scenario / Item	Unit	Base Case	Expansion Case
		Proved + Probable	Proved + Probable + Measured
Total Production ROM	Mt	67.3	173.0
Total Sales	Mt	48.3	123.8
Total Revenue	A\$m	7,888	15,810
Total Opex	A\$m	3,745	7,372
Update QLD Royalty	A\$m	774.0	1,347.7
Ongoing Capex	A\$m	205.7	316.0
Total Valuation	A\$m	1494.7	2132.5
Total/share	A\$	1.87	2.67

A significant shock to the sector was the update to the Queensland royalty regime which 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. On our numbers, this translates to an additional A\$774m of royalty being paid by TerraCom through the life of its Blair Athol project.

TER Valuation: With FY2022 results under its belt TER has cemented its position as an established and significant producer. Tailwinds have been favourable for the company with significant increases in forward curves on coal prices, both out of Australia and South Africa, the announcement of a quarterly company dividend policy and the effective extinguishment of its corporate debt position.

A key consideration for investors is the quarterly dividend policy of the company. On our numbers, assuming a 60% NPAT payout ratio, we calculate that TER will pay a dividend of 51¢/share in FY2023 and 21.6¢/share in FY2024. Moving past 2024, we see an ongoing dividend per share of ~21.6¢/share. This represents a remarkable dividend yield for CY2023 of 51%. With the following years being approximately a ~22% dividend yield.

Our price target corresponds to the Base Case valuation of A\$1.87/share. Our Expansion Case provides further upside with a valuation of A\$2.67/share.

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All currencies are in Australian dollars unless otherwise specified.

1. Developments since 4th July

Since our last report, TerraCom has remained active both commercially and technically, below we summarise the key changes / updates we have factored into our model.

Dividends Paid Quarterly

On the 26th of August TER announced that it had updated its dividend policy to endeavour to return 60 to 90% of net profit after tax to shareholders, paid on a quarterly basis with future dividends being fully franked. Table 1.1 highlights our forecast dividend payout over the next 2 years.

Table 1.1 – Two-Year Dividend Forecast

	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-23	Jun-23
Shares on issue (m)	799.5	799.5	799.5	799.5	799.5	799.5	799.5	799.5
NPAT (A\$m)	143.8	194.4	176.8	164.2	72.3	71.9	71.5	71.6
% For Distribution (60%)	86.3	116.6	106.1	98.5	43.4	43.2	42.9	43.0
Dividend Distribution ¹ (A\$/sh)	0.11	0.15	0.13	0.12	0.05	0.05	0.05	0.05
Cash cost (A\$m)	80.0	86.3	116.6	106.1	98.5	43.4	43.2	42.9
Yearly Distribution (c/sh)				51.0				21.6

¹Assumed that dividends are paid in the next quarter

Source: Evolution Capital estimates

On our projected numbers, we calculated that TER will pay a dividend of 51.0¢/sh in the 2023 financial year and 21.6¢/sh in the 2024 financial year. Moving past 2024, we see an ongoing dividend per share of ~21.6¢/sh. Note these dividends are based on a discretionary % of NPAT which is highly dependent on commodity prices and company performance.

Prepayment on Blair Athol Coal – update

On the 28th 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 expensed in this scenario.

In the annual report TER has outlined the amount owing under the BA prepay facility, as at 30 June 2022, of A\$57,935. This is reflected in our financial numbers and in our scheduled repayment estimates in Table 1.2 below.

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 1.2 – US\$60m / A\$85.7m Prepay Facility Schedule

	Jun-22	Sep-22	Nov-22	Jan-23	Mar-23	May-23
Tonnes	100,000	100,000	100,000	100,000	100,000	100,000
Price (A\$/t)	295.05	393.91	494.28	456.44	456.44	433.82
Total Sales (A\$m)	29.51	39.39	49.43	45.64	45.64	43.38
Opening Prepay Debt Balance (A\$m)	85.71	58.71	19.84	0	0	0
Repayment from Sales of Coal (A\$m)	29.51	39.39	19.97	0	0	0
Interest Payable (A\$m)	2.11	0.39	0.13	0	0	0
Closing Prepay Debt Balance / (Credit) (A\$m)	57.94	19.71	0.00	0	0	0

Source: Evolution Capital estimates

EGM

TER was required to call an EGM to ask shareholders to effectively retroactively approve the termination/bonus payment of \$2.38m to Craig Ransley for his role in the extinguishment of the Euroclear bond debt. It should be noted that this is in addition to his accelerated short and long-term bonuses of \$930,000.

The TER Board considered that the payment did not require shareholder approval at the time but decided, due the retirement of Craig, that the bonus was deemed a departure benefit in accordance with the Corporations Act and therefore shareholder approval was required.

The EGM was held on the 13th of September 2022 with the motion to approve the termination benefits passing by a majority of 86.83%.

Reserves and Resources Upgrade

TER has announced published its annual reserves and resources. For reference we have included a production section for the period of June 2021 to June 2022.

Note these numbers are all net to TER, with the South African Reserves and Resources adjusted for TER equity interest in each of the operations/projects.

Reserves & Resources (mt) June 30 2021	Proved	Probable	TOTAL	Measured	Indicated	Inferred	TOTAL
Blair Athol (AUS)	8.7	16.1	24.8	25.8	11.3	2	39.1
New Clydesdale Colliery	18.1	2.9	21.0	37.5	16.0	3.2	56.6
North Block Complex	21.8		21.8	25.6	5.5	5.9	37.0
Ubuntu Colliery	3.8		3.8	14.7	19.3	2.3	36.2
Springsure					43.0	148.0	191
Hughenden					133.0	1076.0	1209
Clyde Park					51.0	677.0	728
TOTAL	52.4	19.0	71.3	103.5	279.1	1914.4	2297
Production June 30 2021-2022	Proved		TOTAL				
Blair Athol (AUS)	2.7		2.7				
New Clydesdale Colliery	2		2.0				
North Block Complex	2.1		2.1				
Ubuntu Colliery	0.7		0.7				
Reserves & Resources (mt) June 30 2022	Proved	Probable	TOTAL	Measured	Indicated	Inferred	TOTAL
Blair Athol (AUS)	7	16	23.0	21.3	3.6	0.02	24.9
New Clydesdale Colliery	22.9		22.9	34.6	15.4	3.8	53.8
North Block Complex	14.6	5.5	20.1	36.6	4.2	2.6	43.3
Ubuntu Colliery	3.0		3.0	14.0	19.3	2.3	35.6
Springsure					43.0	148.0	191.0
Hughenden					133.0	1076.0	1209.0
Clyde Park					51.0	677.0	728.0
TOTAL	47.5	21.5	69.0	106.4	269.4	1909.7	2285.5

As shown, these reserves numbers a net positive increase for the company. Even though TER has produced 2.7mt of Blair Athol Reserves in the FY 2022 the reserves reduced by only 1.7mt. Similarly, for NCC, the company produced net 2mt whilst net reserves increased by 1.9mt.

We have factored these updated reserves and measured resources numbers into our calculations.

TER Valuation

Table 2.1 is our risked sum-of-the-parts valuation of TER. This underpins our Base Case of A\$1.87/share and Expansion Case of A\$2.67/share respectively, representing a 1.87x and 2.67x 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	22.9	43.7
ROM Coal Production SA	Mt	44.3	129.3
Total ROM	Mt	67.3	173.0
Total Coal Sales AUS	Mt	19.5	37.1
Total Coal Sales SA	Mt	28.8	86.7
Total Sales	Mt	48.3	123.8
FY2023 Forecast Run Rate (ROM)			
Blair Athol	Mtpa	2.9	2.9
New Clydesdale Colliery	Mtpa	4.1	4.1
North Block Complex	Mtpa	4.7	4.7
Ubuntu Colliery	Mtpa	1.9	1.9
Commodity Prices*			
AUS Coal to market	p/t	292.8	292.8
SA coal to market (Internal)	p/t	49.8	49.8
SA coal to market (External)	p/t	151.7	151.7
USD / AUD Exchange rate		0.67	0.67
USD / ZAR Exchange rate		0.05	0.05
Revenue, Opex, Royalty & Capex			
Total Revenue	A\$m	7,888	15,810
Total Opex**	A\$m	3,745	7,372
Update QLD Royalty	A\$m	774	1,348
Ongoing Capex	A\$m	206	316
NPV's			
Blair Athol NPV	A\$m	1,186	1,754
South Africa NPV (see note)	A\$m	287	423
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
UBU (SA)***	A\$m	6	6
NBC (SA)***	A\$m	4	4
Ubuntu & Berenice (SA)***	A\$m	5	5
TOTAL	A\$m	1,781	2,485
Corporate and Overhead	A\$m	(261)	(328)
Cash (at 30 Jun 2022)****	A\$m	69.6	69.6
Debt (at 30 Jun 2022)****	A\$m	(94.9)	(94.9)
Total NPV	A\$m	1,494.7	2,132.5
Total per share	A\$/share	1.87	2.67

Source: Evolution Capital estimates.

Note: South African asset NPVs are TER's Share (49%) of the total value of South Africa business

* 5 Year Average

** Includes previous QLD Royalty

*** Resource Upside

**** Includes Blair Athol Prepayment

The total risked sum of the parts is \$1,494.7m or A\$1.87/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 dividends 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.

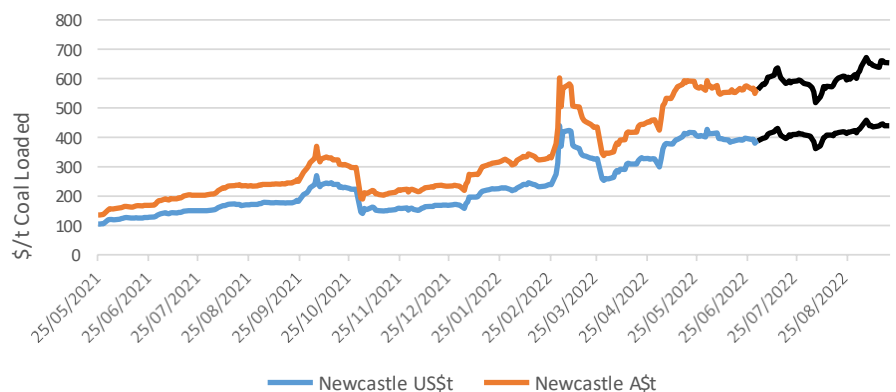
Revised Commodity Outlook

Figure 2.1 highlights the Newcastle coal index, which forms the benchmark for TER sales from Blair Athol. The black extension lines represent the price movement since our last report with the trajectory of continuing price appreciation. In addition to macroeconomic headwinds another benefit to TER is the depreciation of the Australian dollar which has a further positive impact on received priced for TER due to the Newcastle Coal Index being US\$ based.

The coal price has well and truly surpassed its previous peak of just over A\$600/tonne in February 2022 and now sitting at ~A\$650/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

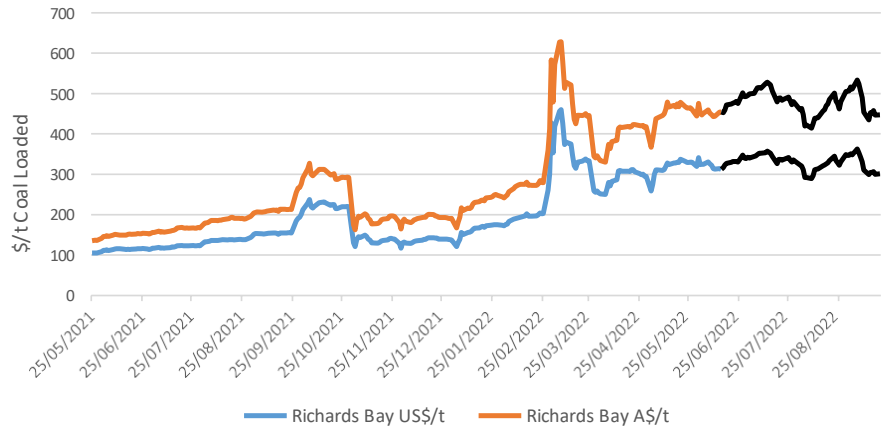


Source: Bloomberg (20/09/2022). Black colour indicates prices since 4th July 2022.

Figure 2.2 highlights the Richards Bay coal index, which forms the benchmark for TER’s export sales from its South African operations. Unlike the Newcastle coal index it has not surpassed its previous highs of ~A\$620/tonne reached in February. However the price has remained strong and remains at ~A\$450/tonne. This has a smaller impact on revenue numbers as TER’s operations in South Africa are focused primarily 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. Currently TER are selling export coal via trucking. If this was to normalise TER would have the ability to increase export volumes.

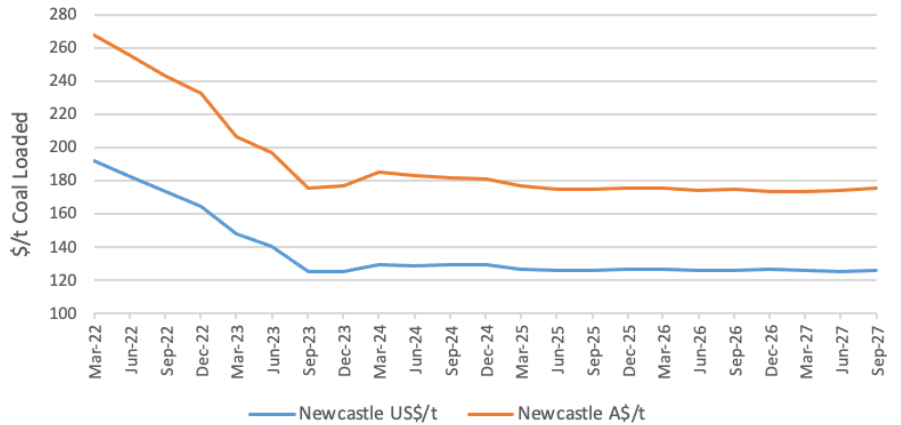
Figure 2.2 – Richards Bay Thermal Coal Price \$/t



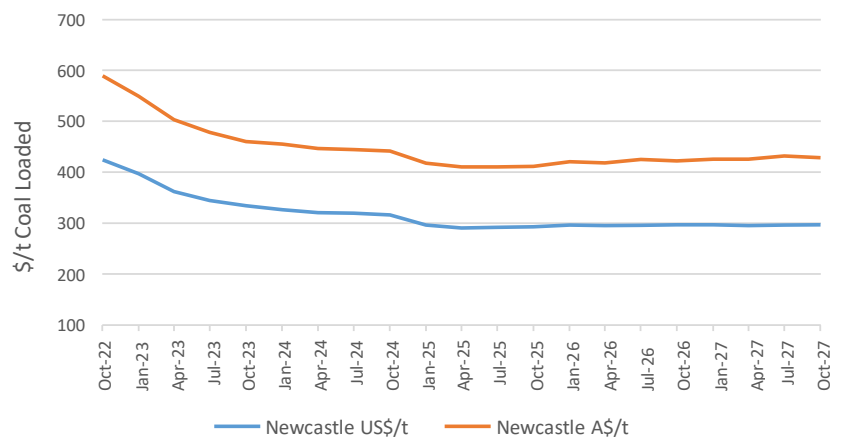
Source: Bloomberg (20/09/2022). Black colour indicates prices since 4th July 2022

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 as at September 20th (~A\$410/tonne).

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



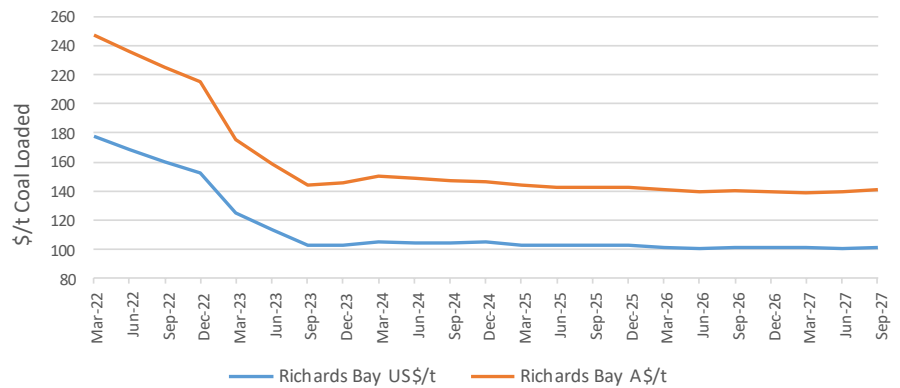
Source: Bloomberg March 2022.



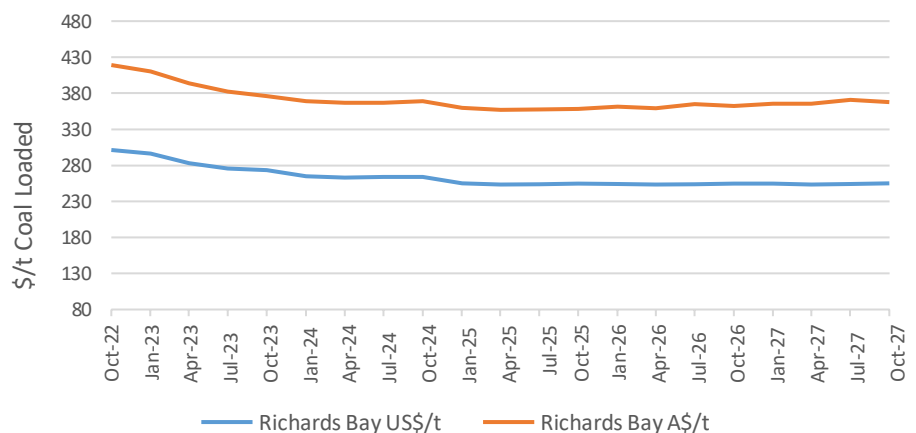
Source: Bloomberg September 2022.

As highlighted in Figure 2.4, the performance and outlook for Richards Bay Futures has been outstanding. The first graph highlights the prices used in our initiation note (~A\$140/tonne) while the second graph demonstrates the updated Newcastle Futures price as at September 20th (~A\$375/tonne).

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



Source: Bloomberg March 2022.



Source: Bloomberg September 2022

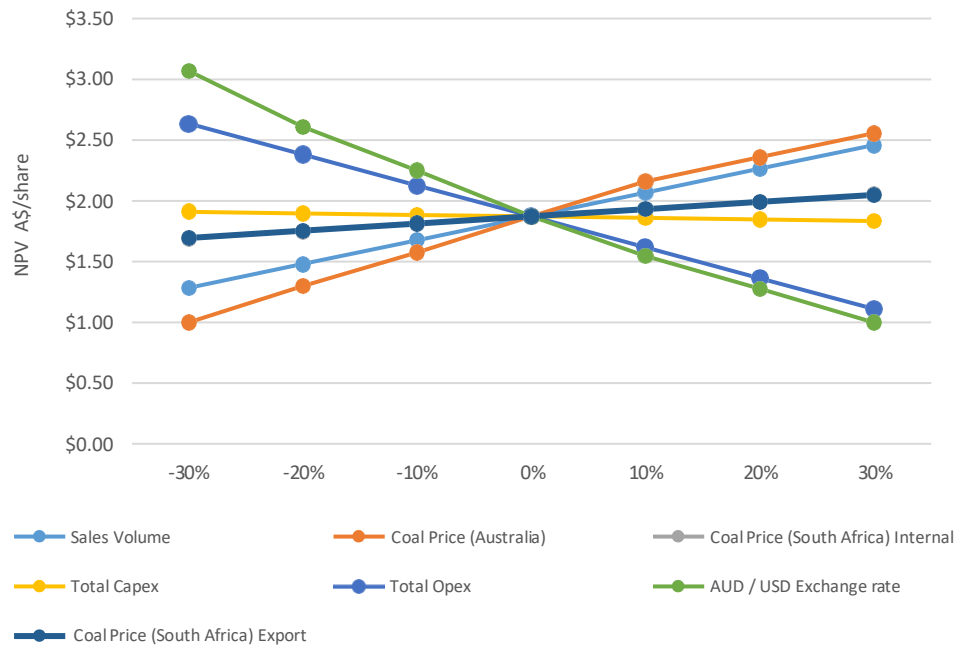
Our analysis incorporates a flat 15% discount on the selected export coal price due to quality of the thermal coal v Benchmark. Also, due to the recent severity of fluctuations of the forward curves we have adjusted the long-term coal prices to longer term historical averages of the index at ~US\$215/t for Newcastle and ~US\$170/t for Richards Bay. 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 (67.3Mt) 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 \$1,494.7m, or A\$1.87/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%
Sales Volume							
Mt	33.8	38.6	43.5	48.3	53.1	58.0	62.8
NPV A\$m	1026.6	1183.2	1339.7	1494.7	1652.9	1809.4	1966.0
NPV cps	1.28	1.48	1.68	1.87	2.07	2.26	2.46
Coal Price (Australia)							
A\$/t	205.0	234.2	263.5	292.8	322.1	351.4	380.6
NPV A\$m	943.1	1184.0	1259.1	1494.7	1726.7	1885.8	2043.9
NPV cps	1.00	1.30	1.57	1.87	2.16	2.36	2.56
Coal Price (South Africa) Internal							
A\$/t	34.9	39.9	44.8	49.8	54.8	59.8	64.8
NPV A\$m	1351.8	1399.9	1448.1	1494.7	1544.5	1592.6	1640.8
NPV cps	1.69	1.75	1.81	1.87	1.93	1.99	2.05
Coal Price (South Africa) Export							
A\$/t	106.2	121.4	136.6	151.7	166.9	182.1	197.3
NPV A\$m	1354.2	1401.6	1448.9	1494.7	1543.7	1591.0	1638.4
NPV cps	1.69	1.75	1.81	1.87	1.93	1.99	2.05
Total Capex							
A\$/m	144.0	164.5	185.1	205.7	226.2	246.8	267.4
NPV A\$m	1526.5	1516.4	1506.4	1494.7	1486.2	1476.2	1466.1
NPV cps	1.91	1.90	1.88	1.87	1.86	1.85	1.83
Total Opex							
A\$/m	2621	2996	3370	3745	4119	4494	4868
NPV A\$m	2106.4	1903.1	1699.7	1494.7	1292.9	1089.5	886.1
NPV cps	2.63	2.38	2.13	1.87	1.62	1.36	1.11
AUD / USD Exchange rate							
AUD / USD	0.47	0.53	0.60	0.67	0.73	0.80	0.87
NPV A\$m	2453.6	2085.3	1798.8	1494.7	1236.9	1020.7	999.9
NPV cps	3.07	2.61	2.25	1.87	1.55	1.28	1.00
ZAR / USD Exchange rate							
ZAR / USD	0.038	0.043	0.049	0.054	0.060	0.065	0.071
NPV A\$m	1351.8	1399.9	1448.1	1494.7	1544.5	1592.6	1640.8
NPV cps	1.69	1.75	1.81	1.87	1.93	1.99	2.05

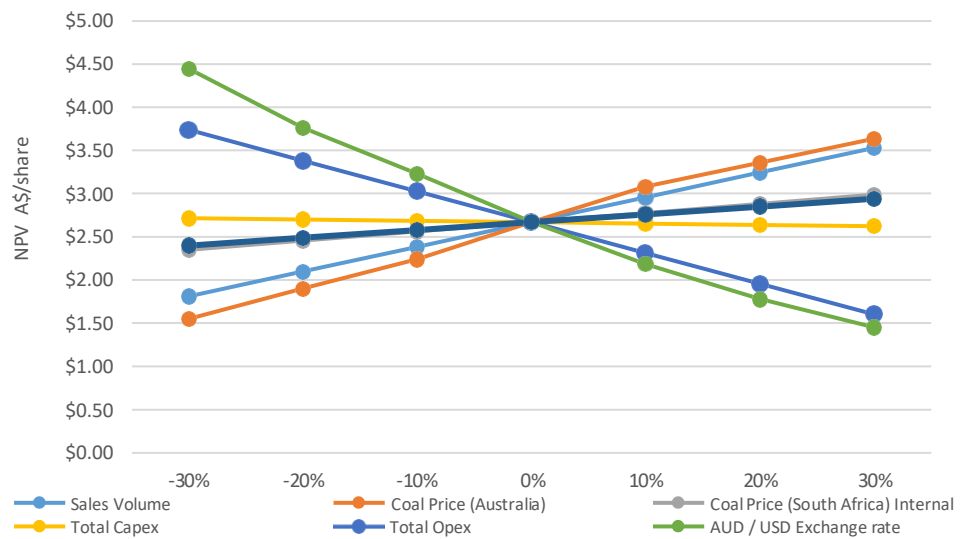
Source: Evolution Capital estimates

Sensitivity Analysis on Reserves, Resources & Measured Case

Figure 2.6 highlights the sensitivity of the TER share price on the expansion production case (173Mt) 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 \$2,132.5m, 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%
Sales Volume							
MT	86.7	99.1	111.5	123.8	136.2	148.6	161.0
NPV A\$m	1446.6	1675.8	1904.9	2132.5	2363.2	2592.4	2821.6
NPV cps	1.81	2.10	2.38	2.67	2.96	3.24	3.53
Coal Price (Australia)							
A\$/t	205.0	234.2	263.5	292.8	322.1	351.4	380.6
NPV A\$m	1351.9	1697.5	1792.2	2132.5	2462.9	2684.9	2905.8
NPV cps	1.55	1.90	2.24	2.67	3.08	3.36	3.63
Coal Price (South Africa) Internal							
A\$/t	34.9	39.9	44.8	49.8	54.8	59.8	64.8
NPV A\$m	1879.6	1964.4	2049.3	2132.5	2218.9	2303.7	2388.6
NPV cps	2.35	2.46	2.56	2.67	2.78	2.88	2.99
Coal Price (South Africa) Export							
A\$/t	106.2	121.4	136.6	151.7	166.9	182.1	197.3
NPV A\$m	1917.1	1989.4	2061.8	2132.5	2206.4	2278.7	2351.1
NPV cps	2.40	2.49	2.58	2.67	2.76	2.85	2.94
Total Capex							
A\$m	221.2	252.8	284.4	316.0	347.6	379.2	410.8
NPV A\$m	2170.7	2158.5	2146.3	2132.5	2121.9	2109.7	2097.5
NPV cps	2.72	2.70	2.68	2.67	2.65	2.64	2.62
Total Opex							
A\$/m	5160	5898	6635	7372	8109	8846	9584
NPV A\$m	2988.6	2703.8	2418.9	2132.5	1849.2	1564.4	1279.6
NPV cps	3.74	3.38	3.03	2.67	2.31	1.96	1.60
AUD / USD Exchange rate							
AUD / USD	0.47	0.53	0.60	0.67	0.73	0.80	0.87
NPV A\$m	3553.4	3007.4	2582.7	2132.5	1746.1	1422.9	1396.6
NPV cps	4.44	3.76	3.23	2.67	2.18	1.78	1.45
ZAR / USD Exchange rate							
ZAR / USD	0.038	0.043	0.049	0.054	0.060	0.065	0.071
NPV A\$m	1879.6	1964.4	2049.3	2132.5	2218.9	2303.7	2388.6
NPV cps	2.35	2.46	2.56	2.67	2.78	2.88	2.99

Source: Evolution Capital estimates

2. TerraCom Assets

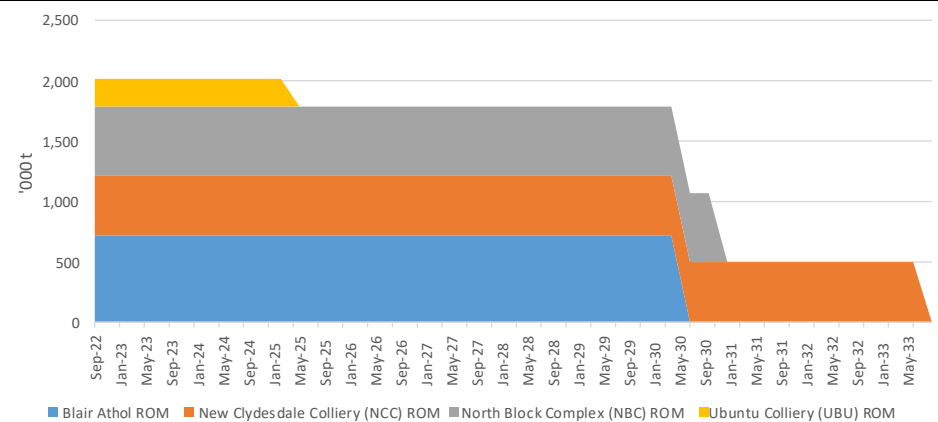
TER Base Case

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
Operations		
Blair Athol ROM	'000 t	22,912
New Clydesdale Colliery (NCC) ROM	'000 t	22,381
North Block Complex (NBC) ROM	'000 t	19,426
Ubuntu Colliery (UBU) ROM	'000 t	2,539
Total production	'000 t	67,257

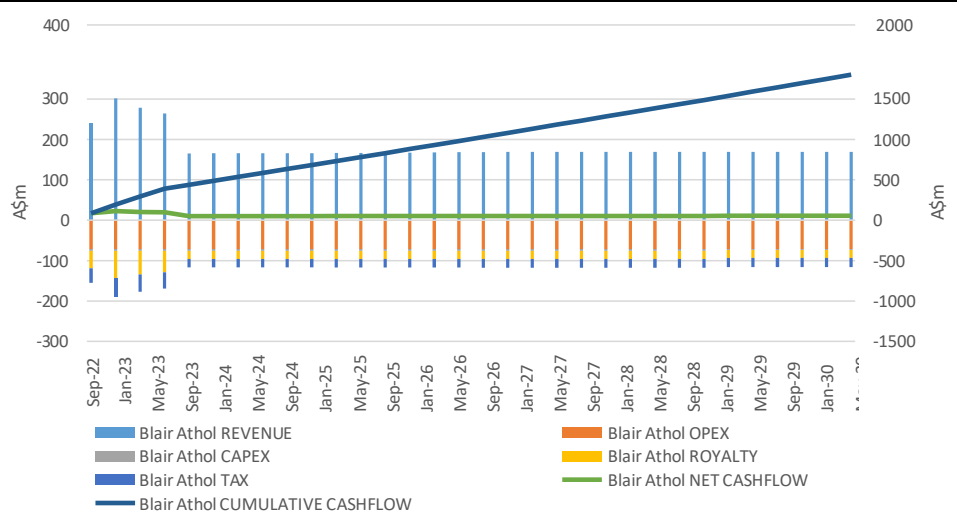
In the Base Case scenario, we assume that a total of \$3.7b of opex and \$206m of capex is spent over the production life of TER's assets. The assets produced in this scenario are Blair Athol, New Clydesdale Colliery, North Block Complex and Ubuntu Colliery.

Figure 3.1 – TER Base Case Production



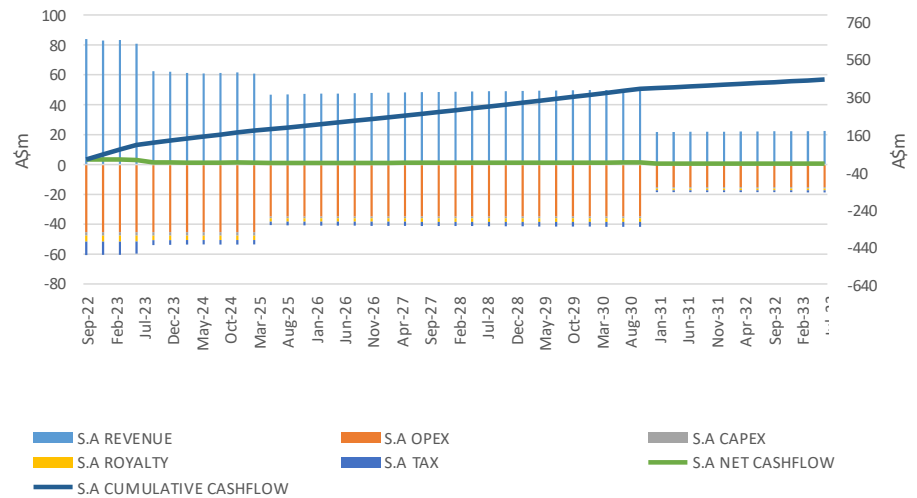
Source: Evolution Capital estimates

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 late 2033 with Blair Athol finishing by September 2030.

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 calculations TER has \$69.6m in cash at the end of June 2022, which corresponds to the cash on the balance. In addition, the South African subsidiaries hold \$32.7 million in cash of which 49% is attributable to Terracom.

Debt

On our estimates TER has \$94.9m in debt at the end of June 2022. Note this debt figure includes the Blair Athol Prepay facility and the outstanding Bank of India and Bank of South Africa facilities.

3. 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.
- **Infrastructure Risk:** Fundamental Basis of operations of a coal operation is infrastructure, Sales are based on a commodity requires coal to be transported by truck, rail and/or ship in order to generate the sales, A failure or significant delay due to break down of infrastructure will have an adverse effect on sales.

Evolution Capital Pty Ltd

Level 6, 1 Castlereagh Street
Sydney, NSW 2000
Tel: +61 2 8379 2961
www.eveq.com

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