

RESEARCH REPORT

TerraCom Limited

Diversified platform for resiliency and growth

ASX Code:
TER

Sector	Materials
Price	\$0.14
Valuation	\$0.27

Fit for tough times; prepared for coal's upswing

TerraCom Ltd (TER) is an ASX-listed resource developer and export thermal coal producer at the Queensland industry icon mine, Blair Athol. In June 2020, TER completed the 100% acquisition of ASX-listed and South African thermal coal producer, Universal Coal (UNV). This was for an A\$100m outlay following its per UNV share bid of \$0.10/share in cash and 0.6026 shares in TER stock.

TER's acquisition is strategically transformative

Net coal sales rise from 3.0 million tonnes pa (mtpa) to ~6.4mtpa and growing. Importantly it delivers country and multi-operations diversification and a varied, and in some cases dedicated coal customer base. TER's coals are in demand for their value-in-use and reliability. These investor-friendly features can smooth cashflow swings in a highly cyclical industry and provide a buffer, or even opportunities, at a time of rising trade-bloc friction.

Management has proven adept at strategic transformation, starting with a promising but isolated Mongolian coking coal export mine, which was sold in June this year. In 2017 TER bought for a single dollar and then reactivated the Blair Athol export thermal coal mine. Recently it acquired four operating mines in South Africa underwritten by domestic coal contracts and low operating costs.

TER assets provide a strong platform to drive efficiencies at existing mines. TER is also counter-cyclically advancing project development of coking, thermal coal and possibly bauxite projects in three countries to create a multi-commodity bulks producing group. Organic cashflow growth from the ramp-up to full output of two new South African operations bolsters the servicing of its A\$237m in net debt (that excludes \$45m in restricted cash deposit). TER also aims to pay \$0.01/share dividend per half year during this production ramp-up period.

Catalysts - Re-financing and active management payoffs

In a potentially trendsetting move, TER is to tap a new funding source with the listing on the ASX of an A\$220m debt security with a BBSW+8%pa coupon and an associated \$0.25/share strike price options. TER's proactive re-financing reduces the interest rate payable, extends maturity from 9-months to at least 3-years and adds financial stability during a low coal price period.

TER has counter-cyclically placed itself in a position to improve efficiency and margins plus pursue organic mine growth. Cashflows will further swell once currently depressed coal prices rebound. These assets appear undervalued compared to our Base Case \$0.27/share NPV valuation of TER. TER has upside on management's record of delivering new projects from currently controlled development assets and/or by opportunistically securing acquisitions.

Key risks to view

Risks are outlined on page 8. Risks include an extended period of low coal prices and stronger Australian dollar (AUD) or weak South African Rand (ZAR) to the US dollar that harm revenue generation. While a five-mines profile reduces overall operating risk, strikes, severe weather, logistics and mechanical problems can see lower output/higher costs. Geopolitical trade-restrictions can impact market access, though selling exports from two countries partly reduces that risk. Power generation customers may experience demand downturns and pressures from environmental regulation. Investors should closely consider the coal's value-in-use for each company. Higher reliance on free cashflow may be required for future funding as capital markets tighten exposure to fossil-fuels.

Lawrence Grech

enquiries@corporateconnect.com.au

Company Data

ASX price	\$0.14
Shares on issue	753.6m
Market capitalisation	\$106m
12-month price range	\$0.09 – \$0.45
ASX av daily turnover (mil shares)	0.97 m/day

¹ Net Debt as at 30 Jun 2020 excludes \$45m in restricted cash.

Earnings Outlook ^{1,2}

Jun Year	FY'20a	FY'21	FY'22
Sales Revenue	316.9	628.5	716.4
EBITDA	5.4	116.4	184.2
NPAT continuing op	(25.2)	19.3	45.0
EPS	(4.5)	2.6	6.0
PE	(3.1)	5.5	2.3
Div. Yield	7%	14%	14%
EV/EBITDA	>100.0	4.7	2.4

¹ Continuing operations that excludes Mongolia.

² Enterprise value = Market capitalisation plus debt & ST liabilities minus cash.

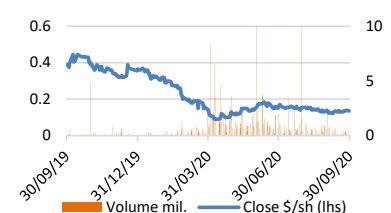
NPV-based Valuation after risking ^{1,2}

Asset or Liability	A\$mil.	A\$/share
Blair Athol	217.2	0.29
South African Mines	251.0	0.33
Development Assets	42.0	0.06
Net Fees, Corp Costs	-41.2	-0.05
Net ST Liabilities	-40.5	-0.05
Net Debt	-221.9	-0.29
Total	206.7	0.27

¹ Valuation as @ 31 Dec 2020

² Aust assets discount rate 10.9% pa; 16.4% pa for South African assets

Price/Volume Chart



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Section 1: TerraCom Ltd's Corporate Overview – Growth and Strategy

Recent History

TerraCom Limited (ASX code: TER) is listed on the Australian Stock Exchange with inclusion in the All Ordinaries Index and the S&P/ASX Emerging Companies Index. TER began as a Queensland minerals explorer and was formerly named Guildford Coal Limited. The group built a large acreage position and 1,937mt Resource within the North Galilee Project. In addition, it secured in the Bowen Basin an 191mt Resource at the Springsure Project that potentially hosts a high energy underground thermal coal mine.

During the 2013 to 2014 period, TER commissioned and operated the Baruun Noyon Uul (BNU) open pit mine, located in the South Gobi Desert in Mongolia. The mine produces high quality low ash coking coal with excellent coke strength specifications. TER had success in delineating many kilometres of moderate strip-ratio resources for multi-pit operations. However, it became evident there was in-pit complexity and associated high costs. Difficult land-locked logistics and discounted product prices into the Chinese market became significant impediments to creating a large-scale and high margin operation which led to its divestiture.

Counter-cyclical diversification – Blair Athol

As early as 2016, the TER Board and management were keen to see the company diversify its cashflow generation. In May 2017 TER completed the purchase of the iconic Blair Athol mid-energy thermal coal mine in the Bowen Basin, Queensland, then under care & maintenance. Depressed coal prices opportunistically allowed TER to purchase the mine for just \$1. TER also received A\$80m to fund the Blair Athol Mine rehabilitation liability as well as securing the mining lease, land, buildings, maintenance facilities and mining equipment. Importantly, this included a dedicated dragline to re-initiate production and assist with the progressive rehabilitation of one of Queensland's largest historical coal mines.

TER re-started operations at the Blair Athol mine in August 2017 with a modest capital spend. First coal sales were made in October 2017. Operations ramped up to 2.5mtpa annualised product sales by Sept 2018. Coal prices had by then substantially recovered. Along with cost-saving initiatives Blair Athol generated a total of ~\$196m in EBITDA since re-start to 30th June 2020.

Strengthening cash generation – profound portfolio changes

TER completed divestment of the non-core Mongolia operations to Bridge Resources Pty Ltd on 23 June 2020. While realising just US\$3, the divestment of this low-margin operation also relieved TER of a substantial US\$28m of net current liabilities and allowed the Board to focus upon efficiency and growth initiatives.

Universal Coal Limited (UNV) was identified as a strong cash generator from a stable domestic customer base. TER acquired a 19.99% holding in October 2019. A subsequent and successful offer with a price per UNV security of 10 cents cash and 0.6026 new TerraCom shares, enabled TER to move to compulsory acquisition by the 30th June 2020 at a book cost of A\$100.1m.

Corporate Strategy – value adding over asset life cycle

TER's strategy has been to scrutinize and opportunistically acquire assets from the whole mine life-cycle spectrum, including from advanced exploration, greenfield resources development and acquiring existing operations. Where it makes economic sense, TER applies capital to develop the project or modify operations to enhance cash generation.

TER's strategy is to be a mine operator, applying its skills to add shareholder value. Strategic value is also generated from active portfolio management. This includes Management's decisiveness to buy well-scrutinised assets in gloom, such as the shuttered Blair Athol mine, or opportunistically secure Guinean bauxite assets and a willingness to sell the underperforming Mongolian asset.

Where others' bids for Universal Coal failed, TER's successful and partly scrip-funded acquisition demonstrates considerable corporate skill. It represents evolution of its corporate strategy to add scale and geographical/customer diversity to its cash generation. Management's options include debt reduction, organic growth from existing mines and development opportunities from a 4 billion tonne inventory of coal resources. Success in earnings and growth initiatives will see more than cashflow benefits such as a reduction in TER's current high cost-of-capital. This could see its share-market rating rise appreciably.

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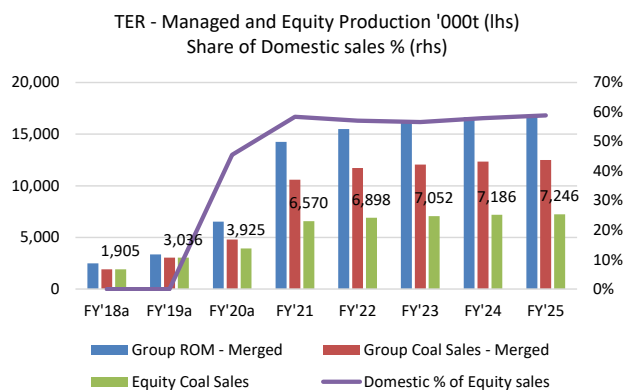
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Transforming TerraCom Ltd

TER's four-Transformations – Diversity, growth, business earnings & resiliency

T1 – Scale of production

TER's equity sales grew from 1.9mt in FY18 to 3.9mt in FY20. This now leaps to ~6.5mtpa in FY21.



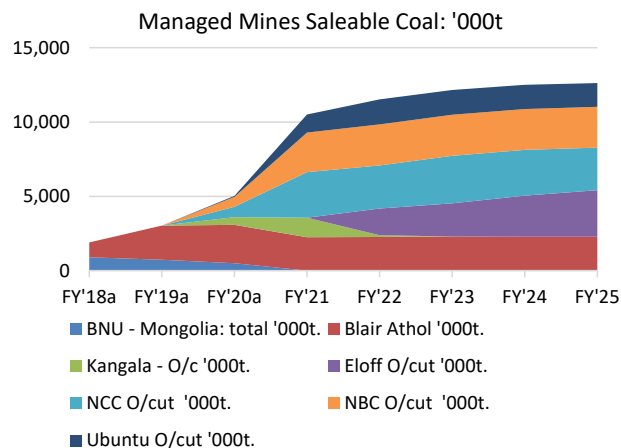
Sources: for all charts – TER and Corporate Connect estimates

Combining T1 and T2 scale and geographical diversification increases TER's resiliency to volatile export prices and from China's imposition of country-specific or stop/start import controls.

Export customers span Europe, India as well as North Asia.

T3 – Growth with resiliency

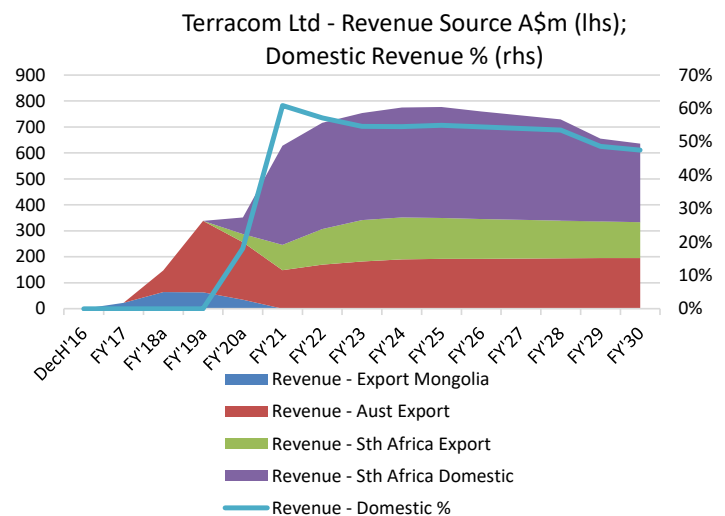
Full ramp up of Ubuntu and Eloff Mines in South Africa provides organic growth to over ~12.5mt of Managed mine sales. This compares to FY19 level of 3.0mtpa. Multiple mine sources boost resiliency of revenue generation



T2 – Geographical and customer diversification

TER's revenue generation transformed from 100% exports to ~55% Domestic sourced sales, post Universal Coal's acquisition.

Australian operations on Base Case are ~25% of total revenue.

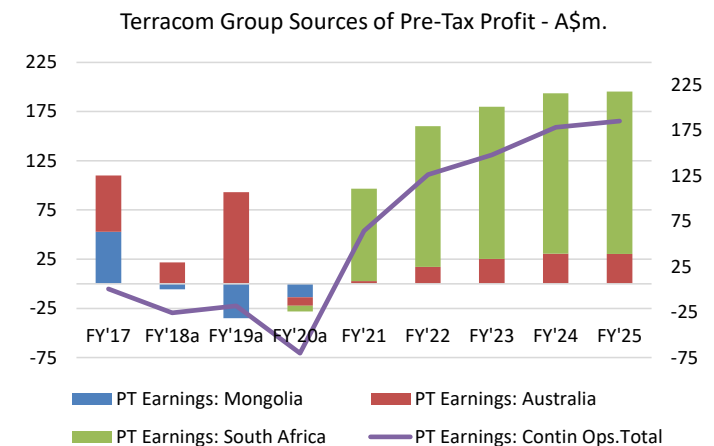


Sources for this page's charts: TER Announcements, Corporate Connect Estimates

T4 – Resiliency of earnings

Earnings resilience has been aided by active portfolio management, namely the sale of a loss-making Mongolian operation and replacement with reliably profitable Universal Coal.

Australian earnings will flex with export pricing's rise or fall.



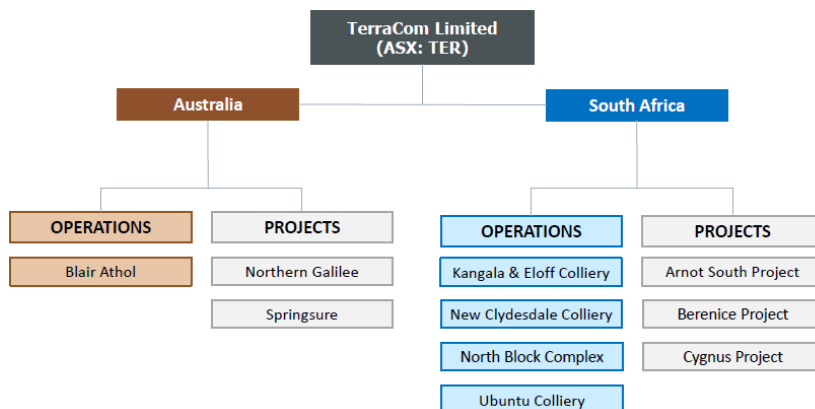
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TER's Current Portfolio

Current structure of operations and project development options

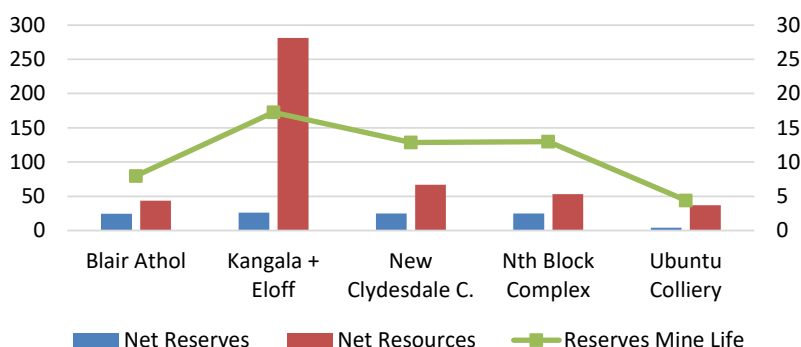


Source: TER Sept 2020 Presentation

Next Phase – Organic Development Options

TER is strategically well placed to select from a range of development options of its existing asset base, e.g. Kangala/Eloff have significant life extension potential if additional production permits are secured.

TerraCom Net Reserves & Resources - mil. tonnes (lhs);
Reserves Mine Life at Current ROM rate - Years (rhs)



Source: TER Sept 2020 Presentation & other announcements

Far larger development options to convert part of the combined 1.52 billion tonnes of Measured & Indicated Resource and 2.16 billion tonnes of Inferred Resource spread among 6 exploration and project areas – See Appendix for Resource Statement and Asset Profile Section - Australian Development.

Possible new project developments

- **Berenice/Cygnus coking coal** prospect in South Africa is a 1.35 billion t Resource and within 20km of an existing rail line that connects to nearby Mozambique. The site could support a significant 10mtpa operation.
- TER is aiming to secure the **Arnot South Project**, a 207m thermal coal Resource. TER will need to complete drilling and a feasibility study to decide if this promising resource moves up its priority for development.

Potential Bauxite Diversification

Anglo African Minerals PLC (AAM)– owner of three hi-quality bauxite resources in Guinea has been the subject of TER's due diligence under a limited time term sheet.

If TER's involvement proceeds, it could accelerate development in around 13 months of the Forward Africa Resources project. This has delineated 76mt Bauxite Resource.

The proposed direct-shipping-ore operation is envisaged as a low-strip continuous miner operation. The expected product is an in-demand ~40% alumina and ~5% reactive silica and AAM has secured a licence to export over 3mtpa of product via barge and transshipment.

Recent sales of similar of Guinean bauxite grade was priced at US\$32/t FOB. Strong operating margins are possible if projected operating costs of below US\$20/t are realised.

Project EBITDA's of \$20 to 35m pa are possible.

Capex of US\$102m is inclusive of contingency, and part of this cost may be partly funded by infrastructure service providers.



Source: TER Sept 2020 Presentation

Guinea hosts the world's largest bauxite Reserves and with high quality comes strong demand from Chinese alumina refineries. Additionally, foreign mining and infrastructure investment is expanding in response to progressive government policies.

TER's development skills and ability to secure added funding provide Anglo African Minerals a timely ability to advance otherwise stalled projects. Adding other projects could eventually see ~18mtpa of output. In aggregate these could raise TER's EBITDA by 50% or more.

We await whether this significant opportunity for profitable diversification is converted to a further TER development.

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Geographical and operational diversification – advances with Universal Coal acquisition

East and Southern Africa are projected to have some of the World's fastest growing populations and economic expansion going into the mid-21st Century. Domestic demand for energy is set to accelerate. Meanwhile South Africa is well positioned to service the traditional Atlantic energy market and the growing Indian, South Asian and Middle Eastern markets.



Further diversification of product can occur through development of a Coking Coal operation in South Africa at Berenice/Cygnus project. TER is also closely examining a participation in three bauxite projects in Guinea. First African Resources is the likely first of these project

Board and Management Profiles

The Board has been a driving force for establishing strategic asset positions. Also, for enabling the business to transform in volatile markets and empowering management to raise efficiency at operations. The Board's experience base is as follows:

Wal King Chairman, Independent Director – has 40 years' experience within building industry and has been a past CEO of ASX-listed Leighton Holdings. Along with training in engineering, his experience extends to director positions on community foundations as well as public companies like Coca-Cola Amatil. He provides the Board top-level contacts and broad strategic oversights.

Craig Ransley, Deputy Chairman, Executive Director –

Is the founder of TER, originally known as Guildford Coal. He has provided TER advice on restructuring and in Feb 2020 re-joined the Board. He brings exceptional practical and operational experience as a trade qualified Fitter & Machinist as well as entrepreneurial skills to secure assets.

Craig Lyons, Non-Executive Independent Director – He is an investment banker with extensive strategic, management and finance experience. With involvement in building and leading businesses in Southern and West Africa he provides valuable finance and African-based experience to the Board. He is active in analysis of and supporting development of Southern African business which provides the TER Board a network of Africa-centred relationships.

Glen Lewis, Non-Executive Director – Glen has worked in coal industry operations since 1980. As a qualified Coal Mine Manager, he worked at all levels of management including for Xstrata Coal as General Manager NSW Eastern Underground Operations. He was Managing Director of NuCoal Resources Ltd through 2010 to 2017 overseeing its listing, capital raising, exploration and feasibility studies. He provides invaluable experience across underground and multi-mine management.

Matthew Hunter, Non-Executive Director – He has over 20 years' experience in the finance industry including in private equity investment and is founder of Rivendell Capital that provides specialist project capital and advisory services. Earlier, Mr Hunter was a Managing Director of The Carlyle Group and currently on the boards of Silver Heritage Group Ltd, Measure Australia, and Medirent Advisory. He is a Board nominee of major shareholder OCP Asia (*See Appendix for TER's significant shareholders*).

Shane Kyriakou Non-Executive Director – Mr Kyriakou is a qualified lawyer of over 20 years' experience in the energy and resources sector. For the last thirteen years Shane was a corporate partner at global law firms Herbert Smith Freehills and Ashurst, ultimately holding the role of Ashurst's Global Head of Power His experience covers mergers and acquisitions, greenfield developments and expansions, fundraising, financing and general corporate advisory.

Experience & track record of business transformation



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Management Team

Danny McCarthy, Chief Executive Officer – Is an experienced mining executive senior roles with Mineral Resources Ltd as Chief Operating Officer, as well as with Thiess, Wesfarmers, and QCoal. He has a proven record of delivering exceptional results over 32-years. He oversaw the successful implementation of ASX-listed Mineral Resources' strategic growth initiatives.

Celeste van Tonder, Chief Financial Officer – is a Chartered Accountant with over 10-years experience in mining finance and business development. She joins TER following the acquisition of Universal Coal plc where she has held the role of Chief Financial Officer for over 3-years, with prior experience as Business Development manager at ASX & JSE listed Coal of Africa.

Megan Etcell, Company Secretary, Executive General Manager Corporate Affairs – is a qualified Chartered Accountant with experience from PriceWaterhouseCoopers and as CFO/Company Secretary for Nucoal Resources NL. Ms Etcell joined TER in Nov 2019 as Company Secretary and now has an expanding role encompassing regulatory, legal and governance, investor and stakeholder relations in addition to core administrative functions.

Nathan Boom, Chief Commercial Officer – Nathan Boom is a Chartered Accountant with a deep resources sector background with multi-national groups Xstrata and Tenova Delkor. This included roles to re-finance and to lead development projects. He was appointed as TER's Company Secretary in Jan 2016 and Chief Financial Officer in Mar 2017. In a newly created executive role, Nathan will be responsible for all commercial, marketing, logistics and business development activities of the Group.

South African Executive Management Team – are detailed in the South African Operations Section, See Page 18.

Section 2: Investment Case, Price Catalysts and Risks

TerraCom Limited is pursuing a growth strategy in coal and other minerals. TER started with no commercial production in FY2017 and is forecast to have ~10mt in Managed coal sales or a net coal sales total of 6.4mt in FY2021.

TER is perhaps suited to investors with growth orientation, willingness to ride out cyclical volatility and the patience to see through project development. Investors should seek professional advice prior to trading securities as per our Disclaimers.

The challenges faced by resource developers and miners, however, also provide opportunities. Backing management with entrepreneurial, mine development and operations skills improves the chances of opportunity capture. TER has a record of counter-cyclical growth, like the Blair Athol acquisition, and the recent decision to acquire discounted mine equipment for Blair Athol.

The Universal Coal acquisition, concluded in June 2020, provides further organic growth with the ramp-up of the newly developed Ubuntu mine and commissioning the Eloff Project thermal coal mines in South Africa. Additionally, there are initiatives to boost higher priced thermal coal exports from South Africa that can enhance earnings margins. Meanwhile at Blair Athol, cost-savings initiatives and securing operational control bolsters margins during the current low coal pricing phase.

TER's increased earnings resilience enables stronger debt servicing and an ability to re-finance debt to longer duration and at a lower cost. Along with free cash generation, the balance sheet can then support growth initiatives. Investors should expect more acquisitions in Southern African coal or an investment in Guinea's world-class bauxite industry.

Our Base Case NPV based valuation is \$0.27 /share. An alternative EV/EBITDA valuation provides an indicative price of \$0.26/share using 3.5x weighted over 3-year period. These valuations provide attractive share price upside which may triggered by the following catalysts:

Investment Catalysts

- Sept Quarterly and Dec Half 2020 reports confirm the strength of cashflow delivery of the Universal Coal assets
- Confirmation of Blair Athol's cost savings initiatives are boosting margins
- Successful bond issue to lower debt costs and extend maturity to 3-years
- Update of status of Ubuntu's ramp-up and start date for Eloff. The latter may have an expanded Eskom coal contract
- Upgrade of loading capacity that enables a *sustainable increase in export grade* coals from the South African mines
- Continued rise in export thermal coal prices following a recent rebound from depressed levels. Sensitivity to a sustained 5% rise in export coal prices, can see our assessed Base Case valuation rise ~28%
- Acquisition of a position in Anglo-African Minerals PLC with prospect that a bauxite project may proceed in 13-months
- Introduction of joint venture partners to TER's Australian Galilee Basin or at Springsure underground projects

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NPV Based Valuation – Risked \$0.27/share valuation

TerraCom Ltd	\$0.140	ROM Proven	Confidence	Riskd	Riskd	Reserves	Unriskd	Unriskd
Diluted No. sh.	Ownership	Reserves	Factor	Valuation	Valuation	Valuation	Valuation	Valuation
753.6	%	Net mil.t.	%	A\$m.	A\$/sh	A\$/t.	Valn A\$m.	A\$/sh
Blair Athol	100.0%	11	90%	217.2	0.29	19.78	241.3	0.32
Kangala/Eloff	49.0%	26	80%	63.5	0.08	2.45	79.3	0.11
New Clydesdale Co	49.0%	21	85%	63.9	0.08	3.11	75.2	0.10
North Block Compl	49.0%	21	85%	85.5	0.11	4.07	100.6	0.13
Ubuntu Colliery	48.9%	4	85%	38.2	0.05	9.58	44.9	0.06
Manage't Fees	100.0%		83%	7.4	0.01		8.8	0.01
Projects Valuation		82	86%	475.6	0.63	5.77	550.2	0.73
Net Debt est. @	DecH'20		100%	-221.9	-0.29	-2.69	-221.9	-0.29
Net ST Liabilities			100%	-40.5	-0.05	-0.49	-40.5	-0.05
Other incl. Corporate Cost			100%	-50.0	-0.07	-0.61	-50.0	-0.07
Total Projects & Financials		Net Resources		163.2	0.22		237.8	0.32
Australia Mine Extension		56	20%	7.3	0.01	0.13	36.3	0.05
Sth Afric. Mine Extension		466	30%	14.7	0.02	0.03	48.9	0.06
Australian Explorn		1,850	10%	14.2	0.02	0.01	141.6	0.19
Sth African Explorn		776	25%	6.0	0.01	0.01	23.8	0.03
Guinean Bauxite Minerals				0.0	0.00		0.0	0.00
Total Valuation		3,148	42%	205.2	0.27	0.07	488.4	0.65

Source: TER announcements and Corporate Connect estimates

Our NPV-based valuation assesses each operating mine with a nominal equity discount rate of 10.8% pa for Australian assets and 16.2% pa for South African Assets. The latter is elevated due to higher risk-free interest rates and trend inflation. We also provide an estimate of resource valuation for undeveloped projects. These are heavily discounted compared to existing operations. This is in part due to need for capital and time to reach cashflow generation status. We then deduct TER's estimated closing debt, net current obligations as at Dec 2020 and present value of the corporate costs that are not captured in operations.

We start with an un-risked assessment of TER's valuation which aggregates to \$0.65/share. However, in recognition of some of the below-mentioned risks on page 8, we assign confidence factors for each asset. **Our risk-adjusted valuation is \$0.27/share.**

Blair Athol and NBC operations have high confidence factors of 90 – 85% levels. Eloff has some uncertainties in start-up timing and our confidence factor is 80%. Development assets have high uncertainty as to project size, margins and funding issues. We regard some of South African mine opportunities as more likely developments than Springsure or North Galilee Basin in Australia at this stage. We await added information on the potential acquisition of the promising Guinean bauxite opportunity.

Our riskd valuation rapidly rises to \$0.32/share within a year. This occurs as the Universal Coal acquisition turbocharges TER's fee cash generation resulting in net debt falling. Along with higher assumed coal prices, the higher/nearer cashflow raises NPV.

Indicative EV/EBITDA Based Valuation \$0.26/share

Price Target - EV/EBTDA	FY'21	FY'22	FY'23
EV/EBITDA Target	3.50	3.50	3.50
EBITDA	\$m	116	184
Net Debt & Net Curr Liabilities	-246	-161	-52
Warranted Capitalisation	161	483	665
Minorities share	58%	51%	48%
Warranted TER Captn \$m	67	239	347
Share Price Target A\$/sh.	\$0.09	\$0.32	\$0.46
Weight of each Yr	100%	40%	35%
Target price	\$0.26	\$0.11	\$0.12

An alternative valuation method is to apply an appropriate target level of the Enterprise Value to Earnings Before Interest & Tax (EV/EBITA). The ratio incorporates earnings and the level of net debt obligations. The residual is the appropriate share price.

Coal groups are cyclical companies and tend to attract modest EV/EBITDA ratios versus companies in non-cyclical or hi-growth industries. As earnings fluctuate considerably, we use a three-year analysis of earnings and balance sheet forecasts. For simplicity we have adopted a flat EV/EBITDA target of 3.5x. Earlier years have more certainty and we assign a higher weight to the generated appropriate price than that of the final year.

Our current evaluation on this method is TER's weighted value is \$0.26/share, Over time our forecast earnings rise, debt falls so the EV/EBITDA indicative share valuation rises considerably.

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Investment Risks

Investors should seek specific professional advice prior to trading TER and refer to TER's Audited Annual Financial Report to June 2020 which contains a more complete list of risks. The following are some of the risks to the TER share price:

Resource & operating risk – Mine developments may fall short in terms of quality and quantity which impact project economics, cause negative revision to Resources and reduced earnings capacity. Infrastructure disruption can also impact sales.

Sovereign risk – Changes in legislation, fiscal regimes of Australia or South Africa may markedly impact the ownership, financing, permitting, or economics of TER's projects. We note South Africa has already undergone substantial structural change including Black Economic Empowerment initiatives. In Australia there are considerable risks in obtaining development permits.

Geopolitical risk – Trade and travel restrictions have already impacted certain countries ability to access markets for export coals and potentially for marketing. Diversification of sales reduces the overall risk of state-targeted trade restrictions.

Health risk – The global Covid-19 pandemic demonstrates how supply chains and sales can be disrupted across and within sovereign borders. These can slow operations, though to date TER has successfully maintained output and safe conditions.

Commodity price risk – Declines in export thermal coal prices negatively impact the revenues and profitability.

Currency risk – Exports are priced in US dollars, while TER's share price and Blair Athol costs are AUD denominated, so a rise in AUD has negative valuation implications. The South African Rand (ZAR) has trended down versus the USD and the AUD. This reduces revenue translation to AUD, however it can (perhaps temporarily) reduce costs and boost local ZAR margins.

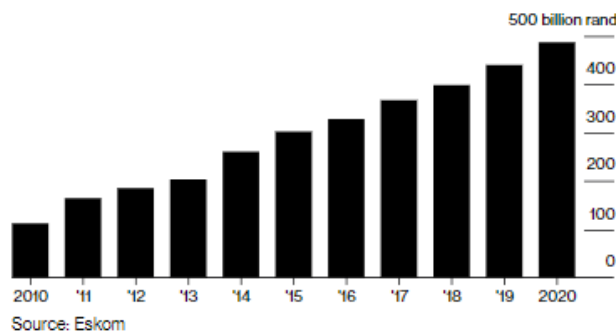
Financing risk – TER has substantial debt part of which has less than 1-year maturity. A failure to successfully re-financing debt may require an equity raising to support current operations and/or to capitalise upon corporate initiatives.

Customer Risk – Eskom

TER's domestic coal sales are made under contracts to South Africa's State-owned power generator, Eskom. Rising power demand and aging infrastructure and poor generation reliability saw Eskom attempt the build of mega-sized coal-fired power stations. Poor construction, huge cost over-runs and low dispatchable power generated has seen Eskom's debt balloon to ~US\$29b.

Eskom's finances have steadily deteriorated

■ Debt



Does this mean there are enhanced risks for TER?

We believe that Eskom will both honour its contracts and expand its tonnages required. Under Andre de Ruyter, Eskom's new CEO, the company is tackling systemic issues of training, efficiency, elimination of waste and even in the collection of power bills. The aim is to profitably increase power generation.

The South African Government also expressed steadfast support for its largest government owned asset and perhaps its single most important community activity.

Debt Risk – The Rectification Pathway

TER is a growing mine developer and has run highly geared operations on a modest capital base. A key component to the Universal Coal acquisition was that it provides a cash-generation engine that can strengthen the merged balance sheet. This acquisition and some recovery in export thermal coal prices can see a rapid improvement in key debt parameters. There is the potential to eliminate debt by Fiscal Year 2024, if no acquisitions or special returns to shareholders are undertaken.

Re-financing debt

A key to reducing short term pressure is to replace the onerous 12.5%, US\$148m (~A\$208m) Euroclear Bond facility that falls due on 30 Jun 2021.

TER's proposes to list

an A\$220m Debt security with an 8% premium to the Bank Bill Swap rate. It extends the maturity to 3-years. We see a successful placement of this debt facility as both reducing corporate risk and a potential re-rating catalyst for TER.

Y/E 30 June		FY'18a	FY'19a	FY'20a	FY'21	FY'22	FY'23	FY'24
EBITDA	\$m	27.3	94.1	5.4	116.4	184.2	204.9	218.9
EBITDA Margin	%	19%	28%	2%	19%	26%	27%	28%
NTA per share	\$	0.07	0.15	0.08	0.14	0.24	0.36	0.51
Eff Tax Rate	%	26%	38%	33%	27%	28%	28%	28%
Interest Cover	x	0.2	0.8	(0.6)	4.4	6.3	7.7	42.2
NetDebt/NetDebt+Equity %		88%	70%	80%	68%	44%	15%	-28%

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Section 3: Key Assumptions – Base Case

Pricing and currency inputs over the forecast period are as follows:

Y/E 30 June		FY'19a	FY'20a	FY'21	FY'22	FY'23	FY'24	FY'25
Australian \$/USD \$	A\$/US\$	0.715	0.671	0.723	0.730	0.730	0.730	0.730
SthAf.Rand/USD \$	ZAR\$/US\$	14.19	15.66	17.10	17.67	18.46	19.25	20.08
SthAf.Rand/AUD \$ Hedged	ZAR\$/AU\$	10.15	10.50	12.35	12.90	13.47	14.05	14.66
Coal price in US\$/t unless stated								
Thermal Coal - Newcastle export		97.52	63.28	56.66	63.75	67.75	71.00	72.14
Th.Coal - Blair At. - Standard		87.68	56.89	49.66	55.88	59.39	62.24	63.23
Blair Athol Disc to Newc %		-10%	-10%	-12%	-12%	-12%	-12%	-12%
T.Coal Richards Bay 6000kc/kg US\$/t f		87.82	67.11	60.77	67.27	71.18	74.60	75.79
Av. Export Price - Sth Af.		90.41	68.65	60.05	65.73	69.49	72.74	73.85
Export Disc to Richards Bay 6000		3%	2%	-1%	-2%	-2%	-2%	-3%
Av. Domestic Price Sth Af.	ZAR/tonne	564	605	651	662	681	699	719
Av. Domestic Price Sth Af.	US\$/tonne	39.75	38.63	38.11	37.45	36.90	36.31	35.79

Our Australian/US Dollar long term forecast is a flat \$0.73.

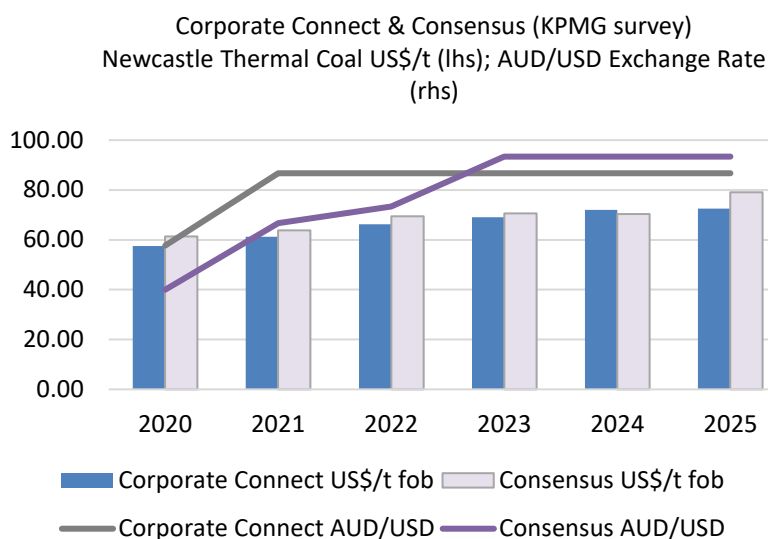
The trend for the South African Rand to US dollar has been to depreciate. Higher inflation in South Africa versus the US is a key reason to see that trend continue at around 4.25%pa.

The SeptQ20 average price for the Newcastle benchmark export thermal coal prices at ~US\$52/t is 30% below average US\$78/t since 2012. We see prices firm or rising over the remainder of FY21 and over the next few years. However, we are less confident that coal prices can sustainably stay above old averages given the changing structure of World power generation. However, temporary price spikes above \$80/t are highly possible on supply disruptions in various energy forms' supply chains.

Blair Athol coal (~5,500 kcal/kg) is assumed to sell for a 12.4% discount to Newcastle Export Benchmark (6,000 kcal/kg) on lower calorific basis. TER's South African export coals are priced in line with the Richards Bay 6,000 kcal/kg export maker.

Domestic coal sold to Eskom is contractually based. Prices are linked to energy content and various inflation indices to take account of cost increases. This has the effect of providing a *relatively flat real price*. This is to enable coal producers to meet contracted volumes for the essential service of powering over 80% of South Africa's electricity generation.

Commodity assumptions versus Consensus



Source: KPMG and Corporate Connect Estimates

We have compared our projected prices for Newcastle export thermal coal price benchmark and Australian Dollar/US dollar exchange rates forecasts to Consensus. The Consensus was built on survey compiled by KPMG during the Sep Quarter.

Our forecast of the benchmark coal price is 3% lower than Consensus over the period to FY25. However, our reading is nearly 5% below Consensus in the FY21-22 period.

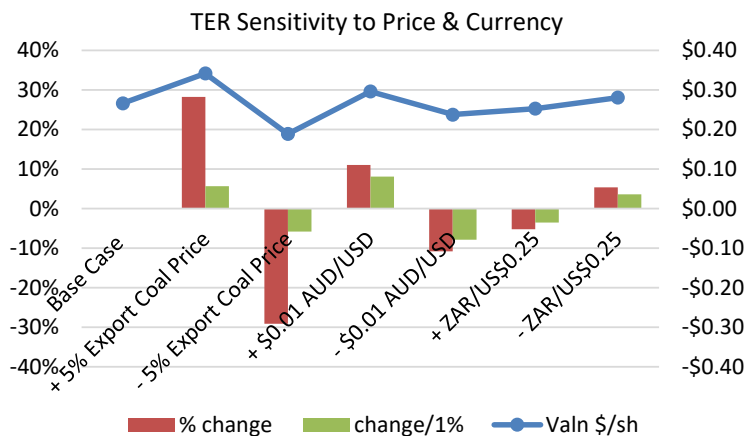
Our AUD/USD forecast is 3% higher in the FY21-22 period and only 1% higher for the average over the 5-year period.

If Consensus forecasts are correct – our estimate of TER's earnings and valuation could be raised by over 15%.

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Sensitivity Analysis



Source: TER announcements, Corporate Connect estimates

A sustained 5% rise (fall) in export coal prices results in a 28% increase (28% decrease) in Base Case \$0.27/share valuation.

A sustained rise (fall) of US\$0.01 in the AUD/USD exchange rate reduces valuation by 11% (increases by 11%).

A depreciation of the South African Rand by US\$0.25 decreases the valuation by 5%. While export sales benefit in ZAR terms from a depreciating ZAR, the translation effect of Domestic sales offsets these margin benefits. In practice, the domestic price would likely adjust and in some part dampen the impact of currency changes (up or down) on the valuation.

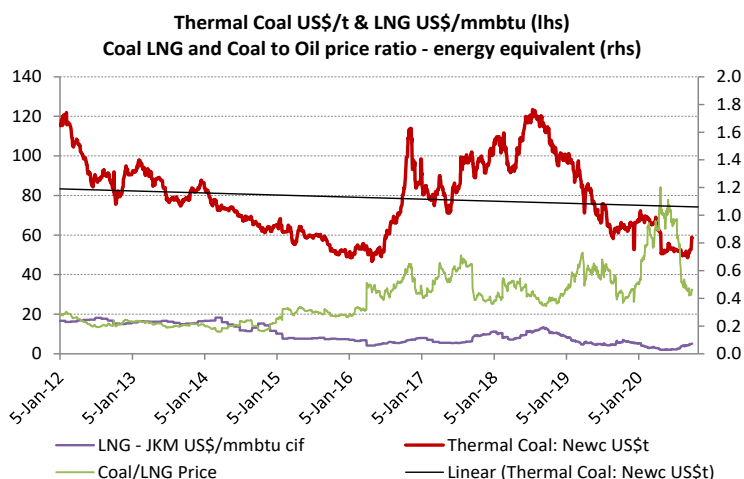
We have shown in green bars (lhs) the change in valuation (rhs, blue line) for a 1% change in coal price or currency input parameter.

The change in the AUD/USD rate is the single most sensitive variable over the short/medium term.

Is Thermal Coal Cheap?

During the SepQ20, Australian thermal coal export benchmark prices traded to as low as US\$49/t noting that the 2019-year average was \$75/t. In early September we published our view that thermal coal prices were cheap enough and a new up-cycle was in the making. <https://www.sharecafe.com.au/2020/09/07/chart-of-the-week-is-thermal-coal-cheap-enough/-Prives>.

Our view was predicated upon mounting coal industry stress, rising prices for competing fuels like LNG and the potential for a partial relaxation of artificial restrictions on coal imports. The latter was used to support China's domestic coal industry.



While the Newcastle thermal coal price has risen over 20% from its lows to around US\$58/t the abovementioned factors appear to be still in play.

Spot Liquefied Natural Gas prices have risen from US\$2 to around US\$5/mmbtu. This sees the energy adjusted Coal to LNG price ratio still at their lows – see green line in chart on left. Coal is currently a cheap fuel.

As new imports quotas are implemented in China, there is likely to be a rise in higher quality thermal coal imports to China. We also expect tougher enforcement of environmental restrictions that favours quality coals.

Despite the recent coal price rise, thermal coal remains well below the trend prices of ~US\$75/t. Stress on the coal industry remains, resulting in ongoing capacity restrictions and the slowing of expansion plans.

We believe these factors allow room for a seasonal rise in coal pricing that could be sustained into 2021.

However, an unknown factor is timing and extent of the greater Asia Region's economic recovery from the Covid-19 pandemic.

Over the longer term, we see thermal coal pricing approaching the longer term trend price from the low-side for two reasons. Firstly, there is significant spare capacity and growth in the LNG industry globally. Secondly, stricter climate change policies can change the mandated thermal generation growth level and the alter relative cost structures of coal-buying utilities.

Our recommendation to investors is to be highly selective and to focus is upon coal producers that:

- Provide excellent value-in-use coal products that would be least susceptible to substitution by other energy forms; plus,
- Posses a competitive cost structure; and,
- Have access to essential utility customers or cost-competitive generators and cement manufacturers.

TER's products possess many of these vital features. Coal will remain an important part of the global energy mix for some time, however the key message is the majority of the remaining coal resources in the World *will not be produced*.

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Comparing TerraCom to its ASX-listed Peers

Following TerraCom's transformative acquisition of Universal Coal we examine its relative position to a selected group of ASX-listed pure-coal producing companies. Note that we define Enterprise Value (EV) as a company's market capitalisation plus net debt plus net current obligations. The latter broadens the EV definition to be prudent and account for the current period's time of heightened operational/balance sheet risks.

- Table 1 – TER's EV/Resource is cheaply priced at \$0.16/tonne compared to the industry average of \$0.55/t. TER's EV to Reserves at \$4.90/t is above the industry average of \$4.21/t. We note that TER is a development company that is seeking to convert Resources to Reserves and then ultimately to Cashflow.
- Table 2 – TER's EV/EBITDA is cheaper than large-capitalised groups, but above the smaller groups. This position is likely to improve as its projected earnings margins move from a little below FY21's average to in line with average in FY22.
- Table 3 & 4 – TER has significant coal sales compared to the ASX-coal majors. However, its EV is a tiny fraction of these groups. Success in TER's business efficiency, new projects and gearing reduction provide a big re-rating opportunity.

Table 1 – TER is cheap on EV/Net Production \$/t versus peers and EV/Resources; though not on EV/Reserves.

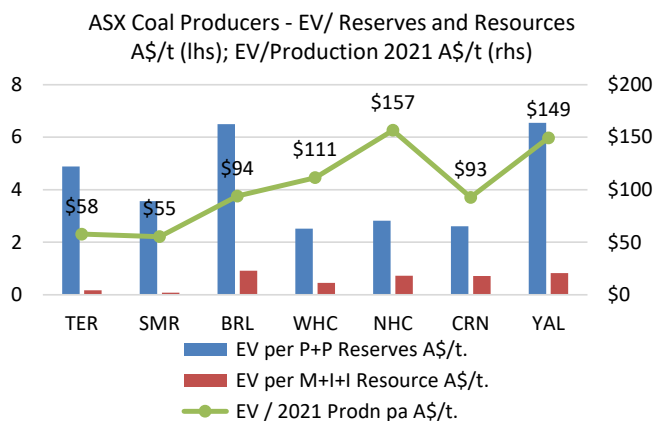


Table 2 – TER is cheap on EV/EBITDA ratio versus the large capitalisation peers; TER's EBITDA margins are set to rise.

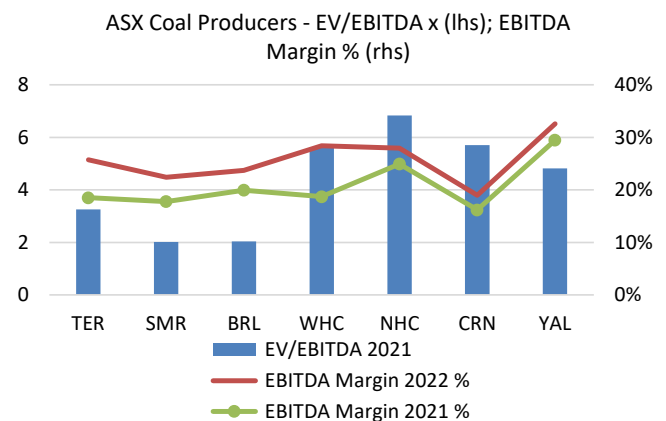


Table 3 – TER Sales approach the lower end of the majors

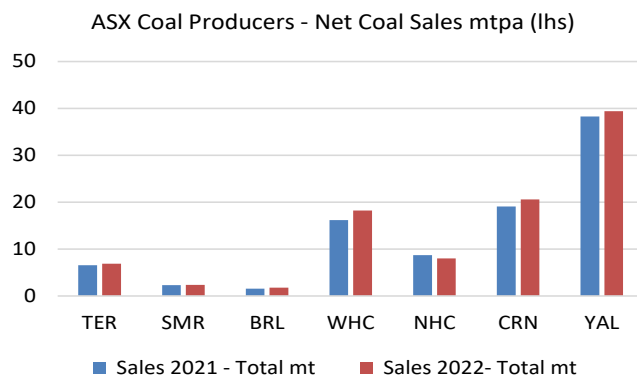
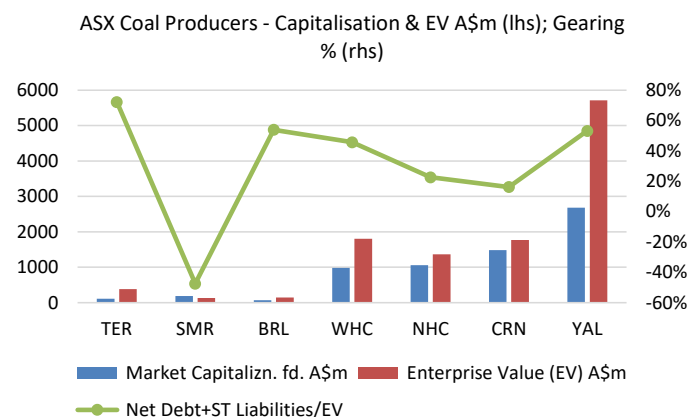


Table 4 – TER's modest EV & Capitalisation suggests understatement of its Resources, sales and earnings capacity



Sources for all charts: ASX, Company announcements, Bloomberg, Corporate Connect est.

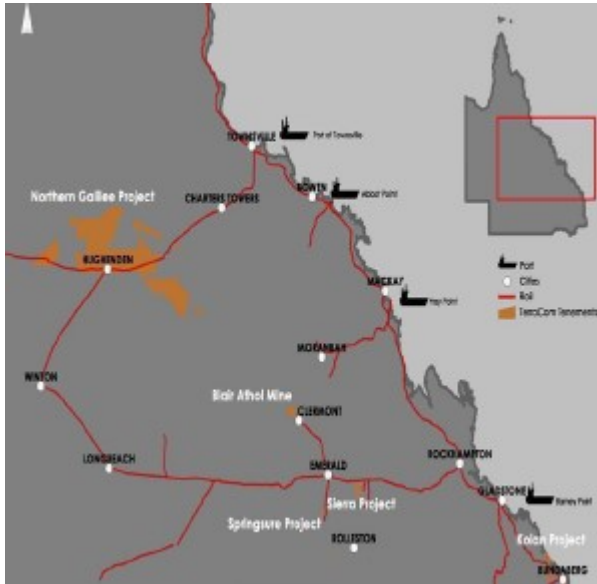
Important note – the displayed ratios are indicative only, most particularly where the analysis includes estimates of forward-looking inputs. Prices as at 1st Sept 2020.

There is considerable uncertainty in comparison analysis in part due to changes in mine plans, volatile market circumstances as well as altered assumptions used by forecasters. We have compared our own forecasts for TER to Peer companies using a mix of Bloomberg Consensus and selected research where Consensus is skewed by limited or out-of-date coverage.

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Section 4: Asset Profiles – Blair Athol Mine & Australian Development Assets



Blair Athol is located close to Clermont that is lined by rail to Dalrymple Bay Coal Terminal (DBCT) and the Abbott Point Coal Terminal (APCT).

The Blair Athol open pit mine is within ML1804 and is 100% owned by TER. The mine lies within a discrete sub-basin of the world class Bowen Basin, in Central Queensland. It had been operated by Rio Tinto since 1984 at rates as high as 11 million tonnes per annum (mtpa).

Attractive value-in-use coal is a marketing plus

The scale and longevity of Blair Athol earned its product coal a strong brand especially among power generators in Japan and South Korea.

Blair Athol produces a clean burning thermal coal with low impurities – with air dried (AD) levels of ~12% ash and 0.3% low-sulphur; and mid-caloric thermal coal at 5,500 kilocalories/kilogram (kcal/kg). Low inherent moisture at ~7% and high fixed carbon of around 54% completes an attractive value-in-use fuel for power generators. Some Japanese generators specifically designed plant with Blair Athol coal profile used as a base-load fuel.

Around 40% of Blair Athol's coal is sold to these generators. The remainder is sold through Asia's growing coal-powered generating sector aided by Blair Athol's strong brand recognition and relative clean burn.

TER's sales of Blair Athol coal has achieved fob prices of around 10 to 15% discount to Standard Newcastle thermal coal grade. Our analysis assumes an ongoing 12.4% discount to that Newcastle standard export price.

Coal produced is transported by rail to Dalrymple Bay Coal Terminal (DBCT) and Abbott Point Coal Terminal (APCT), under agreements with rail service groups Pacific National and Aurizon. Access to two coal ports adds to reliability of supply.

Blair Athol Mine's 2nd life and Rehabilitation Plan

In 2012, Blair Athol's operating scale was falling on low Reserves that followed over 250mt of coal extraction. Rio Tinto then placed the operation in care & maintenance. TER concluded the acquisition for \$1 of the Blair Athol operation in 2017 with production starting in October of that year. The acquisition came with the dragline, mobile plant fleet, maintenance and crew facilities, a range of spares and in-pit saleable coal inventory. Importantly the acquisition came with \$80m in funds held in trust account controlled by the Queensland Government. These funds are released after a rehabilitation work module is completed, on the proviso that the remaining funds plus the mine's operations status are reviewed as adequate to cover the remaining clean-up obligation.

TER has to date completed rehabilitation of over 60 hectares and the capping of an old tailing dam. Based upon its efficiency outcomes, in June 2020 the initial Financial Assurance bond was reassessed by the Queensland Department's Dept of Environment & Science at A\$72m or \$8m less than at the acquisition date. The Bond Facility currently requires \$45m in cash backing. In January 2020 \$27m in restricted cash funds were released to TER.

We anticipate TER's net rehabilitation cash outlays will be nil for a few of years. However, TER will be required to fund the period of time until rehabilitation expenditures are assessed, and the funds are only then released from the bond.

Mine plan changes – managing liabilities over significantly more time

An important element to reactivating Blair Athol was the mine plan change that increased Reserves and lengthened mine life.

First, TER re-scaled the operation to a 2 to 3 mtpa Run-Of-Mine (ROM) level with an approximate 8 bank cubic metres (BCM) of overburden to one tonne of ROM coal production. In parallel TER re-scaled all the operating costs to that level and engaged Link Mining Services Pty Ltd (Link) as the full-service mining contractor under a 5-year contract to reduce former site costs. Just under half the ROM coal produced does not need to be washed, which is cost saving. Overall ROM to product yields are ~83%.

A second factor is the mining of Seam-4 which is below the originally mined Seam-3. This plan called for a reduced rehabilitation footprint and lower double handling of waste. Ongoing integration of mine plan and rehabilitation works has the potential to further reduce the overall full-cycle costs of operation. These changes were critical to value-enhancing by both reducing current expenditures, lowering future unit rehabilitation costs as well as elongating mine life.

In effect TER has redesigned the mine to generate better margins with initial obligation costs being spread over a longer period.

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Reserves have risen 134% to 31.6mt since mining operations resumed

Additional Reserves can be secured with refined mine plan and complementary mining methods

*Blair Athol dragline runs 24hrs/7-days.
Efficiency improvements lower mining and rehabilitation costs and can materially increase remaining Reserves*



Source: TER FY20 Presentation

A 3rd Mine to delay End of Mine and Closure?

The adjacent Moorlands lease contains enough coal to extend mine life by 25 years.

While the asset is not owned by TER, Blair Athol's existing facilities markedly improve this project's development prospects.

Mine life extension – key to unlocking further value

Prior to TER's acquisition, Rio Tinto classified Blair Athol's remaining coal as a largely Measured Coal Resource of 10.5mt. No Reserves were declared as the mine's production was suspended. In November 2016, TER's commissioned Xenith to review the coal inventory, and it reinstated 13.5mt to Proven & Probable Reserves.

Since reactivating the mine, TER's actions has transformed Blair Athol's Reserves position from 13.5mt to 31.6mt, significantly boosting its value to shareholders. Even after producing 4.2 mt of ROM coal to 30th June 2019, it undertook a review of remaining accessible coal. The results are detailed in the table below with 27.4 million tonnes of remaining Proven and Probable Reserves.

If Reserves are fully produced, this equates over 10 years of remaining mine life (including FY2020 output of ~3.1mt) at our forecast ~2.7mtpa sustainable ROM production rate.

We are positive that perhaps half of the Remaining Resource or ~7mt could convert from Resource to productive Reserves. This could add a further two and half years to the production profile.

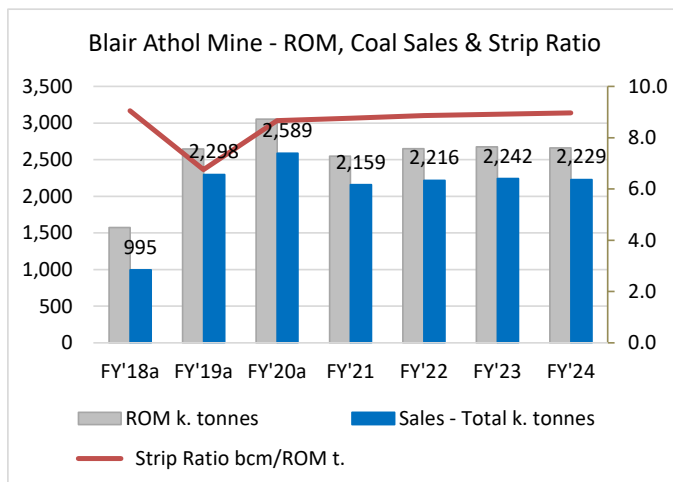
Some of the extra coal may come from exposed high-walls that horizontal auger operators could access. This upside is not included in our Blair Athol evaluation.

Blair Athol Reserves & Resources - as of 30 June 2019

Reserves mt.			Resources mt.	
Proved	Probable	Total	Measured & Indicated	Inferred
15.3	12.1	27.4	41.8	2.0

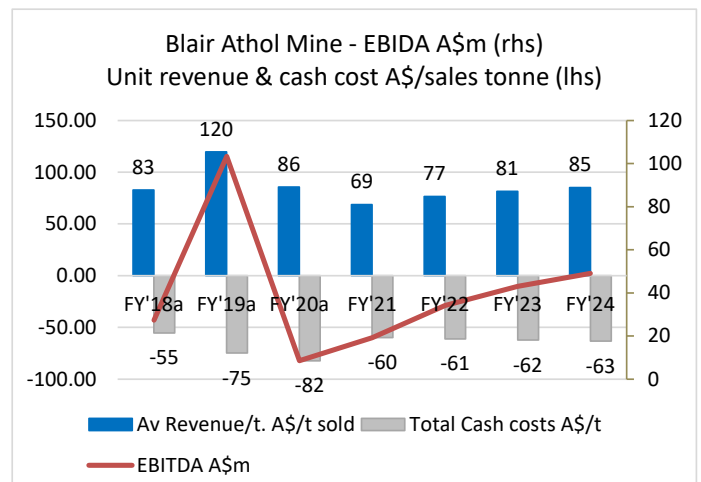
1. Source TER Announcement 30th Sep 2019
2. See Appendix for full summary of Reserves and Resources

Blair Athol strip ratio and coal output & sales



Sources for both charts: TER and Corporate Connect estimates

Blair Athol EBITDA A\$m; Unit revenue & cash costs A\$/t. sales



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What can \$1 buy?

Along with the Blair Athol mine the acquisition came with significant infrastructure listed below.

TER has the opportunity to leverage its advantaged position with these assets for nearby development projects.

INFRASTRUCTURE

- Power
- Water
- Workshops and service bays
- Secure stores
- Administration buildings
- Safety and training centre
- Train loadout facility

ACCOMMODATION

- 40 Houses
- 42 Single Persons Quarters

Blair Athol production and efficiency initiatives

Since reactivation Blair Athol has reached a coal sales record of 2.59mt in the year to June 2020. Going forward, we expect lower saleable production of ~2.25mtpa. This follows TER's decision to re-scale operations as it transitioned from Link Mining Services Pty Ltd to owner operations by end of July 2020.

This change reduces unit cost as it moved coal-recovery rosters to a lower cost single shift and 5-day operations. Wash plant, loading and critically dragline operations remain 24hours/7-day week operations. TER also completed the acquisition of mobile equipment for a discounted price of A\$3.2m in August 2020 which also effectively lowers otherwise rental costs.

Owner operation also provides more operational flexibility to assist the integration of mining and rehabilitations programs. TER expects that it can generate additional overall mining cost-savings and possibly result in Environmental Bond benefits.

TER have forecast for FY2021 that Blair Athol unit costs fall to A\$59/t FOB. This is down from FY2020's costs of A\$59/t FOB. The unit cost saving of 22% is timely given the current challengingly low coal prices.

We have perhaps conservatively assumed an overall life of mine strip ratio of 9.1:1 for added rehabilitation flexibility, versus TER's stated 8:1 ratio. Mine plan optimisation is an ongoing source of efficiency gains.

With operational control, TER can also be more reactive to coal price fluctuations to flex production to capture more earnings.

An example is that a rise in coal prices may allow TER to quickly react to add a worker shifts and pre-strip equipment to boost production. This would be at higher unit cost but would capture higher net earnings.

Blair Athol Mine Sales and Financial Profile¹

Blair Athol		FY'18a	FY'19a	FY'20a	FY'21	FY'22	FY'23	FY'24	FY'25
Waste moved	'000 bcm	14,249	17,884	26,436	22,312	23,478	23,829	23,829	23,829
Strip Ratio	bcm/ROM t	9.0	6.8	8.7	8.8	8.9	8.9	9.0	9.0
ROM	k. tonnes	1,575	2,647	3,052	2,547	2,650	2,674	2,658	2,643
Sales - Total	k. tonnes	995	2,298	2,589	2,159	2,216	2,242	2,229	2,215
Thermal Coal - Newcastle expo	US\$/t	100.19	97.52	63.28	56.66	63.75	67.75	71.00	72.14
Th.Coal - Blair At. - Standard	US\$/t	90.08	87.68	56.89	49.66	55.88	59.39	62.24	63.23
AUDUSD - post hedge	AUD/USD	0.78	0.72	0.67	0.72	0.73	0.73	0.73	0.73
Av Revenue/t.	A\$/t sold	82.86	119.69	85.57	68.67	76.56	81.35	85.26	86.62
Total Cash costs	A\$/t	-55.30	-74.68	-82.27	-59.79	-61.14	-62.18	-63.27	-64.20
Total Costs	A\$/t	-61.33	-79.33	-89.18	-67.46	-68.83	-70.11	-71.63	-72.93
EBITDA	A\$/t	27.55	45.00	3.30	8.88	15.42	19.17	21.98	22.42
EBIT	A\$/t	21.53	40.37	-3.60	1.21	7.74	11.24	13.63	13.65
Revenue: A\$m.	A\$m	82.42	275.06	221.55	148.23	169.65	182.40	190.02	191.91
EBITDA	A\$m	27.40	103.40	8.55	19.17	34.17	42.98	49.00	49.67
Margin	%	33.2%	37.6%	3.9%	12.9%	20.1%	23.6%	25.8%	25.9%
EBIT	A\$m	21.42	92.77	-9.33	2.61	17.15	25.20	30.37	30.34
Margin	%	26.0%	33.7%	-4.2%	1.8%	10.1%	13.8%	16.0%	15.8%
	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Project Gross CF	A\$m	20.97	75.57	5.89	19.17	34.17	42.98	49.00	43.03
Stay-in-business Capex	A\$m	0.00	0.00	0.00	-1.68	-3.18	-3.21	-3.19	-3.17
Project Capex	A\$m	-24.71	-3.38	-13.63	-3.20	0.00	0.00	0.00	0.00

Sources: TER announcements and accounts and Corporate Connect estimates

¹ Note – The Mines profile excludes exploration and non-site corporate charges.

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Asset Profile – Australian Development Assets

TER sees the Blair Athol asset as providing a potential hub to assist development of other Queensland projects including:

Springsure Project

Located 45km south of Emerald in the central-western Bowen Basin. TER has a 90% share of this high calorific thermal coal underground resource within MDL 3002 & EPC 1674 and is 31 km² in size. The project has 43mt Measured & Indicated Resource and a further 148mt of Inferred Resource. There is expansion potential into the adjoining 100% TER-owned Fernlee Project (EPC1103).

Envisaged as an underground longwall operation, it could produce ~2 to 3mtpa of export quality of over 6,000kcal/kg with low sulphur from run-of-mine production. This would save wash plant construction and operating costs. The Minerva rail line runs near the north-west corner of Springsure, providing proximity to the rail system to export terminals at the Port of Gladstone. A project mine development application has been granted. To proceed to next stage of development, TER may seek a development partner to finalise mine permitting and start the high upfront capital cost item. This is the greater than 1km road decline access to the coal face to then initiate the longwall mine development.

Galilee Projects

The Northern Galilee Project comprises Hughenden and Clyde Park Projects.

Hughenden

The Hughenden project is located in the Northern Galilee Basin comprising of following tenements; EPC 1300, 1394, 1477, 1478, 1479, 1890, 1892, 1893, 1962, 1964 and 2049. These tenements' aggregate area is approximately 2,160km².

EPC 1477 has a Coal Resource of Inferred

Resource of 1,076mt and an Indicated Resource of 133mt. Permian-aged coals with around 11-plus meters net thickness are indicated at 350 to 600 metres depths. It has potential to support multiple underground mining operations producing export thermal coal. Key Resource containing tenements have proximity to the underutilised Mt Isa to Townsville rail line. We believe that the rail line would need upgrading and the Townsville port requires coal-loading facility to support project development. We are cognizant of some of the hurdles to the project. However, these can be met as demonstrated by the Carmichael Project, further South in the Galilee Basin. The Carmichael Project has shown that a large-scale development can obtain infrastructure development support and well as linkage to key customer offtake, in that case to India.

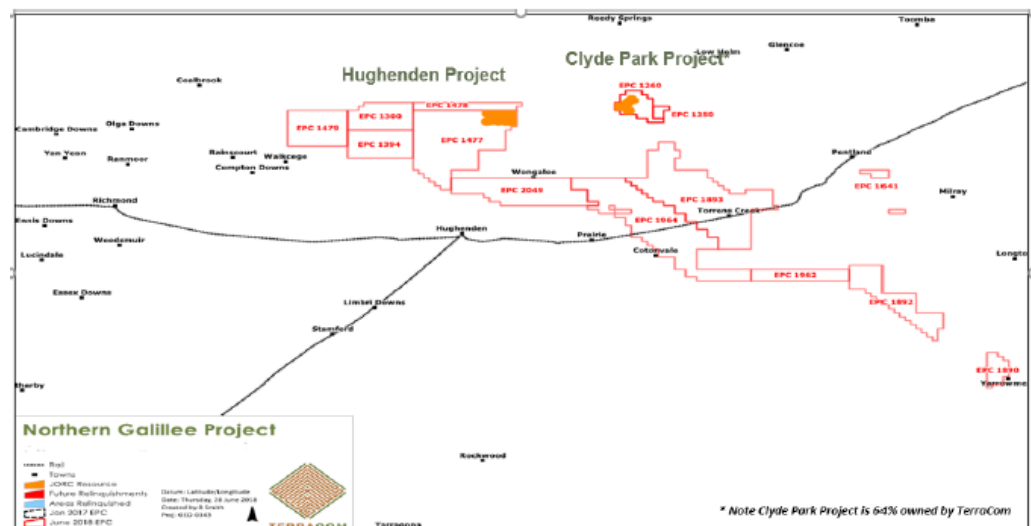
TER's next steps are to undertake further delineation drilling and advance towards a Minerals Development Licence. TER has 100% equity in these assets and will likely seek a partner to assist funding these and later development stages.

Clyde Park Coal Project

TER has a 64.4% stake in Clyde Park Coal project that consists of the contiguous tenements' EPC 1250 and EPC 1260. These are situated on the north eastern edge of the Galilee Basin in Queensland, covering approximately 133 km². The southern boundary is within 15km of the Mt Isa/Townsville rail line.

The Clyde Park Project contains an estimated 728mt Coal Resource, with 51mt Indicated Resource and 677mt of Inferred Resource. Eight coal seams have been intersected with some indicating coals with a moderate ash (15% on an air-dried basis - adb), moderate calorific value (5,800 kcal/kg adb) and low sulphur (0.5% adb). These indicate potential for an export thermal coal product. These coals are consistent with other Galilee Basin explorers such as Adani Mining (Carmichael Deposit

TER's next steps are to undertake further delineation drilling and advance towards a Minerals Development Licence. TER will likely seek a partner to assist funding these and development stages.



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Asset Profile – South African Mine and Development Assets

In this section we outline the asset profile that examines whether TerraCom's expressed goals in acquiring Universal Coal can be secured. Specifically, TER sought:

- To enter into an emerging market and simultaneously reduce TER's sovereign risk profile
- To provide geographic diversification, along with customer diversification
- To provide an expanded production footprint and a source of future organic growth
- To secure a strong operational Management team to improve ongoing operations and execute expansions
- To continue Universal's strong record of non-organic growth

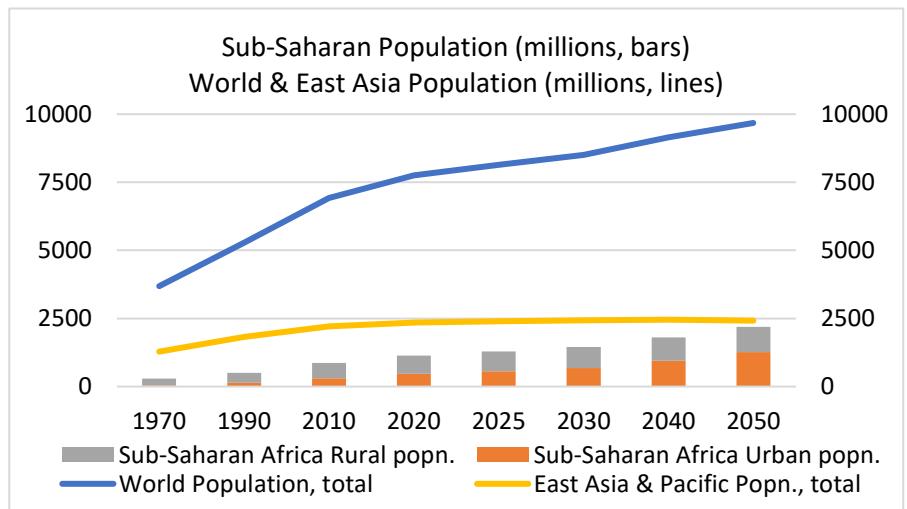
Geographical diversification – a strategic advance with the Universal acquisition

Geographical diversification can access new markets. Sub-Saharan Africa is projected to have some of the World's fastest growing populations and economic growth into the mid-21st Century. By 2050 Sub-Saharan Africa's Population will nearly reach East Asia's projected population, with most rise coming from Africa's new urban dwellers. Africa's domestic demand for energy is set to accelerate.

South Africa is also well positioned to service the newly emerging African, Middle East and Indian demand as well as supply the traditional Atlantic market.

Product diversification can occur through development of a Coking Coal operation in South Africa at Berenice/Cygnus project.

TER is also closely examining a participation in three Guinean bauxite projects.



Data Source – The World Bank's "DataBank"

Operational Diversification – multi-mine operation established

Universal coal sequentially developed or acquired the Kangala, North Clyde Colliery (NCC), North Block Complex (NBC) and most recently, Ubuntu mines.

These are located close to the heart of much of South Africa's thermal power generation. Four mines provide some operating and cashflow diversification.

The Eloff project is receiving final approvals and being adjacent to Kangala is an advantaged development.

The rail network and allows export access to the Richard's Bay Coal Terminal and for some mines and new development the potential access to Maputo port, just North into Mozambique. Access to more than one port increases business resiliency.

LOCATION OF OPERATIONS



LEGEND		
Thermal coal – mines	Thermal coal – projects	Coking coal – project
1 Kangala	5 Eloff	7 Berenice/Cygnus
2 NCC	6 Amot South*	
3 NBC		
4 UBUNTU		

* Not currently owned by TerraCom

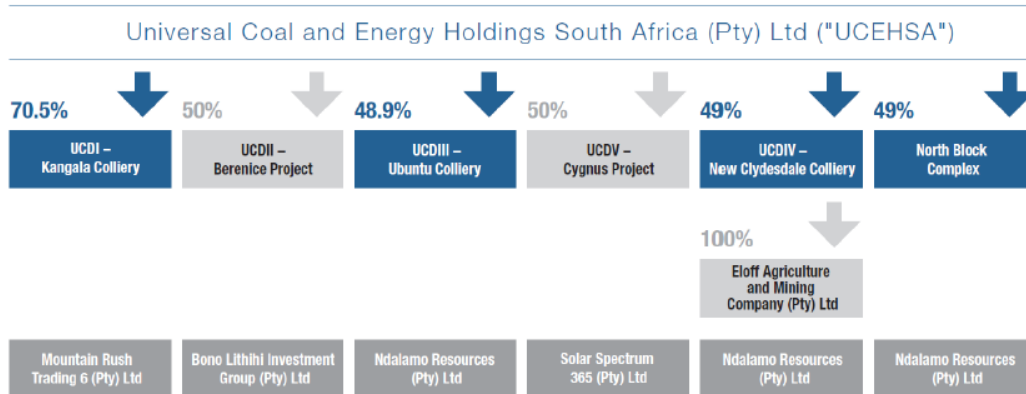


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Sovereign Risk Diversification – strong step forward



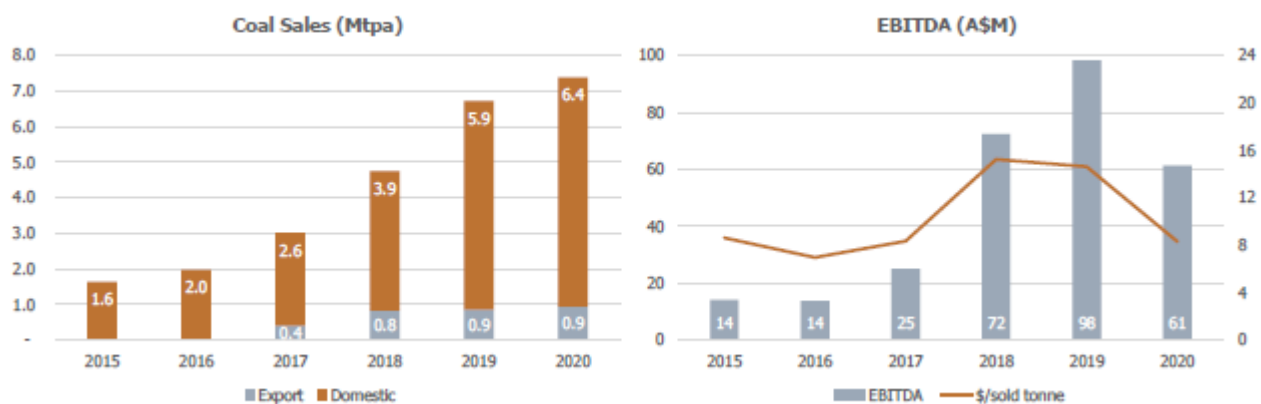
South Africa has markedly different ownership rules than Australia. Notable is Black Economic Empowerment (BEE) mandated policies of local ownership of enterprises.

While the policy has had implementation issues, a key result is that local engagement provides a strong social as well as economic licence for an enterprise to operate.

We see this as a key diversification of Sovereign risks to Australia where there are different problems of onerous regulation surrounding new project development. Universal Coal has fully complied with the South African policy and has strong BEE partners. Though it often has slightly less than 50% ownership, Universal retains operational control over all mines.

At the Country level, South Africa as a non-aligned nation has a different geo-political set of risks to Australia.

Past Growth and Financial Performance – pointer to future returns

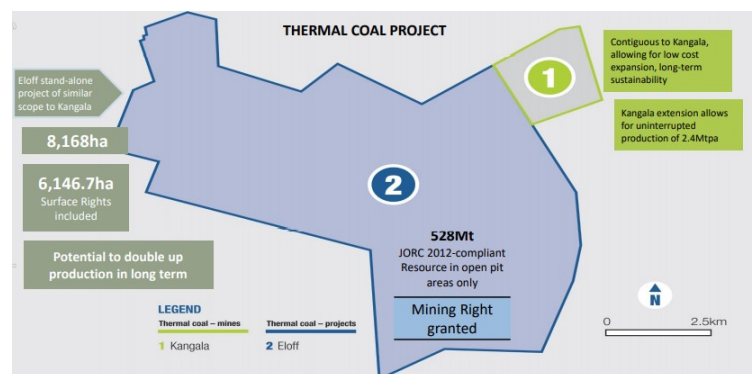


Universal Coal has delivered strong sales volume growth, operational cash generation and have distributed \$44m in dividends since 2015. This growth has been backed by the contractual agreements with South Africa's largest power generator – Eskom. The mines provide elements of an annuity stream – highly prized by investors. NCC and NBC have opportunities to mine and wash selected portions of their Reserves that meet export thermal grade specification. This has grown to 0.9mt pa and there are opportunities for this portion to expand and potentially boost EBITDA generation further.

Future Growth - Eloff Expansion opportunity

The Kangala mine pictured left in green licence area, has been in production since 2014 as an open pit, truck and shovel contractor operation. Located 65km East of Johannesburg, close to coal-fired power stations, the operations are secured by a 2.1mtpa domestic coal supply contract. This contract nominally expires 2023.

Contiguous is the Eloff lease which has larger Resources, lower operating cost and can leverage off existing infrastructure. We expect Kangala's closure and Eloff's start-up in FY21. The upside is the mine's potential to double output. Negotiations with Eskom are in train.



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Management profiles – experience to continue profitable growth

Universal Coal has experienced a strong record of growth and financial returns. under the management of Tony Weber and Shammy Luvhengo, both of whom remains operationally engaged with TER. The core team remains to drive further returns.

Shammy Luvhengo, Chief Executive Officer – a mining executive and Geologist with over 20-years' experience in the mining industry. He started his career with Exxaro Resources before moving into the Investment Banking specialising in structuring, project finance and Black Economic Empowerment transactions. Joining the Universal group in 2011 he has been the Business Development Executive for the Universal Group since 2015 and a key executive in the growth strategy plan. Added experience came from roles with Nkwe Platinum Limited as head of business development and investor relations, as well investment banking roles at Investec and Nedbank South Africa.

Tony Weber, Chief Operating Officer – is a co-founder of Universal Coal. He is a mining engineer with over 20 years' experience that spans project assessment, finance, project development and operations. Previously he was an executive director of ASX-listed at Nkwe Platinum Limited as well as operations manager at Potgietersrus Platinum Mine and at the Gamsberg Project. Tony has skills in project coordination, feasibility studies and coal mine operations.

Mpho Nkhumeleni, Chief Financial Officer – is a qualified Chartered Accountant who began her career in 2009 at PWC Southern Africa specialising in Financial Services. Her 11-years of responsibilities include financial management and reporting, taxation, commercial negotiations and capital structuring. She has added experience in valuations and M&A due diligence. Mpho previously worked for ABSA Capital's Cost Analysis and Reporting team as Africa Finance Business Partner with a specific focus on Rest of Africa costs during ABSA's acquisition and expansion into 12 African countries. This experience provides TER a valuable combined skill set for both current and potential acquisitions through Africa.

Minah Moabi, Director Corporate Affairs – Is an Environmental Scientist and member of South African Council for Natural Scientific Professions. She has 17-years' experience in mining and environmental management.

Ms Moabi started her career as a geohydrologist with the Dept of Water Affairs. Later moving to Exxaro Resources as Manager, Environmental & Sustainability Reporting. Prior to joining Universal Coal, she held a Project Manager position at BHP Billiton Energy Coal South Africa.

South African Mines and Projects – 2020 profile

Operation	Status	Equity	Mine type	Coal Products	ROM Prod'n mtpa	Coal Sales mtpa	Exports %	Mine life	Reserves mt	Resources mt
Kangala	Terminates 2021	70.5%	Open-pit	Domestic thermal	3.1	1.9	0%	1.0	2.0	97.1
Eloff	Starts 2021; replaces Kangala	49.0%	Open-pit	Domestic thermal	-	-	0%	11.3	64.8	33.0
NCC	Operating; started 2016	49.0%	Open-pit & Under/g	Domestic thermal	4.0	2.6	32%	12.5	50.8	136.6
NBC	Operating; started 2018	49.0%	Open-pit	Domestic thermal	3.9	2.6	3%	15.0	51.0	108.7
Ubuntu Berenice /	Operating; started 2019 & ramping up Development	48.9%	Open-pit	Domestic thermal	0.5	0.3	0%	8.0	8.6	75.8
Cygnus	project	50.0%	Open-pit	Export Coking	-	-	>80%	Est > 20	0.0	1350.1
Arnot South	Not owned - reviewing project	-	Open-pit	Domestic thermal	-	-	0%	Est > 10	0.0	206.6
Totals					11.5	7.4	12%		177.3	2,007.9

Note: Ubuntu operation started in FY20 and is currently in ramp-up. The 8-yr Mine life is calculated on our estimate of 1.5mtpa ROM.

Sources: TER and Universal Coal announcements, Corporate Connect estimates

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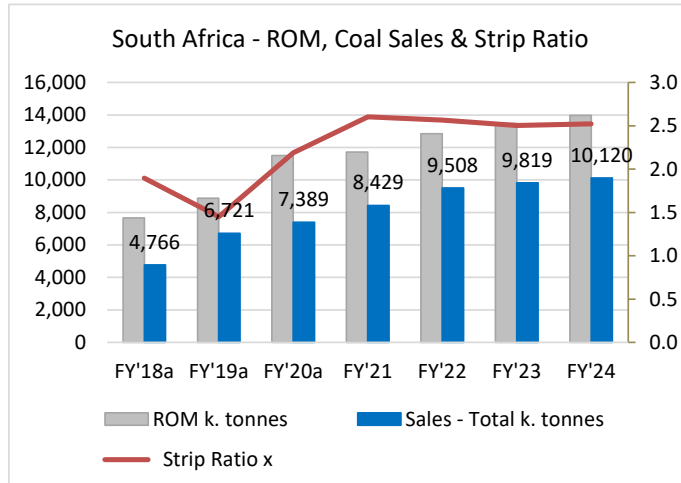
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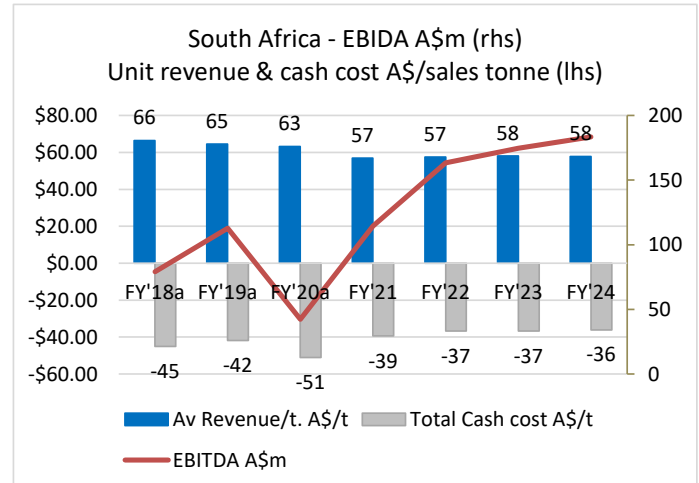
Forecast volume and earnings growth – multiyear growth opportunity

We see growth occurring at Ubuntu as it ramps up to full stabilised output. Once Eloff is commissioned and replaces Kangala mine, Eloff has the resource position to double current site production, if it secures an expanded Eskom contract.

Production and Sales Forecast



Unit Revenue and Costs and Earnings



Sources: TER announcements, Corporate Connect Estimates

Sources: TER announcements, Corporate Connect Estimates

South African Mines Sales and Financial Profile¹

South African Coal Mines: 100%		JunYr18	JunYr19	JunYr20	JunYr21	JunYr22	JunYr23	JunYr24	JunYr25
ROM	k. tonnes	7,668	8,883	11,494	11,713	12,845	13,474	13,976	14,226
Sales - Exports	k. tonnes	851	852	915	1,177	1,522	1,674	1,624	1,561
Sales - Domestic	k. tonnes	3,915	5,869	6,474	7,253	7,986	8,144	8,496	8,709
Sales - Total	k. tonnes	4,766	6,721	7,389	8,429	9,508	9,819	10,120	10,271
ZAR/USD	ZARUSD	\$12.85	\$14.19	\$15.66	\$17.10	\$17.67	\$18.46	\$19.25	\$20.08
ZAR/AUD	ZARAUD	\$9.96	\$10.15	\$10.50	\$12.35	\$12.90	\$13.47	\$14.05	\$14.66
Domestic Coal price	ZAR\$/t	\$546.80	\$564.01	\$604.92	\$650.96	\$661.63	\$681.02	\$698.94	\$718.59
Export Price	US\$/t	\$92.43	\$90.40	\$68.56	\$60.05	\$65.73	\$69.49	\$72.74	\$73.85
Av Revenue/t.	A\$/t	\$66.37	\$64.55	\$63.14	\$56.94	\$57.49	\$58.15	\$57.75	\$56.96
Total Cash cost	A\$/t	-\$50.24	-\$48.20	-\$57.41	-\$43.36	-\$40.31	-\$40.37	-\$39.63	-\$38.86
Total Costs	A\$/t	-\$54.08	-\$52.03	-\$60.43	-\$45.27	-\$42.11	-\$42.13	-\$41.40	-\$40.69
EBITDA	A\$/t	\$16.61	\$16.77	\$5.72	\$13.59	\$17.18	\$17.79	\$18.12	\$18.09
EBIT	A\$/t	\$12.29	\$12.52	\$2.71	\$11.68	\$15.38	\$16.02	\$16.35	\$16.26
Revenue: Sth Africa Dome:	A\$m	214.8	326.2	373.0	382.2	409.6	411.6	422.6	427.0
Revenue: Export	A\$m	101.5	107.7	93.6	97.8	137.1	159.4	161.8	158.0
Revenue: Total	A\$m	316.4	433.8	466.5	480.0	546.6	571.0	584.4	585.0
EBITDA	A\$m	79.2	112.7	42.3	114.5	163.4	174.7	183.4	185.8
Margin - EBITDA	%	25.0%	26.0%	9.1%	23.9%	29.9%	30.6%	31.4%	31.8%
EBIT	A\$m	58.6	84.1	20.0	98.4	146.3	157.3	165.4	167.0
Margin - EBIT	%	18.5%	19.4%	4.3%	20.5%	26.8%	27.6%	28.3%	28.6%
Project Gross CF	A\$m	58.5	99.1	31.5	90.2	122.4	130.6	137.1	139.1
Stay-in-business Capex	A\$m	-12.5	-56.0	-23.9	-11.3	-12.8	-15.2	-15.6	-15.8
Project Capex	A\$m	0.0	-40.0	-25.9	-21.4	0.1	0.0	0.0	0.0

Sources: TER announcements, accounts, Universal's 2020 Independent Experts Report and Corporate Connect estimates

¹ Note – Mines profile excludes exploration and non-site corporate charges.

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Section 5: Detailed Forecasts – P&L, Cash Flow and Balance Sheet

PROFIT & LOSS (A\$m)

Y/E 30 June	FY'19a	FY'20a	DecH'20	JunH'21	FY'21	FY'22	FY'23	FY'24
Sales Revenue	338.3	316.9	300.5	328.1	628.5	716.4	753.4	774.4
Cost of Goods Sold	-226.6	-296.2	-232.0	-235.5	-467.4	-490.2	-506.4	-512.1
Gross Operating Profit	111.7	20.7	68.5	92.6	161.1	226.2	247.0	262.3
EBITDA	94.1	5.4	44.9	71.4	116.4	184.2	204.9	218.9
EBIT - operations	58.4	-20.0	28.9	54.8	83.7	150.1	169.8	182.3
Net Interest Expense	-70.9	-32.8	-8.2	-10.9	-19.1	-23.8	-22.0	-4.3
FX & Other W/offs	-5.7	6.2	0.0	0.0	0.0	0.0	0.0	0.0
Pre-Tax Profits	-18.2	-46.5	20.7	43.9	64.6	126.3	147.8	178.0
Tax	6.9	15.5	-5.6	-12.2	-17.7	-35.3	-41.5	-50.3
Minorities	-0.1	-5.8	11.3	16.2	27.5	46.0	50.8	53.7
Discontinued & other	0.0	-116.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT TER s/holders pre-Compreh	-11.2	-141.3	3.8	15.5	19.3	45.0	55.4	74.0
Net Comprehensives	3.5	-3.4	1.5	0.5	2.0	0.3	0.2	0.2
Reported Profit TER sh/holders	-7.7	-137.9	4.6	15.7	20.3	45.2	55.5	74.1
Group Profit	-7.8	-150.5	16.6	32.2	48.8	91.3	106.5	127.9
Tax Rate (%)	37.9%	33.3%	27.0%	27.7%	27.5%	28.0%	28.1%	28.2%

BALANCE SHEET (A\$m)

Y/E 30 June	FY'19a	FY'20a	DecH'20	JunH'21	FY'21	FY'22	FY'23	FY'24
Current Assets	93.0	88.3	105.5	111.2	111.2	191.3	263.4	179.1
Cash and Liquids	57.2	10.1	31.0	35.4	35.4	109.2	176.7	89.2
Other	35.8	78.2	74.5	75.8	75.8	82.1	86.6	90.0
Non-Current Assets	399.3	542.0	546.4	542.9	542.9	525.5	509.0	491.4
Receivables & Restricted Cash	82.2	47.6	46.6	45.5	45.5	42.0	38.2	35.4
Current Liabilities	119.7	331.2	333.6	115.6	115.6	86.8	79.3	87.9
Borrowings	7.3	219.8	219.8	22.0	22.0	2.2	2.2	2.2
Non-Current Liabilities	302.2	235.7	236.2	431.8	431.8	447.0	418.7	198.1
Borrowings	213.5	39.6	40.1	235.7	235.7	250.9	222.6	1.9
GROUP EQUITY	70.4	63.3	82.1	106.7	106.7	182.9	274.4	384.6
Minority Interest	4.4	74.9	86.9	103.3	103.3	149.4	200.4	254.2
SHAREHOLDERS EQUITY	66.1	-11.6	-4.8	3.4	3.4	33.5	74.0	130.4

CASHFLOW STATEMENT (A\$m)

Y/E 30 June	FY'19a	FY'20a	DecH'20	JunH'21	FY'21	FY'22	FY'23	FY'24
Cash Flows From Operating Activities	67.0	2.8	37.2	28.6	65.8	113.8	133.1	169.9
Net Interest	-37.5	-24.4	-8.2	-10.9	-19.1	-23.8	-22.0	-4.3
Tax payments	0.0	-5.6	-0.1	-24.7	-24.8	-44.4	-39.7	-43.9
Working Cap Δ & other chge	2.4	25.0	1.0	-6.9	-5.9	-1.4	-9.3	0.0
Cash Flows From Investing Activities	-31.4	-44.5	-27.9	-14.3	-42.2	-20.1	-22.3	-21.9
Cash Flows From Financing Activities	9.7	-7.4	11.5	-9.8	1.7	-19.8	-43.3	-235.6
Net Change in Borrowings	-21.8	20.7	11.7	-1.7	10.0	-4.3	-28.1	-220.5
Dividends Paid	0.0	-4.7	0.0	-7.5	-7.5	-15.1	-15.1	-15.1
Equity Issues less Buy backs	35.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing & FX Adjust.	-3.8	-23.4	-0.1	-0.6	-0.7	-0.4	-0.1	0.0
Net Increase In Cash	45.3	-49.1	20.8	4.4	25.3	73.8	67.5	-87.5
Cash At End of Period	47.0	8.1	31.0	35.4	35.4	109.2	176.7	89.2
Free Cash flow	35.6	-41.7	9.3	14.2	23.5	93.6	110.8	148.0

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Detailed Forecasts – Valuation Parameters and Production Estimates

Date **Price** **Riskd Valn** **Curr.Sh.** **Mkt Cap**
5-Oct-20 **\$0.140** **\$0.272** **753.6** **\$106 m**

KEY RATIOS

Y/E 30 June		FY'19a	FY'20a	DecH'20	JunH'21	FY'21	FY'22	FY'23	FY'24
EBITDA	\$m	94.1	5.4	44.9	71.4	116.4	184.2	204.9	218.9
EBITDA Margin	%	28%	2%	15%	22%	19%	26%	27%	28%
NTA per share	\$	0.15	0.08	0.11	0.14	0.14	0.24	0.36	0.51
Eff Tax Rate	%	38%	33%	27%	28%	27%	28%	28%	28%
Interest Cover	x	0.8	(0.6)	3.5	5.0	4.4	6.3	7.7	42.2
NetDebt/NetDebt+Equity %		70%	80%	74%	68%	68%	44%	15%	-28%

VALUATION PARAMETERS

Y/E 30 June		FY'19a	FY'20a	DecH'20	JunH'21	FY'21	FY'22	FY'23	FY'24
EPS	c/ps	(2.4)	(22.9)	0.5	2.1	2.6	6.0	7.4	9.8
P/E	x	(5.8)	(0.6)	27.7	6.8	5.5	2.3	1.9	1.4
Enterprise Value	\$m	323	394	367	351	351	267	157	20
EV / Sales	x	1.0	1.2	1.2	1.1	0.6	0.4	0.2	0.0
EV / EBITDA	x	4.2	+>100.0	12.7	7.6	4.7	2.4	1.7	1.0
EV / EBIT	x	5.5	(19.7)	12.7	6.4	4.2	1.8	0.9	0.1
Price / NTA	x	0.9	1.7	1.3	1.0	1.0	0.6	0.4	0.3
DPS	c/ps	-	1.00	1.00	1.00	2.00	2.00	2.00	2.35
Dividend Yield	%	0%	7%	7%	7%	14%	14%	14%	17%
Franking	%	0%	0%	0%	0%	0%	0%	0%	0%
Free Cashflow	c/ps	7.6	(5.5)	1.2	1.9	3.1	12.4	14.7	19.6
P / CFPS	x	1.8	(2.5)	11.3	7.4	4.5	1.1	1.0	0.7
Issued shares: clos	mil.	467	754	754	754	754	754	754	754
Fully Diluted Wgt Shares		410	556	754	754	754	754	754	754

PRODUCTION PROFILE

Y/E 30 June	'000t.	FY'19a	FY'20a	DecH'20	JunH'21	FY'21	FY'22	FY'23	FY'24
Group ROM - Merged		3,367	6,521	7,033	7,227	14,260	15,495	16,148	16,635
Group ROM - Sth Africa		8,883	11,494	5,768	5,946	11,713	12,845	13,474	13,976
ROM - Mongolia		720	504	0	0	0	0	0	0
ROM - Blair Athol		2,647	3,052	1,266	1,281	2,547	2,650	2,674	2,658
Group Coal Sales - Merged		3,036	4,798	5,145	5,443	10,588	11,724	12,061	12,349
Equity ROM - Merged	'000t.	3,367	5,066	4,353	4,364	8,718	8,942	9,275	9,505
Equity Exports - Mongolia		738	502	0	0	0	0	0	0
Equity Exports - Australia		2,298	2,589	1,085	1,074	2,159	2,216	2,242	2,229
Equity Exports - Sth Africa		421	448	262	314	577	746	820	796
Equity Domestic - Sth Africa		3,389	3,588	1,894	1,941	3,835	3,936	3,989	4,161
Equity Coal Sales	'000t	3,036	3,925	3,241	3,329	6,570	6,898	7,052	7,186
Domestic % of Equity sales		0%	45%	58%	58%	58%	57%	57%	58%

Source: TER announcements, Corporate Connect estimates

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Appendices – Resources, Company Shareholders & Export Diversification

Reserves and Resources as of 30 June 2019

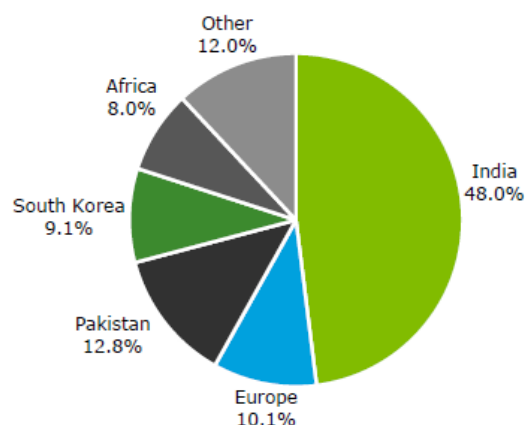
Tenement	RESERVES			RESOURCES				RESERVES	RESOURCES
	Proved	Probable	Total	Measured	Indicated	Inferred	Total	Attributable to TerraCom	Attributable to TerraCom
	Mt	Mt	Mt	Mt	Mt	Mt	Mt	Mt	Mt
AUSTRALIA	15.3	12.1	27.4	30.2	238.6	1,903.0	2,171.8	27.4	2,171.8
Blair Athol ^{1,2}	15.3	12.1	27.4	30.2	11.6	2.0	43.8	27.4	43.8
Springsure ³	-	-	-	-	43.0	148.0	191.0	-	191.0
Northern Galilee – Hughenden Project ³	-	-	-	-	133.0	1,076.0	1,209.0	-	1,209.0
Northern Galilee – Clyde Park Project ³	-	-	-	-	51.0	677.0	728.0	-	728.0
SOUTH AFRICA	134.2	13.1	147.3	676.5	1,246.1	582.3	2,504.9	78.4	1,264.3
Kangala ^{4,5}	28.3	-	28.3	51.3	15.0	32.3	98.7	20.0	69.6
NCC ^{4,5}	48.2	6.6	54.8	88.8	41.8	6.0	136.7	26.9	67.0
Ubuntu ^{4,5}	9.2	-	9.2	31.7	39.4	4.7	75.8	4.5	37.1
Arnot South ^{4,5}	-	-	-	2.3	65.3	139	206.6	-	103.3
Eloff ^{4,5}	-	-	-	11.8	266.0	250.6	528.3	-	258.9
NBC ^{4,5}	48.5	6.5	55.0	65.7	17.7	25.4	108.7	27.0	53.3
Berenice Cygnus ^{4,5}	-	-	-	424.9	800.9	124.3	1,350.1	-	675.1
TOTAL	149.5	25.2	174.7	706.7	1,484.7	2,485.3	4,676.7	105.8	3,436.1

Source: TER Presentation Sep 2020

South Africa's Coal Export Destinations

South Africa's export destinations differ significantly to Australia's North Asia focus. This provides significant market diversification for TER.

Our expectations are that exports to Africa and the Middle East will grow strongly over the next decade. This places TER in an advantaged position relative to its Australian mine, to capture growth in these regions.



Source: Richards Bay Coal Terminal

Source: 2018 Data, Universal Coal's Independent Experts' Report

TER Ownership

Major Shareholders

TER Directors & Management	14.2%
OCP Asia	12.9%
Bonython	10.9%
Noble	9.6%
AMED	8.0%
All other shareholders	44.3%

Source: TerraCom Ltd's Sep 2020 presentation

We see the Directors and Managements significant shareholding as assisting alignment with the shareholders' interests.

TER's substantial shareholders provide an added strong foundation for future growth.

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For more information contact Corporate Connect: www.corporateconnect.com.au

Sydney

79 Kent St Millers Point Sydney, NSW 2000

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