17 March 2020

INDEPENDENT EXPERT CONCLUDES TERRACOM UNSOLICITED BID NEITHER FAIR NOR REASONABLE

BID COMMITTEE RECOMMENDS SHAREHOLDERS REJECT THE TERRACOM UNSOLICITED BID

- **Independent Expert concludes the Unsolicited Bid made by TerraCom BidCo is neither fair nor reasonable**
- **Universal Bid Committee recommends Universal shareholders and holders of CDI's REJECT the Unsolicited Bid**
- **Independent Expert concludes that the fair market value of Universal shares to be A$0.40 – A$0.45 per share and the value of the consideration offered by TerraCom BidCo under the Unsolicited Bid to be A$0.21 - A$0.25 per Universal share, significantly undervaluing Universal**

Universal Coal Plc ("**Universal**" or the "**Company**") (ASX: UNV) refers to the unsolicited bid made by TCIG Resources Pte Ltd ("**TerraCom BidCo**"), a wholly owned subsidiary of TerraCom Limited (ASX:TER) ("**TerraCom**") made on 12 February 2020 to acquire all of the shares and CHESS Depositary Interests ("**CDIs**") in the Company that it did not at that time already own (the "**Unsolicited Bid**").

INDEPENDENT EXPERT'S REPORT AND BID COMMITTEE REJECT RECOMMENDATION

Independent Expert's Report concludes the Unsolicited Bid is neither fair, nor reasonable

In its evaluation of the Unsolicited Bid, the independent committee of the Board mandated to consider and oversee the Unsolicited Bid ("**Bid Committee**") appointed Deloitte Corporate Finance Pty Ltd ("**Deloitte**" or the "**Independent Expert**") to prepare an independent expert's report (the "**IER**").

Deloitte has concluded that the Unsolicited Bid is NEITHER FAIR NOR REASONABLE to Universal shareholders and holders of CDIs not associated with TerraCom BidCo ("Non-associated Shareholders").

A copy of the complete IER is attached to this announcement in Appendix A. The IER contains Deloitte's reasoning and conclusions. The Bid Committee recommends that the Non-associated Shareholders read the IER in full before making any decision in connection with the Unsolicited Bid and not solely to rely on the contents of this announcement when doing so.

The Bid Committee's recommendation in respect of the Unsolicited Bid

Having evaluated and considered the Unsolicited Bid and the IER, the Bid Committee recommends that Non-associated Shareholders **REJECT** the Unsolicited Bid. To **REJECT** the Unsolicited Bid, **Non-associated Shareholders need to TAKE NO ACTION; that is, do nothing.**

In summary, the Bid Committee recommends that Non-associated Shareholders **REJECT** the Unsolicited Bid, for the following reasons:

1. The Unsolicited Bid is *'neither fair nor reasonable for the Non-associated Shareholders'* as determined by the Independent Expert.
2. As set out in Universal's announcement dated 26 February 2020, the Bid Committee has formed the opinion that the Unsolicited Bid is on terms less favourable than if the UK City Code on Takeovers and Mergers ("**City Code**") applied. As set out below, litigation has been commenced by Universal and is proceeding which, if successful, has the potential to allow a superior offer to emerge for Universal shares. If the litigation is successful, the Board will also be in a position to direct TerraCom BidCo to divest the interests it has acquired under the Unsolicited Bid. This would allow Universal to continue to operate as it did before the Unsolicited Bid was made.
3. The consideration payable under the Unsolicited Bid of A$0.21-A$0.25[1] per Universal share significantly undervalues the Company as highlighted by the IER valuation of A$0.40-A$0.45 per Universal share.
4. The structure of the consideration under the Unsolicited Bid materially increases the risk profile for Non-associated Shareholders, should they accept the Unsolicited Bid (detailed reasons outlined below).
5. The cash consideration payable by TerraCom BidCo under the Unsolicited Bid has not been independently verified by a third party and, given TerraCom's publicly stated financial obligations, it therefore remains unclear how TerraCom BidCo would fund the cash component of the consideration under the Unsolicited Bid from TerraCom's cash reserves.
6. The Unsolicited Bid does not afford Non-associated Shareholders equivalent treatment compared to that given by TerraCom to Coal Development Holding B.V. in November 2019.

Further details on these matters are set out in the attached Response Statement. All Non-associated Shareholders are urged to read the attached Response Statement, as well as the IER, in their entirety before deciding on whether or not to accept or reject the Unsolicited Bid, and for those Non-associated Shareholders that hold their interest through CDIs, you are encouraged to do so before 23 March 2020, being the CDI acceptance expiry date and, for all other shareholders, before 25 March, 2020, being the closing date of the Unsolicited Bid.

1 Per page 5 of the Deloitte IER 'Estimated fair market value of consideration offered (Section 6) A$0.21-0.25 / share'

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RESPONSE STATEMENT

REASONS TO REJECT THE UNSOLICITED BID

Details on why the Bid Committee decided to recommend Non-associated Shareholders to REJECT the Unsolicited Bid

1. **The Unsolicited Bid is *'neither fair nor reasonable for the Non-associated Shareholders'* as determined in the IER prepared by the Independent Expert**

   - The IER estimates the fair market value of Universal shares to be A$0.40-0.45 per share ("**Fair Market Value**") and the fair market value of the consideration offered under the Unsolicited Bid from TerraCom BidCo to be A$0.21-0.25 per Universal share ("**Implied Unsolicited Bid Value**"). Accordingly, Deloitte is of the opinion that the Unsolicited Bid is ***'not fair'.***
   - Similarly, Deloitte concluded that the significant difference between the consideration offered and its assessed value of a Universal share is too great to overcome the risks associated with being a minority shareholder in Universal. Accordingly, Deloitte is of the opinion that the Unsolicited Bid is '***not reasonable'***.

2. **The Unsolicited Bid is on terms less favourable than if the City Code applied**

   - The Bid Committee considered the options available to the Company to ensure that all Non-associated Shareholders were given an equal opportunity to realise the full value of their investment in the Company.
   - The Bid Committee remains of the opinion, as outlined in its announcement on 26 February 2020, that the Unsolicited Bid is on terms that are less favourable than if the City Code had applied. Accordingly the Company commenced proceedings in the High Court of Justice of England and Wales (the "**Court**") for a declaration as to whether the Unsolicited Bid complied with article 18.1(b) of the Articles (the "**Litigation**"). If that declaration is forthcoming, then the Bid Committee will consider applying the Sanctions then available under Article 18.1, as detailed below in the section headed "Litigation update and possible outcomes".

As first outlined in Universal's announcement on 14 February 2020 entitled 'Initial Response to Unsolicited Bid – Take No Action" (the "**Initial Response**"), the Bid Committee continues to hold the following key opinions as to why it recommends that Non-associated Shareholders should now **REJECT** the Unsolicited Bid:

3. **The consideration offered under the Unsolicited Bid significantly undervalues the Company as highlighted by the IER**

- The Fair Market Value of Universal shares as determined by the Independent Expert is 80-90% higher than the value of the value of the consideration being offered by TerraCom BidCo under the Unsolicited Bid.
- The consideration offered by TerraCom BidCo ranges from a ***discount of 18% to a premium of 6%*** of the traded price in Universal shares over a 6 month to 1 day period prior to the announcement of the Unsolicited Bid, being materially below recent ASX transaction premia in the metals and mining sector[2].

4. **The structure of the consideration under the Unsolicited Bid materially increases the risk profile for Non-associated Shareholders should they accept the Unsolicited Bid**

- Non-associated Shareholders will receive a significant portion of their consideration in the form of shares in TerraCom, a company with significant debt obligations[3];
- The TerraCom share price underperformed relative to the Universal share price over the 6 months prior to the announcement of the Unsolicited Bid on 3 February 2020 (2 August 2019 to 31 January 2020) by approximately 27%[4].
- TerraCom posted a net loss in the 6-month period from 1 July 2019 to 31 December 2019 as outlined in its half year report published on 28 February 2020[5].
- In the absence of TerraCom generating profits, it is unclear how TerraCom will continue to pay a regular dividend or repay its significant debt obligations.
- TerraCom shares offered as consideration under the Unsolicited Bid are highly illiquid – based on the last 12 months trading to 31 January 2020, volumes have been approximately 195,000 shares per day, representing approximately 0.4% of the share register[6].

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2 Average premia based on unsolicited, successful transactions over A$100 million announced in the past 5 years involving ASX-listed metals and mining companies as targets. Transactions include: Sandfire Resources Limited / MOD Resources Limited (January 2019), Readstone Corporation Pty Ltd / Atlas Iron Limited (June 2018), ERAMET SA / Mineral Deposits Limited (April 2016), Metals X Limited / Aditya Birla Minerals Limited (October 2015) and Zijin Mining Group Co. / Norton Gold Fields Limited (January 2015).

3 As at 31 December 2019 TerraCom has A$246.1m in current and non-current borrowings. Sourced from TerraCom's Appendix 4D and half-year report to 31 released on 28 February 2020.

4 Source IRESS assuming that the TerraCom closing price at 2 August 2019 and 31 January 2020 is rebased to the Universal closing price on 2 August 2019.

5 Sourced from TerraCom's Appendix 4D and half –year report to 31 December 2019 released on 28 February 2020. TerraCom reported a net loss for the half-year of A$(9.3) million.

6 Source: IRESS.

5. **The cash consideration payable under the Unsolicited Bid has not been independently verified by a third party and, given TerraCom's publicly stated financial obligations, it remains unclear whether TerraCom BidCo is able to fund the cash component of the consideration under the Unsolicited Bid from TerraCom's existing cash reserves**

- The offer document published by TerraCom BidCo on 12 February 2020 making the Unsolicited Bid (the "**Offer Document**") does not contain confirmation by an appropriate third party that TerraCom BidCo has sufficient funds to satisfy full acceptance of the Unsolicited Bid.
- TerraCom issued a convertible note in late 2019 with the publicly stated use of funds intended for the partial redeeming of the Listed (Euroclear) Bond[7]. The US$20m of convertible notes were issued and announced in TerraCom's December quarterly announcement dated 3 February 2020.
- TerraCom has disclosed that it intends to undertake a refinancing and repayment of existing debt facilities to the amount of A$60.5 million[8]. Additionally, at page 88 of the Offer Document, the refinancing was stated to have 'occurred subsequent to 30 June 2019'. However, the completion of this refinancing has not yet been publicly announced.
- Based on TerraCom's disclosed cash balance of A$69 million as at 31 December 2019, it remains unclear whether TerraCom and/or TerraCom BidCo is able to fund both the cash component of the consideration under the Unsolicited Bid and the refinancing from TerraCom's existing cash reserves[9].

6. **The Unsolicited Bid does not afford Non-associated Shareholders equivalent treatment compared to that given to Coal Development Holding B.V. in November 2019**

- In November 2019, TerraCom BidCo paid a higher cash component and a higher implied bid value to Coal Development Holding B.V. in respect of the acquisition of its initial 19.995% interest in Universal than the consideration being offered under the Unsolicited Bid[10].
- Non-associated Shareholders and CDI holders are disadvantaged in this regard. The Bid Committee notes that the Offer Document does not enable TerraCom BidCo to increase the consideration payable under the Unsolicited Bid[11].

7 Source: TerraCom Notice of Annual General Meeting, page 16, 18 October 2019.
8 Source: TerraCom Offer Document released 12 February 2020, pg. 88.
9 Source: TerraCom's Appendix 4D and December 2019 Half-Year Report released 28 February 2020.
10 Based on the Unsolicited Bid stating the offer consideration of A$0.10 per Universal share in cash plus 0.6026 TerraCom shares per Universal share, and using the last close price of TerraCom shares on 31 January 2020 of A$0.32 per share, the Implied Offer Price is approximately A$0.293 per Universal share. The November 2019 acquisition was first announced on 30 October 2019 and completed on 13 November 2019. Based on TerraCom BidCo's Notice of initial substantial holder on 14 November 2019, total consideration was A$34,620,382.36 for 104,467,056 Universal shares equating to approximately A$0.331 per Universal share. Based on TerraCom's Appendix 3B released on 14 November 2019, TerraCom issued 34,203,104 fully paid ordinary shares at a deemed value of A$0.5061 per share which references a 6 month VWAP in the 30 October 2019 announcement. Therefore, the consideration per Universal share offered was approximately A$0.166 in cash plus 0.3274 TerraCom shares per Universal share. Using the TerraCom last close price of A$0.40 per share on 29 October 2019, being the day before the 30 October 2019 announcement, this equates to a total consideration of approximately A$0.297 per Universal share. Quoted prices are sourced from IRESS.
11 Source: TerraCom Offer Document released 12 February 2020, pg. 14.

INDEPENDENT EXPERT'S REPORT

With respect to the IER attached in Appendix A, Deloitte has relied on the findings of SRK Consulting (Australasia) Pty Ltd ("**SRK**") in respect of the assumptions included in the future of cash flows of the operating assets and development projects and the valuation of Universal's development assets. Together with its own analysis, Deloitte has reached the conclusion that the Unsolicited Bid is *'neither fair nor reasonable'* to Non-associated Shareholders. In reaching its conclusion, Deloitte considered various matters, including the uncertainty of future ownership in Universal, the limited takeover protections for Non-associated Shareholders and the liquidity that the Unsolicited Bid provides for Non-associated Shareholders as a result of receiving partial cash consideration in the near term.

In addition, the Bid Committee highlights the following key points in connection with some of the conclusions reached in the IER that it considers are particularly relevant to Non-associated Shareholders:

1. The fair market value for Universal shares is A\$0.40 – A\$0.45 per share, which is materially higher than the consideration offered under the Unsolicited Bid of A\$0.21 – A\$0.25, which in the Independent Expert's opinion renders the Unsolicited Bid **not fair**;
2. Deloitte describe *'a key factor in evaluating the Takeover Offer is whether or not the Non-associated Shareholders are in a better or worse position if they accept the Takeover Offer, compared to their position in the absence of the Takeover Offer.'* The implied premium range outlined in the IER for the Unsolicited Bid is in the range of a <u>discount</u> of 18% to a premium of 6% over a variety of periods from 6 months to 1 day prior to the announcement of the Unsolicited Bid (3 February 2020), which means Non-associated Shareholders do not receive any premium, or if any, only a small premium for their shares. *'On this basis, Non-associated Shareholders are not receiving a significant premium for the Takeover Offer'*;
3. If Non-associated Shareholders accept the Unsolicited Bid they would hold between zero and 33% of the total issued shares of TerraCom in the proposed merged entity, which significantly dilutes their exposure to Universal's current, high quality assets. In addition, Non-associated Shareholders would gain exposure to TerraCom's *'high cost and short-lived'* Blair Athol asset, and the *'loss making'* Mongolian operations which TerraCom announced it would sell or demerge; however, there have been no public developments in this regard, and the Bid Committee believes that there is uncertainty as to whether a demerger or sale is possible in the short term;
4. Universal has delivered on its dividend policy since 2017 and, should the current Board continue, looks forward to continuing to do so, subject to consideration at the time regarding the profitability of the Company, capital commitments and existing cash resources. TerraCom announced its maiden dividend on 23 October 2019, when it stated *'The Board's adopted dividend policy is to pay a minimum dividend of 1 cent per fully paid ordinary share per 6-month reporting period.'* For the half year ended 31 December 2019, TerraCom's net cash outflow from operating activities was \$10.9m. If this performance continues, Non-associated Shareholders that accept the Unsolicited Bid may face a significantly reduced likelihood of receiving dividends from the merged entity.
5. In concluding that the Unsolicited Bid is **not reasonable**, Deloitte note (amongst other things) that, while the risks associated with being a minority shareholder are significant, on balance it is in their opinion that

those risks are insufficient to overcome the significant difference between the consideration offered and Deloitte's assessed value of a Universal share.

Notwithstanding the points highlighted above, Non-associated Shareholders should read the IER in its entirety before making a decision on whether to accept or reject the Unsolicited Bid and not solely rely on the contents of this announcement when doing so.

LITIGATION UPDATE AND POSSIBLE OUTCOMES

As previously announced, in light of the under-valued Unsolicited Bid the Bid Committee considered the options that were available to the Company to ensure that all Non-associated Shareholders are given an equal opportunity to realise the full value of their investment in the Company. The Bid Committee determined that the interests of the Non-associated Shareholders as a whole were best served through commencing the Litigation, as further detailed below.

The Company is not subject to the City Code or the takeover provisions of Chapter 6 of the Australian Corporations Act 2001 (Cth) ("**Corporations Act**"). As such, the Company and its shareholders are not afforded the protections that those takeover regimes would offer had they applied to Universal and the Unsolicited Bid. However, the Articles confer upon shareholders protection from what would otherwise constitute certain unpermitted behaviour under the City Code. That protection is set out in Article 18.1(b) of the Articles.

In summary, Article 18.1(b) provides that the Board shall be entitled (but not obliged) to impose certain Sanctions if:

- any person (together with any persons in the opinion of the Board acting with them) acquires any interest in shares in Universal and as a result they (whether or not with the other persons) would (in the opinion of the Board) have been obliged under the City Code (as adjusted for these purposes) to extend an offer to the holders of any other securities in the Company had the City Code applied to it (as adjusted for these purposes) (the "**Mandatory Offer**" and such person or persons being a "**Mandatory Offeror**") (the "**First Condition**"); and
- the Mandatory Offeror fails to make a Mandatory Offer on terms no less favourable (in the opinion of the Board) to the other holders of securities than he would have been obliged to offer under the provisions of the City Code, had it applied, within 21 days following the date on which the obligation would have arisen (the "**Second Condition**").

Pursuant to the terms of a waiver granted by the Australian Securities Exchange ("**ASX**") on 5 November 2015, the Company is required to obtain a ruling from a competent court, being a court of England and Wales, that a person or persons to whom the Second Condition applies, has failed or will fail to comply with the Second Condition within the period of 21 days to which Article 18.1(b) refers.

If such a ruling is received, the Board could consider imposing the following sanctions ("**Sanctions**") (through the Bid Committee or otherwise) under Article 18.1 against a Mandatory Offeror:

- suspending with immediate effect all voting rights attributable to all Universal shares in which the Mandatory Offeror has an interest; and/or
- directing the Mandatory Offeror to divest its interest in all Universal shares it has acquired or will acquire pursuant to the Mandatory Offer in accordance with the procedure set out in the Articles.

As noted above, the Bid Committee, having received and considered legal advice, formed the view that the Unsolicited Bid is less favourable for Non-associated Shareholders than an offer made in compliance with the City Code such that the Second Condition is satisfied. As a consequence, the Bid Committee commenced the Litigation seeking a declaration that the terms of the Unsolicited Bid are less favourable than TerraCom BidCo would have been obliged to offer under the City Code.

As previously disclosed on 18 February 2020, TerraCom BidCo issued a requisition notice that seeks to remove three of the five Directors that have not been nominated to the Board by TerraCom BidCo (the "**Independent Directors**"), namely Messrs Mark Eames, Tony Weber and Henri Bonsma (the "**TerraCom Requisition Notice**"). The Bid Committee considers that this action by TerraCom BidCo is an attempt to frustrate the ability of the Bid Committee and the Independent Directors to act in relation to the Unsolicited Bid in a way which is considered to be in the best interests of shareholders taken as a whole. The requisition notice required the Directors to convene a general meeting of shareholders pursuant to section 303 of the United Kingdom Companies Act 2006 (the "**CA 2006**"), which they have done by convening a general meeting for 3 April 2020 (the **"Requisitioned General Meeting"**).

Following discussions between Universal and TerraCom BidCo, TerraCom BidCo provided an undertaking to the Court that, for as long as the Litigation is continuing, it will exercise all the voting rights attaching to the shares in Universal that are owned or controlled by it in favour of a resolution that is to be put to the Requisitioned General Meeting to approve that the meeting be adjourned to Friday, 15 May 2020, so as to allow time for the proceedings to be heard in Court.

The Court has approved a timetable in respect of the Litigation (the "**Litigation Timetable**") for proceedings that enables the Litigation to be heard over a four day period in the week commencing 27 April 2020. The Bid Committee notes that the Litigation Timetable should leave sufficient time for the Court to hold the hearing and reach a decision in respect of the Litigation, by late April/early May 2020 and prior to the Requisitioned General Meeting (as adjourned to 15 May 2020). Accordingly, if the Company is successful in the Litigation, the Board, whether acting through its delegated authority to the Bid Committee or otherwise, will have time to consider, and if thought fit, approve, imposing either or both of the Sanctions on TerraCom BidCo before the final adjourned meeting.

Having considered all relevant circumstances relating to the Unsolicited Bid, and the Bid Committee's recommendation, the Bid Committee has determined that it is in the interests of the shareholders for the Bid Committee to continue with the Litigation. The Bid Committee will keep shareholders updated on all material developments in the Litigation as they happen.

If the Litigation is successful, the Bid Committee reserves its rights to impose one or more of the Sanctions against TerraCom BidCo. If it were to suspend the voting rights over all of the Universal shares held or controlled by TerraCom BidCo, the potential exists for an improved offer or superior competing offer to emerge. The Bid Committee reserves its rights to exercise all or any of the Sanctions, including the right to direct TerraCom BidCo to divest itself of the interests in Universal shares that it acquired as a consequence of making the Unsolicited Bid.

Where the Litigation is successful, Universal would continue to operate independently in a form and substance substantially similar to how it operated before the Unsolicited Bid was announced, which the Bid Committee expects would include the following key matters:[12]

- conducting the business of Universal in the same manner as prior to 3 February 2020;
- implementing the strategic, financial and operating policies and current financial model prepared by management for Universal in place prior to 3 February 2020;
- retaining current senior management for the operation of the operating and development assets of Universal;
- seeking to deliver on the Universal group EBITDA guidance for the financial year ending 30 June 2020;
- implementing Universal's discretionary dividend policy having regard to the operating cash-flow requirements of the Company. For so long as TerraCom BidCo holds shares in Universal it would be entitled to participate in any future declaration of dividends, on the same terms as Non-associated Shareholders; and
- seeking to maintain the listing of Universal having regard to the number of affected Non-associated Shareholders, share trading and the conditions that ASX can impose when ASX exercising its discretion to consider any application for delisting.

If the Litigation was not successful, and the Sanctions cannot therefore be imposed:

- Universal would be a majority-owned entity, where TerraCom BidCo held more than 50% of the current share capital of Universal;
- TerraCom BidCo may not be restricted from acquiring further Universal shares under the compulsory acquisition rights under the CA 2006, which will depend on whether TerraCom BidCo holds more than 90% of Universal's shares at the close of the Unsolicited Bid; and
- three directors, Messrs Eames, Bonsma and Weber would be removed as Directors on 15 May 2020 (assuming TerraCom BidCo voted in favour of such removal).

TERRACOM BIDCO REQUISITONED MEETING TO REMOVE THREE DIRECTORS, INCLUDING ITS LONG TIME CEO, MR TONY WEBER

The Bid Committee considers that the Offer Document does not provide all information that is material to Non-associated Shareholders in order to understand the intentions of TerraCom and TerraCom BidCo regarding the management, employees and business of Universal after close of the Unsolicited Bid. This is particularly so in light of TerraCom BidCo's conduct in requisitioning the Requisitioned General Meeting to remove three Directors, including Universal's long-time Chief Executive Officer, Mr Tony Weber.

12 Given the uncertainty in current market conditions, the Bid Committee cannot provide an assurance as to whether Universal would be able to achieve all of its intentions.

In summary, the Offer Document was published on 12 February 2020 by TerraCom BidCo and includes statements that:

- "Despite the Offer not being recommended by the UNV Board, TerraCom continues to value the operating capability of the UNV management team including CEO Tony Weber and Executive Director Shammy Luvhengo'' (page 18 of the Offer Document); and
- ''TerraCom has high regard for the skills and experience of the existing management and employees of UNV. TerraCom believes retaining key personnel within UNV would be important for delivering the business's future strategy'' (page 20 of the Offer Document).

Despite these statements, on 16 February 2020 TerraCom BidCo served the TerraCom Requisition Notice. The stated rationale of TerraCom BidCo for doing so was that TerraCom "has lost all confidence in the Directors [the subject of the requisition notice] and their actions …''.[13]. Although TerraCom BidCo sought to clarify its position by making a further announcement on 20 February 2020 that it still supports Mr Weber's "continued involvement in managing the Universal business following the takeover offer''[14], the Bid Committee considers that TerraCom BidCo's actual intentions for Universal and its management should the Unsolicited Bid proceed are unclear, and its level of disclosure in this regard is therefore considered deficient.

WITHDRAWAL RIGHTS UNDER THE UNSOLICITED PURCHASE PROVISIONS OF THE CORPORATIONS ACT

Non-associated Shareholders who have accepted the Unsolicited Bid and now wish to withdraw their acceptances should take appropriate advice about the application of Division 5A of Part 7.9 of the Corporations Act, which deals with unsolicited offers to purchase financial products off-market. Under those provisions, shareholders who accept such an unsolicited offer may have the right to refuse to transfer their shares if they have not yet done so, or the right to have their shares returned to them if the shares have already been transferred to the buyer. Those rights are conditional on establishing one of the matters set out in section 1019K, and the rights must be exercised during the period of 30 days starting when the offer to purchase was accepted.

ADVANTAGES AND DISADVANTAGES OF ACCEPTING OR REJECTING THE UNSOLICITED BID

The Bid Committee is mindful that the Unsolicited Bid presents Non-associated Shareholders with competing objectives – taking advantage of the Unsolicited Bid in the short term versus the uncertain potential to realise greater value in the longer term.

Consequently, and notwithstanding the Bid Committee's recommendation to REJECT the Unsolicited Bid, in considering the Unsolicited Bid Non-associated Shareholders will need to consider their individual circumstances and investment objectives in light of its various benefits and disadvantages, and against the current background of extremely turbulent market conditions.

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13 Refer TerraCom ASX Announcement dated 17 February 2020

14 Refer to TerraCom ASX Announcement dated 20 February 2020

Some of the factors that may influence a Non-associated Shareholder's decision are set out below:

Reasons why shareholders may wish to REJECT the Unsolicited Bid	**Reasons why shareholders may wish to ACCEPT the Unsolicited Bid**
The Unsolicited Bid fails to recognise the full underlying value of Universal shares	Certainty of value and at least $0.10 per share, bearing in mind the current market uncertainty arising from COVID-19
The Independent Expert, Deloitte, has concluded that the Unsolicited Bid is neither fair, nor reasonable	There will be a number of disadvantages if Universal is de-listed in due course
Shareholders will lose exposure to any upside in Universal and, if they accept, will increase their risk profile with an investment in TerraCom	The share price may fall following completion of the Unsolicited Bid
If Universal is successful in the Litigation, the Board (through the Bid Committee or otherwise) will be in a position to consider imposing Sanctions against TerraCom BidCo, including suspending the voting rights in respect of all of the Universal shares held by it or requiring TerraCom BidCo to divest all of the Universal shares that it has acquired under the Unsolicited Bid.	TerraCom may seek to alter or influence Universal's future dividend policy
If TerraCom BidCo fails to acquire all of Universal's shares, it could subsequently make a higher offer, but no offer is guaranteed	There is currently no competing proposal
	Shareholders may prefer to accept an offer which undervalues their shares, rather than running the risk that if the Litigation does not succeed, they will be locked into a minority position with an immediate or eventual risk that Universal will be de-listed (see the further discussion below)

In addition, Non-associated Shareholders should consider the following scenarios that may apply depending on the acceptances received by TerraCom BidCo by the time the Unsolicited Bid closes:

TerraCom BidCo holds more than 50% but less than 75% of the issued Universal shares

If, at the close of the Unsolicited Bid, TerraCom BidCo holds more than 50% but less than 75% of the issued Universal shares, TerraCom has announced that TerraCom BidCo may seek to acquire further Universal shares. Should the interests of TerraCom BidCo in Universal remain within this range, Non-associated Shareholders not accepting the Unsolicited Bid will be minority shareholders in an ASX-listed company and are likely to be subject to reduced share trading liquidity, with the possibility of receiving a control premium in the future being at the discretion of TerraCom.

TerraCom BidCo holds at least 75% but less than 90% of the issued Universal shares

If, at the close of the Unsolicited Bid, TerraCom BidCo holds at least 75%, but less than 90% of the issued Universal shares, TerraCom has announced that TerraCom BidCo would either maintain Universal's ASX listing, in which case Non-associated Shareholders not accepting the Unsolicited Bid would be minority shareholders in a listed, controlled entity, or cause Universal to apply to delist from ASX. If Universal were to apply to be delisted from ASX, this application would be subject to the exercise of the discretion of ASX. One factor the ASX will take into account will be the number of Non-associated Shareholders who would be affected by the decision to de-list. There is no guarantee that de-listing would occur, but if the application was granted and Universal subsequently de-listed from ASX, Non-associated Shareholders not accepting the Unsolicited Bid would be minority shareholders in an unlisted, controlled entity with liquidity in their underlying shares likely to be substantially reduced. Further, the possibility of receiving a control premium in the future would remain at the discretion of TerraCom.

TerraCom BidCo holds more than 90% of the issued Universal shares

If, at the close of the Unsolicited Bid, TerraCom BidCo holds 90% or more of the Universal shares, TerraCom has announced that it would seek to acquire compulsorily any outstanding shares in Universal in respect of which TerraCom BidCo has not received acceptances under the Unsolicited Bid in accordance with Chapter 3 of Part 28 of the CA 2006. Non-associated Shareholders holding outstanding shares in Universal may be forced to sell their shares or such CDI interests representing shares, on the same terms as those outlined in the Offer Document.

The impact of the Litigation

The Unsolicited Bid will have closed before judgment is delivered in the Litigation, and so Non-associated Shareholders must make their decision on the Unsolicited Bid without knowing the result of the Litigation. Non-associated Shareholders should consider the likely impact that success or failure in the Litigation would have on their position if they have accepted the Unsolicited Bid, and if they have rejected the Unsolicited Bid. Under the heading "Litigation Update and Possible Outcomes", above (the **Litigation Analysis**), there is an explanation of the likely consequences for Universal and its shareholders if the Litigation is successful, and if the Litigation is not successful.

If the Litigation is successful, and assuming that some or all of the Sanctions are imposed, Non-associated Shareholders who have rejected the Unsolicited Bid should be able to benefit from continuation of the existing management and the continued implementation of management's policies, as described in the Litigation Analysis. The IER, as summarised under the heading "Independent Expert's Report" above, sets out reasons for concluding that Non-associated Shareholders would be worse off if they accept the Unsolicited Bid, compared to their position in the absence of any takeover offer. That analysis may help Non-associated Shareholders to conclude that they will be able to return to that better position if they reject the Unsolicited Bid and the Litigation succeeds.

If the Litigation is not successful, the position of Non-associated Shareholders who have not accepted the Unsolicited Bid will depend on the level of acceptances TerraCom BidCo has received as explained under the three previous headings.

Non-associated Shareholders should weigh up the potential advantages of retaining their shares and benefiting from success in the Litigation, against the risks of remaining in a minority position under those three scenarios if the Litigation is unsuccessful.

All Non-associated Shareholders are urged to read the IER in its entirety before deciding on whether or not to accept or reject the Unsolicited Bid, and for those shareholders that hold their interest through CDIs, you are encouraged to read the IER before 23 March 2020, being the CDI acceptance expiry date and, for all other shareholders, before 25 March, 2020, being the closing date of the Unsolicited Bid, and not rely solely on the contents of this announcement.

For the reasons set out above, the Bid Committee recommends that Non-associated Shareholders **REJECT** the Unsolicited Bid. To **REJECT** the Unsolicited Bid, Non-associated **Shareholders need to TAKE NO ACTION; that is, do nothing.**

The Bid Committee will keep shareholders informed of all further material developments relating to the Unsolicited Bid.

For further information please contact:

Mark Eames
Non-executive Interim Chairman
T: +61 400 586 747

Authorised by: The Bid Committee

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Important information

This announcement (including information incorporated by reference in this announcement), and other information published by Universal may contain statements that are or may be deemed to be forward looking statements. All statements other than statements of historical facts included in this announcement may be forward-looking statements. Without limitation, any statements preceded or followed by or that include the words "targets", "plans", "believes", "expects", "aims", "intends", "will", "may", "anticipates", "estimates", "projects" or words or terms of similar substance or the negative thereof, are forward looking statements. For the avoidance of doubt, forward-looking statements include, but are not limited to, statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of the Universal group of companies or its operations; and (iii) the effects of government regulation on the Universal group of companies or its business.

The forward-looking statements are not guarantees of future performance. Such forward-looking statements involve known and unknown risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors could cause actual results to differ materially from those projected or implied in any forward-looking statements. These factors include, but are not limited to, changes in political and economic conditions, changes in the level of capital investment, retention of key employees, changes in customer preferences, success of business and operating initiatives and restructuring objectives, impact of any acquisitions or similar transactions, changes in customers' strategies and stability, competitive product and pricing measures, changes in the regulatory environment, fluctuations of interest and exchange rates, and the outcome of any litigation.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date of this announcement. All subsequent oral or written forward-looking statements attributable to any member of the Universal group of companies or any of their respective directors, officers or employees or any persons acting on their behalf are expressly qualified in their entirety by the cautionary statement above. Universal disclaims any obligation to update any forward-looking or other statements contained in this announcement, except as required by applicable law.

No statement in this announcement is intended as a profit forecast or estimate for any period and no statement in this announcement should be interpreted to mean that earnings or earnings per share for Universal for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share for Universal.

Certain figures in this announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different places may vary slightly.

Universal has relied on publicly available information and statements issued by TerraCom in this announcement for which TerraCom is responsible.

Universal Coal Plc

Independent expert's report and Financial Services Guide

16 March 2020

Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us. The person who provides the advice is an Authorised Representative (AR) of Deloitte Corporate Finance Pty Limited (DCF), which authorises the AR to distribute this FSG. Their AR number is included in the report which accompanies this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

We will receive a fee of approximately $250,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the Takeover Offer between TerraCom Limited and Universal Coal Plc (the Takeover Offer).

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you.

The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer PO Box N250 Grosvenor Place Sydney NSW 1220 complaints@deloitte.com.au Fax: +61 2 9255 8434	Financial Ombudsman Service GPO Box 3 Melbourne VIC 3001 info@fos.org.au www.fos.org.au Tel: 1800 367 287 Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

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The Bid Committee
Universal Coal Plc
Level 6, 60 Gracechurch Street
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United Kingdom

16 March 2020

Dear Bid Committee Members

Re: Independent expert's report

Introduction

On 3 February 2020, TerraCom Limited (**TerraCom**) announced its intention to make a takeover offer through TCIG Resources Pte Ltd (**TerraCom BidCo**), a wholly owned subsidiary of TerraCom, to acquire all of the ordinary issued shares in Universal Coal Plc (**Universal Coal** or the **Company**) that TerraCom BidCo did not then already directly or indirectly own (the **Takeover Offer**). This was followed by a formal offer, which was subject to certain conditions, on 12 February 2020.

Universal Coal is a public limited company incorporated in England and Wales. Shareholders can hold their interests in the Company as certificated or uncertificated shares or as CHESS Depositary Interests (**CDIs**), which can be traded on the stock exchange operated by ASX Limited (**ASX**).

Given its ordinary shares cannot be traded on the ASX, shareholders who wish to trade their shares on the ASX are required to hold CDIs. Each CDI confers a beneficial interest in one share in Universal Coal, such that the total number of shares held directly or as CDIs is equal to the total number of ordinary shares in Universal Coal on issue. For the purpose of this report, references to shares in Universal Coal should be taken to mean ordinary shares and/or CDIs.

The consideration offered by TerraCom BidCo to holders of Universal Coal shares other than TerraCom BidCo comprises cash of $0.10 and 0.6026 new TerraCom shares per one Universal Coal share. The Takeover Offer opened on 12 February 2020 and, following an announcement from TerraCom on 12 March 2020, is expected to close on 25 March 2020 at 1.00pm London time (the **Offer Period**). However, shareholders will need to decide whether or not to accept the Takeover Offer before that time.

The full details of the Takeover Offer are included in an offer and disclosure document dated 11 February 2020, published by ASX announcement on 12 February 2020 and shortly thereafter provided to Universal Coal's shareholders by TerraCom and TerraCom BidCo outlining the Takeover Offer (the **Offer Document**). An overview of the Takeover Offer is provided in Section 1.

A committee consisting of a number of directors of Universal Coal has been established to oversee the Takeover Offer (the **Bid Committee**) and they intend to issue a response to the Takeover Offer (the **Response Statement**). The Response Statement will include the recommendation of the Bid Committee as to whether Universal Coal shareholders who are not associated with TerraCom or TerraCom BidCo (the **Non-associated Shareholders**) should accept or reject the Takeover Offer.

On 16 February 2020, TerraCom BidCo sent a requisition notice to Universal Coal requiring the Board to convene a general meeting of the Company (**Requisitioned Meeting**) to consider and if thought fit approve three resolutions to remove three directors of Universal Coal. One of those directors is Mr Mark

Eames who is the interim chairman of the Company and chairman of the Bid Committee. We understand that the meeting to consider the resolutions is expected to be held on 15 May 2020.

On 26 February 2020 the Company announced that it had commenced legal proceedings in the High Court of Justice of England and Wales (the **Litigation**) seeking a determination that certain conditions in the articles of association of the Company (the **Articles**) have been satisfied.

If the Litigation is successful, the Board (whether acting through the Bid Committee or otherwise) will be empowered to impose sanctions under the Articles on TerraCom Bidco which include:

- suspending voting rights on all shares in Universal Coal that are held by TerraCom Bidco; and
- requiring TerraCom BidCo to divest all of the shares in Universal Coal that it has acquired under the Takeover Offer.

If imposed, these sanctions would have the effect of putting the ownership of Universal Coal substantially in the same position it was in before the Takeover Offer was made. This would include TerraCom BidCo's interest in Universal Coal reverting to the initial 19.995% interest it acquired in the Company on 30 October 2019. We understand that a decision in respect of the Litigation is expected by late April or early May 2020.

Purpose of the report

The Bid Committee has requested that Deloitte Corporate Finance Pty Limited (**Deloitte Corporate Finance**) provide an independent expert's report advising whether or not, in their opinion, the Takeover Offer is fair and reasonable to Non-associated Shareholders.

If the Company was incorporated in Australia, Section 640 of the Australian Corporations Act 2001 (Cth) (**Corporations Act**) (**Section 640**) would require a response statement to a takeover offer to include, or be accompanied by, an independent expert's report if either the bidder's voting power in the target is 30% or more or the bidder and target have one or more common directors.

TerraCom and Universal Coal have two common directors.

As Universal Coal is a public company incorporated in England and Wales, Section 640 does not apply to it and therefore an independent expert's report is not required. However, we have been requested by the Bid Committee to prepare an independent expert's report as if it were required under Section 640.

This report is to be included in the Response Statement to be sent to the shareholders of Universal Coal and has been prepared for the exclusive purpose of assisting the Non-associated Shareholders in their consideration of the Takeover Offer. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-associated Shareholders and Universal Coal, in respect of this report, including any errors or omissions however caused.

Basis of evaluation

Guidance

In undertaking the work associated with this report, we have had regard to ASIC Regulatory Guide 111 (**RG111**) in relation to the content of expert's report and ASIC Regulatory Guide 112 in respect of the independence of experts.

ASIC Regulatory Guide 111

This regulatory guide provides guidance in relation to the content of independent expert reports prepared for a range of transactions.

RG111 refers to a 'control transaction' as being the acquisition (or increase) of a controlling stake in a company that could be achieved, for example, by way of a takeover offer, scheme of arrangement, approval of an issue of shares using item 7 of Section 611, a selective capital reduction or selective buy back under Chapter 2J of the Corporations Act.

In respect of control transactions, under RG111 an offer is:

- fair, when the value of the consideration is equal to or greater than the value of the securities subject to the takeover offer. The comparison must be made assuming 100% ownership of the target company (i.e. including a control premium)

- reasonable, if it is fair, or, despite not being fair, after considering other significant factors, shareholders should accept the takeover offer, in the absence of any higher bids before the close of the offer.

To assess whether the Takeover Offer is fair and reasonable to Non-associated Shareholders, we have adopted the tests of whether the Takeover Offer is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in RG111.

Fairness

RG111 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities the subject of the offer. The comparison must be made assuming 100% ownership of the target company.

Accordingly, we have assessed whether the Takeover Offer is fair by comparing the value of the consideration offered by TerraCom Bidco with the value of a share in Universal Coal.

The shares in Universal Coal have been valued at fair market value, which we have defined as the amount at which the shares would be expected to change hands between a knowledgeable and willing but not anxious buyer and a knowledgeable and willing but not anxious seller, neither of whom is under any compulsion to buy or sell.

Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of a share in Universal Coal has not been premised on the existence of a special purchaser.

We have assessed the value of each share in Universal Coal by estimating the current fair market value of Universal Coal on a control basis and dividing this value by the number of shares on issue.

We have assessed the value of the consideration by estimating the pro rata value of a share in the proposed merged entity following completion of the Takeover Offer, comprising TerraCom and 100% of Universal Coal (**Proposed Merged Entity**) on a minority interest basis and adding the cash consideration of $0.10 per share.

Reasonableness

RG111 considers an offer in respect of a control transaction, to be reasonable if either:

- the offer is fair
- despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

To assess the reasonableness of the Takeover Offer we considered the following factors:

- the liquidity available to Non-associated Shareholders pursuant to the Takeover Offer
- the takeover protections afforded to Non-associated Shareholders
- the uncertainty as to the ownership and control of the Company
- the alternatives available for Non-associated Shareholders
- whether or not the Non-associated Shareholders are receiving any premium for control
- other implications associated with the Non-associated Shareholders accepting or rejecting the Takeover Offer, including delisting the company or compulsory acquisition.

This report should be read in conjunction with the declarations outlined in Appendix 6.

Summary and conclusion

In our opinion the Takeover Offer is neither fair nor reasonable for the Non-associated Shareholders. In arriving at this opinion, we have had regard to the following factors.

The Takeover Offer is not fair

According to ASIC Regulatory Guide 111, in order to assess whether a takeover offer is fair, the independent expert is required to compare the fair market value of a share in Universal Coal on a control basis with the fair market value of the consideration offered. The Takeover Offer is fair if the value of the consideration is equal to or greater than the value of the securities subject to the offer.

Set out in the table below is a comparison of our assessment of the fair market value of a Universal Coal share with the consideration offered by TerraCom BidCo.

Table 1

	Low ($)	High ($)
Estimated fair market value of a Universal Coal share (Section 5)	0.40	0.45
Estimated fair market value of consideration offered (Section 6)	0.21	0.25

Note:
1. $ - Australian dollars
Source: Deloitte Corporate Finance analysis

The consideration offered by TerraCom BidCo is below our estimate of the fair market value of a Universal Coal share. Accordingly, it is our opinion that the Takeover Offer is not fair.

Our opinion is based on prevailing economic, market and other conditions. Such conditions can change significantly over relatively short periods of time. Recent volatility in capital markets and the current economic outlook, including as a result of the COVID-19 outbreak have created significant uncertainty with respect to the valuation of assets. Recognising these factors, we consider that the conclusions and opinion we have arrived at may be more susceptible to change than would normally be the case.

Valuation of Universal Coal

We have estimated the fair market value of the operating and development assets of Universal Coal by applying the discounted cash flow method, which estimates the value of those assets by discounting estimated future cash flows to their present value.

The discounted cash flow method requires the determination of an appropriate discount rate and the projection of future cash flows. We selected a nominal after tax discount rate in the range of 16.0% to 19.0%. A financial model prepared by the management of Universal Coal formed the basis of our valuation of Universal Coal. We have undertaken sufficient work to assess whether the financial projections and the underlying model are suitable for the purposes of assessing the fair market value of these assets in accordance with ASIC Regulatory Guide 111.

We engaged SRK Consulting (Australasia) Pty Ltd (**SRK Consulting**), an independent mining expert, to provide advice on the assumptions included in the future cash flows of the operating assets and development projects, namely Kangala, Eloff, NBC, NCC and Ubuntu. SRK Consulting also provided an assessment of the value of Universal Coal's other evaluation and exploration assets as discussed in Section 5. SRK Consulting's approach has been to estimate the market value of the exploration potential primarily using transaction multiples, supported by the Geoscientific Rating method, as set out in Appendix 5. Since Universal Coal owns equity interests in its operating, development and exploration assets, we have first estimated the equity value of these assets in order to estimate the value of Universal Coal under the sum of the parts approach.

The enterprise value and equity value of Universal Coal's operating, development and exploration assets (on a 100% basis) is set out in the table below.

Table 2

	Unit	Low	High
Enterprise Value			
Operating and development assets (selected)			
NBC	ZAR million	1,300.0	1,500.0
NCC	ZAR million	700.0	850.0
Kangala/Eloff	ZAR million	1,050.0	1,250.0
Ubuntu	ZAR million	150.0	170.0
Total operating and development assets	**ZAR million**	**3,200.0**	**3,770.0**
Exploration and evaluation assets			
NBC	ZAR million	26.8	26.8
NCC	ZAR million	83.7	83.7
Kangala/Eloff	ZAR million	266.4	266.4
Ubuntu	ZAR million	20.3	20.3
Berenice	ZAR million	207.2	207.2
Arnot South	ZAR million	79.6	79.6
Total exploration and evaluation assets	**ZAR million**	**684.0**	**684.0**
Operating and development assets, including exploration and evaluation assets			
NBC	ZAR million	1,326.8	1,526.8
NCC	ZAR million	783.7	933.7
Kangala/Eloff	ZAR million	1,316.4	1,516.4
Ubuntu	ZAR million	170.3	190.3
Berenice	ZAR million	207.2	207.2
Arnot South	ZAR million	79.6	79.6
Total enterprise value of Universal Coal's operating assets, development and exploration assets (100% basis)	**ZAR million**	**3,884.0**	**4,454.0**
Surplus assets at the operating entity level			
Kangala/Eloff	ZAR million	80.0	80.0
Loans at operating entity level			
NBC	ZAR million	(105.5)	(105.5)
NCC	ZAR million	(174.7)	(174.7)
Ubuntu	ZAR million	(145.1)	(145.1)
Total loans at operating entity level	**ZAR million**	**(425.3)**	**(425.3)**
Net (debt)/cash			
NBC	ZAR million	31.2	31.2
NCC	ZAR million	(20.7)	(20.7)

	Unit	Low	High
Kangala/Eloff	ZAR million	(42.9)	(42.9)
Ubuntu	ZAR million	0.2	0.2
Net debt of Universal Coal's operating assets, development and exploration assets (100% basis)	**ZAR million**	**(32.2)**	**(32.2)**
Equity value			
NBC	ZAR million	1,252.5	1,452.5
NCC	ZAR million	588.3	738.3
Kangala/Eloff	ZAR million	1,353.5	1,553.5
Ubuntu	ZAR million	25.5	45.5
Berenice	ZAR million	207.2	207.2
Arnot South	ZAR million	79.6	79.6
Total equity value of Universal Coal's operating assets, development and exploration assets (100% basis)	**ZAR million**	**3,506.5**	**4,076.5**

Note:
1. ZAR – South African Rand
Source: Deloitte Corporate Finance analysis

The assessed value of a share Universal Coal (on a 100% and attributable basis) is set out in the table below.

Table 3

		100% control basis		UNV attributable share[1]	
	Unit	Low	High	Low	High
NBC	ZAR million	1,252.5	1,452.5	613.7	711.7
NCC	ZAR million	588.3	738.3	288.2	361.7
Kangala/Eloff	ZAR million	1,353.5	1,553.5	734.0	832.0
Ubuntu	ZAR million	25.5	45.5	12.4	22.2
Berenice	ZAR million	207.2	207.2	103.6	103.6
Arnot South	ZAR million	79.6	79.6	39.8	39.8
Total value of Universal Coal's operating assets, development and exploration assets	**ZAR million**	**3,506.5**	**4,076.5**	**1,791.9**	**2,071.2**
Surplus assets - group	ZAR million			357.3	357.3
Corporate segment[2]	ZAR million			114.7	122.0
Enterprise value of Universal Coal (on a control basis)	**ZAR million**			**2,263.9**	**2,550.5**
Net debt of Universal Coal	ZAR million			(55.9)	(55.9)
Equity value of Universal Coal (on a control basis)	**ZAR million**			**2,208.1**	**2,494.6**
Equity value of Universal Coal (on a control basis)[3]	**AUD million**			**210.3**	**237.6**
Number of shares on issue	million			522.5	522.5

	Unit	100% control basis		UNV attributable share[1]	
		Low	High	Low	High
Value of a share in Universal Coal (on a control basis)	AUD			0.40	0.45
Deloitte assessed value of a share in Universal Coal (on a control basis)	**AUD**			**0.40**	**0.45**

Notes:
1. Values on an attributable basis have been calculated in line with the ownership interests attributable to Universal Coal.
2. Corporate management fees received net of corporate costs
3. Based on the five day average AUD/ZAR exchange rate to 11 March 2020 of 0.09524
Source: Deloitte Corporate Finance analysis

The above values are highly sensitive to the long-term coal price and long-term exchange rate assumed for export sales as well as any delay in the commencement date of the Eloff project.

We have cross checked our valuation with reference to recent transactions in Universal Coal shares, reserve and resource multiples implied by our valuation of a Universal Coal share and recent share market trading activity in Universal Coal in Section 5.

Valuation of Proposed Merged Entity

We have selected a valuation of a share in the Proposed Merged Entity in the range of $0.19 to $0.25 with reference to recent share trading as set out in the following table.

Table 4

	Unit	Low	High
Deloitte assessed value of a share in the Proposed Merged Entity	**AUD**	**0.19**	**0.25**

Source: TerraCom Takeover Offer Document, Deloitte analysis

The value of a share in the Proposed Merged Entity has been assessed on a minority interest basis because, if the Takeover Offer is accepted, Universal Coal shareholders will hold a minority interest in the Proposed Merged Entity.

We are of the opinion that the most appropriate methodology to value a share in the Proposed Merged Entity is a market-based method, based on recent share trading activity in TerraCom shares after announcement of the Takeover Offer.

To provide additional evidence of the fair market value of a share in the Proposed Merged Entity we have considered the resource multiples implied by our valuation of the Proposed Merged Entity compared with the resource multiples observed for comparable transactions and comparable listed companies.

Deloitte Corporate Finance has not been provided with access to the management and detailed financial information of TerraCom. Had that information been available, alternative methodologies may have been considered.

Our analysis was current as at 13 March 2020. The TerraCom share price has been particularly volatile towards the downside in the past few weeks.

Valuation of consideration

We have valued the consideration offered to Non-associated Shareholders under the Takeover Offer at between AUD 0.21 and AUD 0.25 as summarised in the following table.

Table 5

	Unit	Low	High
Deloitte assessed value of a share in the Proposed Merged Entity (on a minority interest basis)	AUD	0.19	0.25
Number of new TerraCom shares for each Universal Coal share	shares	0.6026	0.6026
Deloitte assessed value of 0.6026 shares in the Proposed Merged Entity (on a minority interest basis)	AUD	0.11	0.15
Cash consideration per Universal share	AUD	0.10	0.10
Deloitte assessed value of the consideration per share	**AUD**	**0.21**	**0.25**

Source: Deloitte analysis

Regardless of the outcome of the Takeover Offer, the price of TerraCom's shares will vary in the future, based on release of financial reports, quarterly production updates, changing commodity prices, changes in the market sentiment to the coal mining industry and TerraCom, and overall share market movements, including the impact of COVID-19.

The Takeover Offer is not reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. An offer might also be reasonable if, despite being 'not fair', the expert believes that there are enough reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

We have considered the following factors in assessing the reasonableness of the Takeover Offer.

The Takeover Offer provides some liquidity to Non-associated Shareholders

Shareholders in Universal Coal accepting the Takeover Offer will receive cash of 10 cents and 0.6026 TerraCom share per Universal Coal share. The cash component currently represents approximately 50% of the current share price of a Universal Coal share, providing some liquidity to Non-associated Shareholders for their current shareholdings.

At present shares in TerraCom are thinly traded. It is possible that if the Non-associated Shareholders accept the Takeover Offer, the liquidity of shares in the Proposed Merged Entity could be greater than currently experienced by Universal Coal and TerraCom, because of the larger market capitalisation and the potential attractiveness to investors due to a greater geographic diversification of operations. This additional liquidity may enable Non-associated Shareholders accepting the Takeover Offer to realise the value of the shares they receive in TerraCom pursuant to the Takeover Offer.

There is limited takeover protection for shareholders in Universal Coal

Universal Coal is a public company incorporated in England and Wales, with securities listed on the ASX and operations based in South Africa.

Although the Company is incorporated in England and Wales and listed on the ASX, we understand that the Company is not regulated by:

- the takeover or compulsory acquisition provisions contained in Chapters 6 and 6A of the Corporations Act; or

- the UK City Code on Takeovers and Mergers (**UK City Code**), which provides generally similar regulation of takeover transactions in the United Kingdom to that set out in Chapter 6 of the Corporations Act .

However, Article 18.1(b) of Universal Coal's articles of association provides that, in summary, the board of directors of Universal Coal (**Board**) may, in its discretion, impose certain sanctions on a person who acquires an interest in the Company's shares exceeding, in aggregate, 20% or more and fails to make a takeover offer that is on terms no less favourable to the Company's other shareholders than would have been required under the provisions of the UK City Code, had it applied. The sanctions that may be imposed by the Board on TerraCom BidCo under Article 18.1(b) are:

- suspending with immediate effect all voting rights attributable to all shares in which TerraCom BidCo has an interest; and/or

- directing TerraCom Bidco to divest its interest in all shares in the Company it has acquired or will acquire pursuant to the Takeover Offer in accordance with the procedure set out in the Articles.

A condition of a waiver (**ASX Waiver**) granted by the ASX in favour of the Company provides, in effect, that the Board can only enforce these sanctions if a Court rules that the conditions in Article 18.1(b) are met with respect to, in the current case, the Takeover Offer.

The takeover protections in place for Non-associated Shareholders appear to be more limited than those that would apply if the Company was subject to the Corporations Act or the UK City Code.

There is significant uncertainty as to the future ownership and control of the Company

On 26 February 2020 the Company announced that it had commenced legal proceedings seeking a declaration from the High Court of Justice in England and Wales that would, in principle, permit the Board (if it resolved to do so) to impose sanctions on TerraCom BidCo in accordance with Article 18.1(b) and the ASX Waiver (discussed above).

On 16 February 2020, TerraCom BidCo sent Universal Coal a requisition notice requiring the Board to convene the Requisitioned Meeting. At the Requisitioned Meeting, Universal Coal shareholders will be asked to consider and, if thought fit, approve resolutions to approve the removal of three directors of Universal Coal who were not nominated to the Board by TerraCom BidCo. One of the directors is Mr Mark Eames who is interim chairman of the Company and chairman of the Bid Committee, the committee of the Board that is overseeing the Takeover Offer. It has been agreed that this vote will be adjourned to 15 May 2020.

The Company currently expects a decision in respect of the Litigation by late April or early May 2020, although the timing of any judgment is a matter that is subject to the discretion of the High Court of Justice in England and Wales.

In the event that the High Court of Justice in England and Wales provides the declaration that has been sought under the Litigation, the Board (whether acting through the Bid Committee or otherwise) will be in a position to apply the sanctions under Article 18.1(b) that are referred to above.

The sanctions, if imposed, would have the effect of putting Universal Coal substantially in the same position it was in before the Takeover Offer was made. This would include TerraCom BidCo's interest in Universal Coal reverting to the initial 19.995% interest it acquired in the Company on 30 October 2019.

In the event that the High Court of Justice in England and Wales does not provide the declaration that is sought by the Company, or there is a change in the composition of the Board that prevents the Bid Committee from continuing to function in an effective manner, the Board may be unable to apply the sanctions under Article 18.1(b) to TerraCom BidCo.

Alternatives for Non-associated Shareholders

On 19 February 2020, TerraCom announced that the minimum acceptance condition under the Takeover Offer (47.3%) had been satisfied, as acceptances under the Takeover Offer had been received which enabled TerraCom BidCo to exercise over 51% of the voting rights attaching to shares in Universal Coal. TerraCom also announced that the other condition to the Takeover Offer, being the admission to quotation of the new TerraCom shares to be issued in connection with the Takeover Offer, was satisfied. Consequently, on 19 February 2020 TerraCom announced that the Takeover Offer was unconditional.

On 16 March 2020, TerraCom announced that it had the right to exercise an aggregate of approximately 59% of the voting rights attached to Universal Coal shares, which implied that it had acquired shares or received pre-acceptances from holders of 39% of the issued capital of Universal Coal (including sophisticated institutional investors) in relation to the Takeover Offer, in addition to its previous 19.995% holding.

In these circumstances, as TerraCom holds a controlling interest in Universal Coal, the likelihood of Non-associated Shareholders who do not accept the Takeover Offer receiving a full control premium in the future would be expected to be diminished. We have considered the scenarios below, each of which assume the Litigation described above is unsuccessful and no alternative offer for the share capital of Universal Coal is forthcoming. We have also considered an additional scenario where the Litigation is successful.

- **TerraCom BidCo holds more than 50% but fewer than 75% of the shares in Universal Coal:** If, at the close of the Offer Period, TerraCom BidCo holds more than 50% but fewer than 75% of the shares on issue in Universal Coal, Universal Coal's listing on the ASX will be maintained and TerraCom has announced that TerraCom BidCo may seek to acquire further Universal Coal shares. Should the interests of TerraCom BidCo in Universal Coal remain within this range, Non-associated Shareholders not accepting the Takeover Offer will be minority shareholders in an ASX listed company and are likely to be subject to reduced share trading liquidity, with the possibility of receiving a control premium in the future being at the discretion of TerraCom. Where the interests of TerraCom BidCo in Universal Coal remain within this range, TerraCom Bidco has also announced that it intends to consider whether it is appropriate to maintain the Company's ASX listing, having regard to its final level of ownership, considerations such as the costs associated with maintaining that listing, the number of affected remaining shareholders, the level of trading in the Company's shares and any conditions that ASX may require when exercising its discretion regarding any delisting application. Universal could not be delisted without making an application to ASX to delist, in which case the considerations and ASX discretions set out in ASX Guidance Note 33 would apply. In ASX Guidance Note 33, the ASX has set out its approach to an application for delisting, both in cases where the bidder has acquired 75% or more of the target's securities, and in cases where the bidder has acquired target securities in the range of 50% to 75%. While recognising the right of a listed entity to apply for removal from ASX's official list, Guidance Note 33 provides that the ASX is not required to act on that request, and may impose conditions if it does so. The ASX's decision is directed to ensuring that the interests of security holders are not unduly prejudiced by the removal and that trading in the entity's securities takes place in an orderly manner up to the date of its removal.

- **TerraCom BidCo holds at least 75% but fewer than 90% of the shares in Universal Coal:** If TerraCom BidCo holds at least 75% but less than 90% of the shares on issue in Universal Coal, TerraCom has announced that TerraCom BidCo would cause Universal Coal to apply to delist from ASX. An application for delisting would be subject to the exercise of the discretion of the ASX, which would include considering the number of affected shareholders. If this application was granted and Universal Coal was subsequently delisted from ASX, Non-associated Shareholders not accepting the Takeover Offer (and not selling their shares on market or otherwise before delisting) would be minority shareholders in an unlisted, controlled entity with liquidity in their underlying shares likely to be substantially reduced. Furthermore, the possibility of receiving a control premium in the future would remain at the discretion of TerraCom

- **TerraCom BidCo holds 90% or more of the shares in Universal Coal:** In the event that TerraCom BidCo holds 90% or more of the shares on issue in Universal Coal, TerraCom has announced that it would seek to acquire compulsorily any outstanding shares in Universal Coal in respect of which TerraCom BidCo has not received acceptances of the Takeover Offer in accordance with Chapter 3 of Part 28 of the UK Companies Act 2006.

Under each of the scenarios described above, there are limited prospects for Non-associated Shareholders in Universal Coal to receive a takeover offer that is more beneficial than the Takeover Offer.

Non-associated Shareholders will receive any future dividends that may be declared by Universal Coal and potentially receive a better exit price, if and when TerraCom seeks to exit Universal Coal or makes a further takeover offer for the remaining shares.

Each of the above scenarios contemplates a situation where the Litigation is unsuccessful. However, in the event that the Litigation is successful, it would be open to the Board of Universal Coal (acting through the Bid Committee or otherwise) to impose sanctions with respect to the shares held by TerraCom Bidco under Article 18.1(b) as discussed above. In that event, it is possible that the interest in Universal Coal held by TerraCom would revert to the level prevailing prior to the announcement of the Takeover Offer, and any subsequent Takeover Offer would likely need to adhere to the requirements of the Articles of Association of the Company. The subsequent outcome for Universal Coal shareholders in respect of future takeover offers would be uncertain, however it would be open to the Board and management of Universal Coal to continue to pursue their strategy of developing the assets and creating value for shareholders.

If the Litigation is successful, the outcomes for Non-associated Shareholders who accept the Takeover Offer and hold TerraCom shares is uncertain. It is difficult to anticipate the impact of the aforementioned sanctions on the value of a TerraCom share, however it is possible that they could have a negative impact on the TerraCom share price.

Shareholders are not receiving a significant premium

We consider a key factor in evaluating the Takeover Offer is whether or not the Non-associated Shareholders are in a better or worse position if they accept the Takeover Offer, compared to their position in the absence of the Takeover Offer.

We have also compared the market price of a share in Universal Coal prior to the announcement of the Takeover Offer, which reflects the price of a share on a minority interest basis, with the Takeover Offer. This analysis should be balanced against the broad decline in global share markets as a result of the COVID-19 outbreak.

Share market prices, together with the premiums implied by our valuation of the consideration under the Takeover Offer, are set out in the table below:

Table 6

VWAP prior to announcement of the Takeover Offer (3 February 2020)	VWAP ($)	Value of the consideration ($)		Premium implied by our valuation of the consideration	
		Low	High	Low	High
1 day	0.235	0.210	0.250	-11%	6%
1 week	0.236	0.210	0.250	-11%	6%
2 week	0.238	0.210	0.250	-12%	5%
1 month	0.243	0.210	0.250	-14%	3%
3 months	0.242	0.210	0.250	-13%	3%
6 months	0.255	0.210	0.250	-18%	-2%

Note:
1. Figures displayed have been calculated using S&P Capital IQ data, which does not consider Chi-X Australia
Source: S&P Capital IQ, Deloitte Corporate Finance Analysis

The consideration offered ranges from a discount of up to 18% to a premium of up to 6% of the traded price in Universal Coal shares prior to the announcement of the Takeover Offer. On this basis, Non-associated Shareholders are not receiving a significant premium from the Takeover Offer.

As the Takeover Offer has progressed, the trading price of shares in TerraCom has decreased, most recently closing at $0.19 per share on 12 March 2020. This has occurred against a backdrop of a general share market decline of approximately 25% in the ASX due to COVID-19 concerns. At this level, with shares in Universal Coal most recently closing at $0.16 the Takeover Offer provides a premium to the traded price, although there will be a time lag before TerraCom shares to be issued to Non-associated Shareholders accepting the Takeover Offer could be sold at the then prevailing share price.

Diluted participation in the future growth of the Universal Coal asset portfolio

Following completion of the Takeover Offer, Non-associated Shareholders will hold between 0% and 33.4% of the total issued shares in the Proposed Merged Entity.

Non-associated Shareholders will have their exposure to the potential upside and value of Universal Coal's asset portfolio significantly diluted. Universal Coal has developed a portfolio of four relatively low cost, profitable, development/operating mines over time.

This dilution will be mitigated to the extent that Non-associated Shareholders will now participate in any upside attributable to the TerraCom asset portfolio. However, TerraCom's key asset, its Blair Athol coal mine, is a relatively high cost and short-lived asset and its Mongolian operations are currently loss making. Furthermore, there has been recent press coverage concerning allegations associated with challenges to the quality of coal sold by TerraCom. These allegations may adversely impact the value of a TerraCom share for some time, or at least until the matter is resolved.

TerraCom has also announced that it intends to either sell or demerge its Mongolian coking coal mine and it is uncertain how any transaction in that asset might impact Non-associated Shareholders.

Dividends

TerraCom has announced a dividend policy to pay a minimum dividend of 1 cent per fully paid ordinary share per 6-month reporting period. For the half year ended 31 December 2019, TerraCom's net cash outflow from operating activities was $10.9 million. Continued negative operating cash flows would put pressure on the ability of the Proposed Merged Entity to continue with this policy. No dividend was declared for the half year ended 31 December 2019.

Universal Coal, on the other hand, has a discretionary dividend policy which enables dividends to be paid when adequate cash flows are available. With a relatively low level of gearing, Universal Coal may be in a relatively better position to pay future dividends.

Conclusion on reasonableness

Non-associated Shareholders that accept the Takeover Offer will achieve some liquidity (by receiving the cash component of the Takeover Offer).

Non-associated Shareholders that do not accept the Takeover Offer continue to face the risks of being a shareholder in a company with limited shareholder protections and subject to the uncertainty associated with the Litigation and Requisitioned Meeting. In addition, shares in Universal Coal are likely to become illiquid, especially if TerraCom is successful in delisting Universal Coal from the ASX (assuming the shares are not compulsorily acquired). These Non-associated Shareholders may be able to achieve a better price at some future time. This opportunity should be balanced against the risks associated with the limited shareholder protections available to Universal Coal shareholders. With a single shareholder with over 50% of the shares and voting rights, Non-associated Shareholders will likely have limited influence including in relation to the appointment of directors. There are also limited prospects for a future control transaction for Universal Coal without the support of TerraCom.

The risk profile faced by Non-associated Shareholders deciding between accepting or rejecting the Takeover Offer is markedly different and is essentially a matter of the individual risk appetite of each Non-associated Shareholder. Non-associated Shareholders that have a relatively low risk appetite and a short term investment horizon may prefer to accept the Takeover Offer, receiving a degree of liquidity and holding shares in a company with better shareholder protections, or simply selling the TerraCom shares received as consideration. At the current share prices of both TerraCom and Universal Coal, there is possibly a benefit to accepting the Takeover Offer, although there will be a time lag before TerraCom shares issued to Non-associated Shareholders accepting the Takeover Offer could be sold at the then prevailing share price.

Non-associated Shareholders with a higher risk appetite and a longer term investment horizon may prefer to reject the Takeover Offer and, if they are not compulsorily acquired, wait for a possible increase in the value of Universal Coal shares, receive any future dividends that may be declared and potentially receive a better exit price, if and when TerraCom seeks to exit Universal Coal or makes a further takeover offer for the remaining shares.

We note that the outcome of the Litigation will substantially influence the potential outcomes for Non-associated Shareholders. If the Litigation is successful, Universal Coal's Board (acting through the Bid Committee or otherwise) could impose sanctions against TerraCom that result in the TerraCom BidCo voting rights being suspended and TerraCom being directed to divest any shares acquired pursuant to the Takeover Offer. In this case, TerraCom would effectively revert back to a 19.995% shareholding in Universal Coal, returning to the circumstances prevailing prior to the announcement of the Takeover Offer. In any event, notwithstanding the Litigation, the three Universal Coal Directors may still be removed.

While the risks associated with being a minority shareholder are significant, on balance, in our opinion they are insufficient to overcome the significant difference between the consideration offered and our assessed value of a Universal share. Therefore, we consider the Takeover Offer is not reasonable.

We recognise that some Non-associated Shareholders may place a different weighting on some of the factors identified above and reach a different conclusion. If TerraCom's shareholding in Universal Coal approaches 75% and the possibility of Universal Coal being delisted increases, Non-associated Shareholders should consider again whether or not to accept the Takeover Offer.

Accordingly, in our opinion, the Takeover Offer is not reasonable.

Opinion

In our opinion, the Takeover Offer is neither fair nor reasonable to the Non-associated Shareholders.

An individual shareholder's decision in relation to the Takeover Offer may be influenced by his or her individual circumstances. If in doubt the shareholder should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

Stephen Reid

Authorised Representative
AR Number: 461011

Nicki Ivory

Authorised Representative
AR Nu mber: 461005

Glossary

Reference	Definition
$ or AUD	Australian dollars
APCT	Abbott Point Coal Terminal
AR	Authorised Representative
Arnott South	Arnott South Project
ASIC	The Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Ata Resources	Ata Resources Proprietary Limited
ATO	Australian Taxation Office
AUASB	Auditing and Assurance Standards Board
ASA	Auditing Standard
BEE	Black Economic Empowerment
Berenice-Cyngus	Berenice-Cyngus Project
Blair Athol	Blair Athol Mine
BNU	Baruun Noyon Uul
bps	Basis points
β	Beta
CAPM	Capital Asset Pricing model
CDI	CHESS Depositary Interest
Clyde	Clyde Park Coal
CSA	Coal Services Agreement
DBCT	Dalrymple Bay Coal Terminal
Deloitte	Deloitte Touche Tohmatsu
DCF	Deloitte Corporate Finance
DMR	Department of Mineral Resources
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Eloff	Eloff Project
EMC	Eloff Mining Company Pty Ltd
EMRP	Equity Market Risk Premium
FSG	Financial Services Guide
FY	Financial year
IBIS	IBIS World Pty Limited
Kangala	Kangala Colliery
Kd	Cost of debt
Ke	Cost of equity capital

Reference	Definition
km	Kilometres
Ndalamo	Ndalamo Resources Pty Ltd
Northern Galilee	Norther Galilee Project
Manyeka	Manyeka Coal Mines Pty Limited
Middle Gobi	Dund (Mid) Gobi Project
MSCI Index	Morgan Stanley Capital International World Index
Mt	Million tonnes
mtpa	Million tonnes per annum
NBC	North Block Complex Pty Ltd
NBIO	Non-binding indicative offer
NCC	New Clydesdale Colliery
NPAT	Net profit after tax
Non-Associated Shareholders	Universal Coal shareholders who are not associated with TerraCom or TerraCom BidCo
NTA	Net tangible assets
PCI	Pulverised coal for injection
Proposed Merged Entity	Enlarged group following completion of the Takeover Offer, comprising TerraCom and Universal Coal
Rf	Risk free rate of return
Rm	Expected return on the market portfolio
ROM	Run of mine
Shareholders	Existing holders of Universal Coal shares
Springsure	Springsure Project
SRK Consulting	SRK Consulting (Australasia) Pty Ltd
TerraCom BidCo	Wholly owned subsidiary of TerraCom
UCDIV	Universal Coal Development IV (Pty) Ltd
Ubuntu	Ubuntu Colliery
USD	US Dollars
UTD	Universal Coal Development
WACC	Weighted average cost of capital
ZAR	Zuid Afrikaanse Rand (South African Rand)

Contents

1. Overview of the Takeover Offer

1.1 Summary

On 3 February 2020, TerraCom Limited announced its intention to make a takeover offer through TerraCom BidCo, a wholly owned subsidiary of TerraCom. This announcement was followed by the Takeover Offer on 12 February 2020, to acquire all of the ordinary issued shares in Universal Coal that TerraCom BidCo did not then already directly or indirectly own.

The consideration offered by TerraCom Bidco to holders of Universal Coal shares other than TerraCom BidCo comprises cash of $0.10 and 0.6026 new TerraCom shares for every Universal Coal share. The Takeover Offer opened on 12 February 2020 and will close on 25 March 2020 at 1.00pm London time, subject to the form in which Universal Coal shares are held, however, Non-associated Shareholders will need to make their decision earlier than that date.

Shareholders in Universal Coal may hold their interests directly through shares or CDIs. Each CDI confers a beneficial interest in one ordinary share in Universal Coal, such that the total aggregate number of shares held directly or through CDIs is equal to the total number of shares on issue in Universal Coal. Whilst the procedures for acceptance differ between certificated shares, uncertificated shares and CDIs, the impact on each Universal Coal shareholder's beneficial interest would be the same whether they hold certificated shares, uncertificated shares or CDIs. Consequently we have not differentiated between holders of certificated shares, uncertificated shares and holders of CDIs for the purpose of this report.

The full details of the Takeover Offer are included in the Offer Document which was published by TerraCom and TerraCom BidCo on 12 February 2020.

1.2 Key conditions of the Takeover Offer

On 19 February 2020, TerraCom announced that the minimum acceptance condition under the Takeover Offer had been satisfied, as acceptances under the Takeover Offer had been received which enabled TerraCom BidCo to exercise in excess of 51% of the voting rights attaching to shares in Universal Coal. TerraCom also announced that the other condition of the Takeover Offer, being the admission to quotation for the new TerraCom shares to be issued in connection with the Takeover Offer, was satisfied. Consequently, the Takeover Offer is now unconditional.

1.3 Intentions of TerraCom if the Takeover Offer proceeds

As part of its Offer Document, TerraCom provided limited details of its stated intentions in respect of the Takeover Offer in a series of ownership scenarios depending on the percentage of shares in Universal Coal owned by TerraCom and its subsidiaries, including TerraCom BidCo at the conclusion of the Offer Period. These are discussed below.

1.3.1 Intentions if Universal Coal is a Wholly Owned Controlled Entity

The Offer Document describes the intentions of TerraCom BidCo in the event that TerraCom BidCo acquires a relevant interest in 90% or more of the Universal Coal shares which the Takeover Offer relates to, and so becomes entitled to proceed to compulsory acquisition of the outstanding shares in Universal Coal in accordance with Chapter 3 of Part 28 of the UK Companies Act 2006.

In the circumstances referred to above, TerraCom BidCo's current intentions are to:

- exercise its rights pursuant to the provisions of Chapter 3 of Part 28 of the UK Companies Act 2006 to compulsorily acquire the shares in Universal Coal in respect of which it has not received acceptances under the Takeover Offer on the same terms as the Takeover Offer;
- thereupon, arrange for Universal Coal to be removed from the official list of the ASX and subsequent to this occurring, TerraCom BidCo will consider procuring that Universal Coal be re-registered as a private company; and
- after the end of the Offer Period, conduct an operational review of Universal Coal's operations, assets and corporate structure.

1.3.2 Intentions if Universal Coal is a Partly Owned Controlled Entity

The Offer Document describes the intentions of TerraCom BidCo if, as a result of acceptances under the Takeover Offer, TerraCom BidCo owns more than 50% of Universal Coal's share capital, but TerraCom BidCo is not entitled to compulsorily acquire any shares in Universal Coal in respect of which it has not received acceptances under the Takeover Offer in accordance with Chapter 3 of Part 28 of the UK Companies Act 2006. The ability of TerraCom BidCo to implement the intentions described in this section will be subject to relevant directors properly discharging their fiduciary and statutory duties, and compliance with the legal obligations referred to below.

Scenario 1 - TerraCom BidCo owns more than 50% of the share capital of Universal but less than 75%

The Offer Document provides that if at the close of the Offer Period, TerraCom BidCo holds **more than 50% but less than 75%** of the shares on issue in Universal Coal, TerraCom BidCo, may, during the subsequent six month period after the Offer Period, purchase further Universal Coal shares from shareholders at prices not exceeding the price offered under the Takeover Offer. Following the expiry of the six month period after the Offer Period, TerraCom BidCo may purchase further Universal Coal shares at such prices as it determines appropriate, and shall and will not be obligated to make an offer to the remaining Universal Coal shareholders on the same terms. In these circumstances, the Offer Document provides that TerraCom BidCo also intends to propose to the Universal Coal board that an immediate, broad based review of Universal Coal's operations be conducted on both a strategic and financial level. TerraCom BidCo intends to, subject to the approval of the Universal Coal board, participate in this review.

The Offer Document also provides that where TerraCom BidCo holds more than 50% but less than 75% of the shares in Universal Coal, TerraCom BidCo intends to consider whether it is appropriate to maintain Universal Coal's listing on the ASX, having regard to considerations such as the costs associated with maintaining that listing, TerraCom BidCo's final level of ownership, the number of remaining shareholders in Universal Coal and the level of trading in Universal Coal shares. Universal Coal could not be delisted without making an application to ASX to delist, in which case the considerations and ASX discretions set out in ASX Guidance Note 33 would apply. In ASX Guidance Note 33, the ASX has set out its approach to an application for delisting, both in cases where the bidder has acquired 75% or more of the target's securities, and in cases where the bidder has acquired target securities in the range of 50% to 75%. While recognising the right of a listed entity to apply for removal from ASX's official list, Guidance Note 33 provides that the ASX is not required to act on that request, and may impose conditions if it does so. The ASX's decision is directed to ensuring that the interests of security holders are not unduly prejudiced by the removal and that trading in the entity's securities takes place in an orderly manner up to the date of its removal.

Scenario 2 - TerraCom BidCo owns at least 75% of the share capital of Universal but less than 90%

If TerraCom BidCo holds **at least 75% of the shares in Universal Coal but less than 90%**, TerraCom BidCo's stated intentions are to cause Universal Coal to apply to the ASX to delist, having regard to the considerations in ASX Guidance Note 33, which include whether or not the ASX would require a shareholder meeting of Universal Coal to approve any delisting.

If Universal Coal is in fact delisted, TerraCom BidCo's stated intention is to consider procuring that Universal Coal be re-registered as a private company.

Where TerraCom BidCo holds at least 75% but less than 90% of the shares in Universal Coal, TerraCom BidCo also intends to propose to the Universal Coal board that an immediate, broad-based review of Universal Coal's operations be conducted on both a strategic and financial level. TerraCom BidCo intends to, subject to the approval of the Universal Coal board, participate in this review.

The Offer Document provides that it is possible that, even if TerraCom BidCo is not entitled to proceed to compulsorily acquire minority holdings after the end of the Offer Period under Chapter 3 of Part 28 of the UK Companies Act 2006, TerraCom BidCo may subsequently become entitled to exercise rights of general compulsory acquisition. If so, the Offer Document provides that TerraCom BidCo currently intends to exercise those rights.

The ability of TerraCom BidCo to implement the intentions described in this section will be subject to:

- the legal obligations of Universal Coal directors to have regard to the interests of Universal Coal and all Universal Coal shareholders, including under the UK Companies Act 2006; and
- the requirements of the UK Companies Act 2006, Corporations Act, and the ASX Listing Rules, including as they relate to transactions between related parties.

1.3.3 Other Intentions of TerraCom Bidco

The Offer Document further provides that, subject to the percentage levels of shares owned by TerraCom BidCo at the end of the Offer Period, the completion of the review of Universal Coal's operations and the existing circumstances affecting the assets and operations of Universal Coal known to TerraCom BidCo at the date of the Offer Document:

- the business of Universal Coal will be conducted in the same manner as at the date of the Offer Document;
- there will be no redeployment of the fixed assets of Universal Coal; and
- the present employees of Universal Coal will, where practicable, continue to be employed by Universal Coal.

2. Profile of Universal Coal

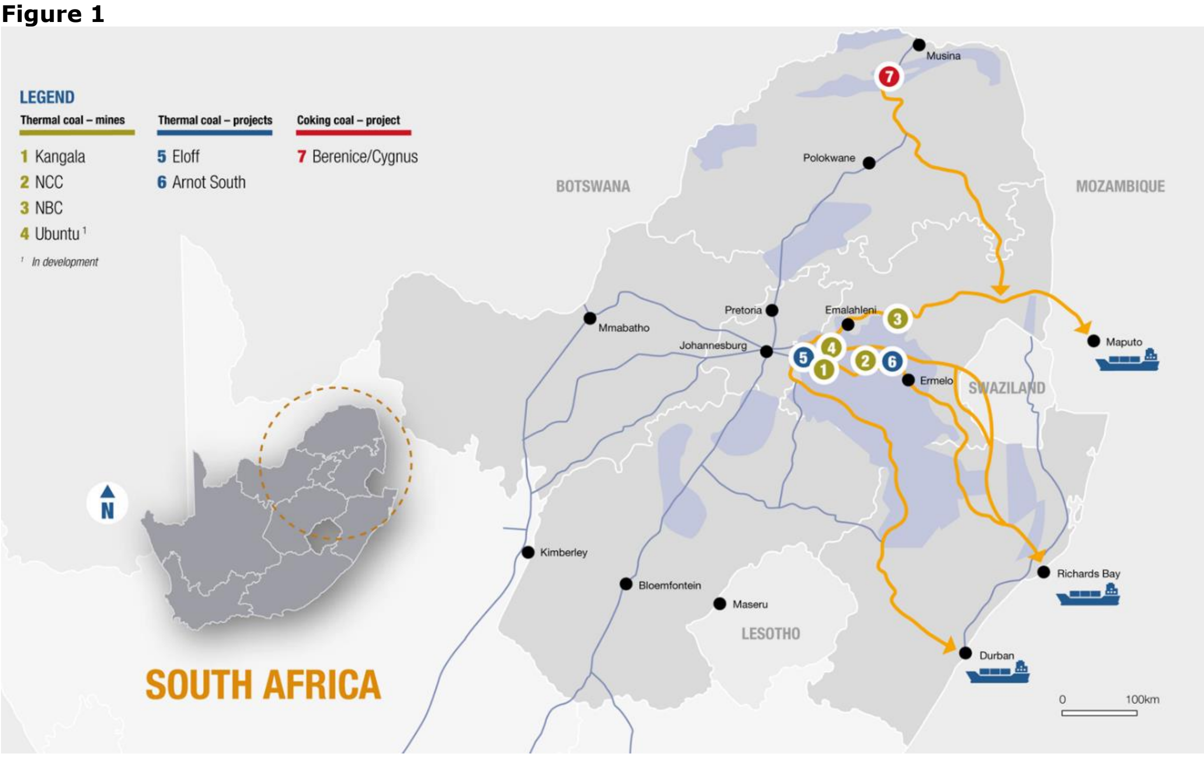
Universal Coal is a public limited company incorporated in England and Wales and listed on the ASX. Universal Coal is engaged in the acquisition, exploration, development and production of thermal coal in South Africa.

The Company's major assets are:

- Kangala Colliery (**Kangala**) - a 70.5% interest in an operating open pit thermal coal mine located 65 kilometers (**km**) east of Johannesburg in the Witbank Coalfield, Mpumalanga province
- New Clydesdale Colliery (**NCC**) - a 49.0% interest in an operating open pit and underground thermal coal mine located 149 km east of Johannesburg in the Kriel district
- North Block Complex (**NBC**) - a 49.0% interest in an operating open pit thermal coal mine located 4 km west of Belfast, Mpumalanga on the eastern edge of the Witbank Coalfield
- Ubuntu Colliery (**Ubuntu**) - a 48.9% interest in a development thermal coal mine located 25 km east of Kangala in the Delmas district
- Eloff Project (**Eloff**) - a 49.0% interest in a thermal coal development project contiguous to Kangala
- Arnot South Project (**Arnot South**) - a 50.0% interest in a thermal coal exploration project located 50 km from NCC in the Witbank Coalfield
- Berenice-Cygnus Project (**Berenice-Cygnus**) – a 50.0% interest in a thermal and blending coking coal exploration project located in the Soutpansberg Coalfield in the Limpopo province.

The figure below summarises the major assets of Universal Coal.

Figure 1



Source: Universal Coal

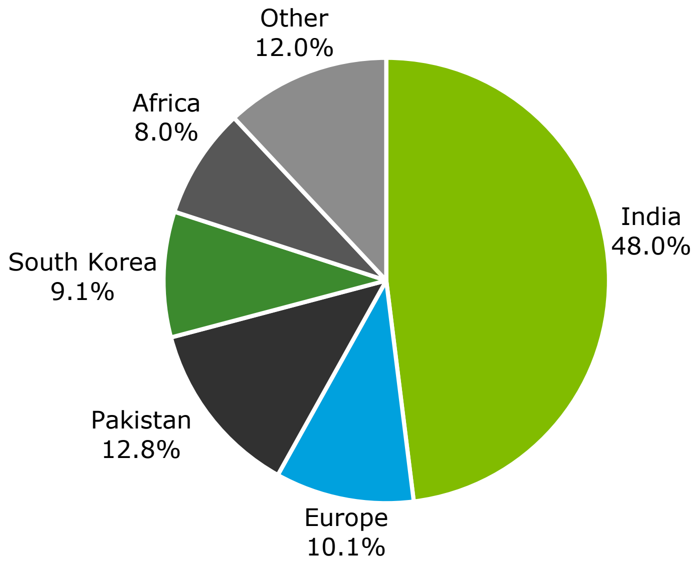
2.1 Industry background

South Africa is the fifth largest coal producer, with the majority of coal production supplying the energy sector. Currently approximately 77% of South Africa's primary energy needs are provided by coal, with approximately 53% used for electricity generation. South Africa is also the world's third largest coal exporter, with approximately 25% of production exported through its key export terminal, the Richards Bay Coal Terminal. Export coal has traditionally been sold to India, accounting for approximately 60% of total exports in H12019[1].

India is currently transforming its national energy system through the National Electricity Plan, leading to a roll-out of renewable energy and aiming to decrease its reliance on coal powered generators.

We set out below South Africa's 2018 coal exports by destination.

Figure 2



Source: Richards Bay Coal Terminal

Investment in the coal industry has decreased materially over the last decade and coal production and exports have remained stagnant since 2008, despite the country's large reserves. The industry faces a number of challenges, including increased environmental requirements, rising costs, lower investment levels, changes in mining legislation and a carbon tax.

The sector is also significantly affected by developments at Eskom, the South African government owned energy generator.

2.2 Overview of the Projects

2.2.1 Kangala

Kangala is a 3.9 Run of mine (**ROM**) million tonnes per annum (**mtpa**) thermal coal operation in the Witbank Coalfield, Mpumalanga province. Kangala is an open pit, truck and shovel operation consisting of two projects, namely Wolvenfontein and Middelbult, which are situated within close proximity to coal-fired power stations with access to road, rail and power infrastructure.

[1] Argus, Indonesia and India lift global thermal coal trade in 2019, September 2019

Universal Coal holds a 70.5% interest in Kangala, which is run on a contractor model and managed by Universal Coal's on-mine management. The remaining 29.5% in Kangala is held by Mountain Rush Trading 6 (Pty) Ltd, the Black Economic Empowerment (**BEE**) partner[2].

Kangala predominantly serves the domestic market, through a 2 mtpa off-take Coal Services Agreement (**CSA**) with Eskom. Under the CSA, Universal Coal has the ability to deliver between 1.9mtpa and 2.1mtpa to Eskom, however, Eskom can accept more coal volumes if required. The CSA was executed in 2014 and terminates in 2023, unless extended by mutual agreement.

Mine development at Kangala commenced in May 2013, with the mine officially completed in October 2014. The first saleable coal was delivered in April 2014. In FY2019, Kangala achieved nameplate production, however, ROM tonnages for the year decreased by approximately 4% from 2018 levels to a total of 3,865,246 tonnes mined (FY2018: 4,025,496 tonnes) due to a decrease in production days as a result of industrial labour action. Revenue per domestic tonne sold was A$47.1 in FY2019 (FY2018: A$44.5) largely due to the annual price increase as prescribed under the Eskom CSA. Strip ratios for Kangala have remained steady across FY2018 and FY2019 at 1.8:1 bank cubic meters per tonne (bcm/t).

Kangala currently has a remaining mine life of one year, and as a result, increased rehabilitation work is being undertaken, thereby decreasing margins. However, there is potential to extend the life of the project through the development of the Eloff Project (discussed in Section 2.2.5). We understand from Management that post the end of Kangala's remaining mine life, the remaining contracted volume under the CSA will be fulfilled from other Universal Coal projects.

As at 30 June 2019, Kangala reported total resources of 98.7 million tonnes (**Mt**) (69.6 Mt attributable to Universal Coal). The total resources at Kangala are inclusive of the resource prospects located at Middelbult. Universal Coal is prioritising the Eloff project and does not have an intention to mine the Middelbult resources in the near future, and as such, these prospects have not been included in any LoM consideration.

2.2.2 NCC

NCC is a 4.0 ROM mtpa thermal coal mine in the Mpumalanga province. NCC is an open pit, truck and shovel and underground mine consisting of the Roodekop and Diepspruit projects. Universal Coal acquired a 49.0% interest in NCC in February 2014 for A$8.1m. Despite holding a 49.0% interest, Universal Coal has operational control over the asset by virtue of its operating and management agreement. The remaining 51.0% stake is held by the BEE partner, Ndalamo Resources (Pty) Ltd (**Ndalamo**).

NCC produces thermal coal for both domestic (approximately 65% in FY2019) and export markets (approximately 35% in FY2019), with the domestic market sales through a 1.6 mtpa off-take CSA signed with Eskom. The CSA was executed in 2016 and terminates in 2023. Export tonnes are sold on the spot market and exported from the Richards Bay Coal Terminal, with approximately 650Ktpa contracted for export with Glencore through to 2021.

In FY2019, NCC conducted its second full year of nameplate production and reported an increase in coal sales, with total ROM contribution of 2.993 mt mined (FY2018: 3.0 mt). NCC sold a total of $2.535mt in FY2019 of which 835 202 tonnes was export quality thermal coal. The decrease in ROM for FY2019 was largely as a result of the change in the open cut mining contractor during the fourth quarter.

Revenue per domestic tonne sold was A$46.0 per tonne in FY2019 (FY2018: A$40.5) largely due to the annual price increase as prescribed under the Eskom CSA and the increase in quality of coal produced during the year. The revenue per export tonne sold decreased from A$114 in FY2018 to A$105 per tonne, largely as a result of the downturn in export pricing during the last six months of FY2019.

NCC has a remaining life of over 10 years, with total resources of 136.7 Mt (66.97 Mt attributable to Universal Coal) as at 30 June 2019.

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[2] The Black Economic Empowerment Act was introduced by the South African government in 2003 to promote the achievement of the constitutional right to equality, increase effective participation and promote more equitable income distribution amongst black people. Companies in South Africa that deal with the government or parastatals must adhere to various criteria, including but not limited to, minimum ownership requirements by BEE shareholders.

2.2.3 NBC

NBC is a 4.0 ROM mtpa thermal coal mine in the Mpumalanga province and is an open pit, truck and shovel operation with key projects consisting of Gilsa and Eerstelingsfontein and the undeveloped Paardeplaats Prospecting Right. Universal Coal acquired a 49.0% stake in NBC in November 2018. Ndalamo is the BEE partner and holds the remaining 51.0% equity interest.

Despite its 49.0% interest, Management has determined that Universal Coal has operational control over NBC through its operating and management agreement.

NBC was acquired for total consideration of A$8.9m, of which A$1.6m was transferred on the date of acquisition, and the balance repaid in December 2019. Since the acquisition, Universal Coal has incurred substantial capital expenditure in respect of NBC. The carrying value of NBC, which reflects the expenditure to date, is A$59.3m.

NBC has produced 2.0 Mt of ROM through open cut mining, with revenue per domestic tonne averaging A$43.0 per tonne. FY2019 sales were directed to the domestic market for Eskom, with whom NBC previously had a CSA, however, this ceased as a result of the Universal Coal acquisition. We understand from Management that a new CSA has been drafted, with agreed pricing, and is currently awaiting Eskom board approval.

NBC has a remaining life of mine of over 15 years, with the development of the Paardeplaats Project allowing Universal Coal to increase export quality product volumes going forward.

As at 30 June 2019, NBC reported total resources of 108.7 Mt (53.3 Mt attributable to Universal Coal).

2.2.4 Ubuntu Colliery

Ubuntu is a development mine, located in the Delmas district. Universal Coal holds a 48.9% interest in Ubuntu, with Ndalamo as the BEE partner, holding the remaining interest. In FY2019, Ndalamo increased its holding by 1.4% to adhere to the requirements of the CSA agreement with Eskom. Universal Coal exercises operational control over Ubuntu due to its operating and management agreement.

Universal Coal commenced development of Ubuntu following the acquisition of the surface rights in the second quarter of FY2019 and the execution of a CSA with Eskom for the supply of 1.2 mtpa for domestic thermal coal. Operations commenced during August 2019 with the first coal sales in February 2020. Full production is expected for the fourth quarter of FY2020.

Ubuntu has a life of mine of six years and has total resources of 75.8 Mt (37.1 Mt attributable to Universal Coal) as at 30 June 2019.

2.2.5 Eloff

Eloff is a thermal coal exploration project adjacent to Kangala. Universal Coal holds a 49.0% interest in Eloff through its holdings in Manyeka Coal Mines (Pty) Limited (**Manyeka**) (51.0% ownership of Eloff) and Universal Coal Development IV (Pty) Ltd (**UCDIV**) (49.0% ownership of Eloff). Universal Coal previously held a 29.0% interest in Eloff through its ownership in UCDIV, and acquired 100.0% of Manyeka in August 2018 for a consideration of A$8.8m, effectively taking Universal Coal's ownership of Eloff to 80.0%. In September 2018, Universal Coal acquired the remaining 20.0% of Eloff for A$3.6m.

In October 2019, 100.0% ownership of Eloff was transferred to NCC, with Universal Coal holding an effective 49.0% interest in Eloff through its 49.0% ownership in NCC.

Due to its contiguous resource base, Eloff provides a significant low-cost expansion and extended mine life opportunity for Kangala, with mining and infrastructure already in place. In particular, due to its large resource base (528.3 Mt of resources as at 30 June 2019) Eloff provides an opportunity to sustain the current production levels at Kangala as well as double current volume levels. As at the date of this report, Universal Coal is undertaking technical and economic studies and has started discussions with its BEE partners, which are different between Kangala and Eloff.

As at the date of this report, a Mining Right and Environmental Authorisation are in place for Eloff. The application for the Integrated Water Use License is pending and awaiting a decision.

Eloff has an expected life of mine of 20 years and reported 528.3 Mt of resources (258.9 Mt attributable to Universal Coal) as at 30 June 2019.

2.2.6 Exploration assets

Universal Coal's exploration assets consist of the Arnot South project and the Berenice-Cygnus coking coal project.

Arnot South is a thermal coal exploration project with a number of properties in the Middelburg district. Universal Coal holds a 50.0% interest in Arnot South through a joint venture, with Ndalamo. The project has the ability to access the Richards Bay Coal Terminal, and is within 30 km of two Eskom coal-fired power stations.

As at 30 June 2019 Arnot South has total resources of 206.6 Mt (103.3 Mt attributable to Universal Coal). As at the date of this report, Universal Coal was still waiting for the S11 transfer ownership approval from the Department of Mineral Resources.

Berenice-Cygnus is a semi-soft coking coal exploration project located in the Limpopo province. Universal Coal holds a 50.0% interest in the project, with Bono Lithihi Investment Group (Pty) Ltd (Berenice) and Solar Spectrum 365 (Pty) Ltd (Cygnus) as the BEE partners. Universal Coal holds an option to acquire an additional 24.0% interest in Berenice-Cygnus.

Berenice-Cygnus has the potential for a 10 Mtpa open-cut operation, in close proximity to existing railway infrastructure (approximately 20 km). As at the date of this report, the Mining Right application and the submission for environmental authorisation and water license had been submitted. Management have indicated that feasibility and development will commence once regulatory approvals are granted.

As at 30 June 2019, Berenice/Cygnus had 1,350.1 Mt of total resources (675.1 Mt attributable to Universal Coal).

2.2.7 Major customers

The majority of Universal Coal's sales are to the domestic market through a CSA with Eskom, South Africa's largest electricity supplier and the seventh largest electricity generator in the world. Eskom is 100% government-owned and generates approximately 90% of South Africa's electricity through the operation of 30 power stations. Approximately 85% of the base load is made up by coal-fired generating capacity. The remaining base load is generated through nuclear power. Hydro stations, pumped storage and gas-fired stations provide peaking power.

Of the 30 Eskom operated power stations, 13 are base load coal-fired stations, predominantly located and concentrated in Mpumalanga. When South Africa's coal fired power stations were built, contracts were signed with mining companies to ensure a secure supply of coal for the expected life of each power station (initially estimated at approximately 40 years). However, many power stations have operated for significantly longer periods.

Over the longer term, Eskom's demand for coal may reduce as a result of environmental considerations and the age of Eskom's coal powered fleet. South Africa's Integrated Resource Plan for electricity is proposing a reduction in coal fired generation in favour of renewable energy, nuclear and gas sources.

2.3 Reserves and resources

The following table summarises Universal Coal's total attributable proved and probable reserves by asset as at 30 June 2019 in accordance with the 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 JORC Code).

Table 7

Mt	Reserves			Resources				Attributable to Universal Coal[1]
	Proved	Probable	Attributable to Universal Coal[1]	Measured	Indicated	Inferred	Total	
Thermal coal								
Kangala	28.3	0.0	20.0	51.3	15.0	32.3	98.7	69.6
NCC	48.2	6.6	26.9	88.8	41.8	6.0	136.7	67.0
NBC	48.5	6.5	27.0	65.7	17.7	25.4	108.7	53.3
Ubuntu	9.2	0.0	4.5	31.7	39.4	4.7	75.8	37.1
Arnot South Project	0.0	0.0	0.0	2.3	65.3	139.0	206.6	103.3
Eloff Project	0.0	0.0	0.0	11.8	266.0	250.6	528.3	258.9
Total thermal coal	**134.2**	**13.1**	**105.7**	**251.6**	**445.2**	**458.0**	**1,154.7**	**589.1**
Coking coal								
Berenice/Cygnus Project	0.0	0.0	0.0	424.9	800.9	124.3	1350.1	675.1
Total coking coal	**0.0**	**0.0**	**0.0**	**424.9**	**800.9**	**124.3**	**1,350.1**	**675.1**
Total	**134.2**	**13.1**	**105.7**	**676.5**	**1,246.1**	**582.3**	**2,504.8**	**1,264.2**

Note:
1. Subject to rounding.
Source: Universal Coal Management

2.4 Capital structure and ownership

As at 6 February 2020, Universal Coal had 522,471,758 ordinary fully paid shares on issue. The top 10 shareholdings are set out in the table below.

Table 8

Shareholder	No ordinary shares held (millions)	Percentage of issued shares (%)
TerraCom BidCo	104.47	19.99%
Brasidas Capital	69.14	13.23%
Coal Development Holdings	39.00	7.46%
Walleye Trading Advisors	34.72	6.64%
Harvest Lane Asset Mgt	24.61	4.71%
Maple Leaf International Holdings	22.00	4.21%
Pie Funds Mgt	16.59	3.18%
Mr & Mrs Geoffrey R Tarrant	10.60	2.03%
Mr Anton Weber	9.54	1.83%
Mr Hendrik W Bonsma	5.99	1.15%
Total top 10 shareholders	**336.65**	**64.43%**
Other shareholders	**185.82**	**35.57%**
Total shares outstanding	**522.47**	**100.00%**

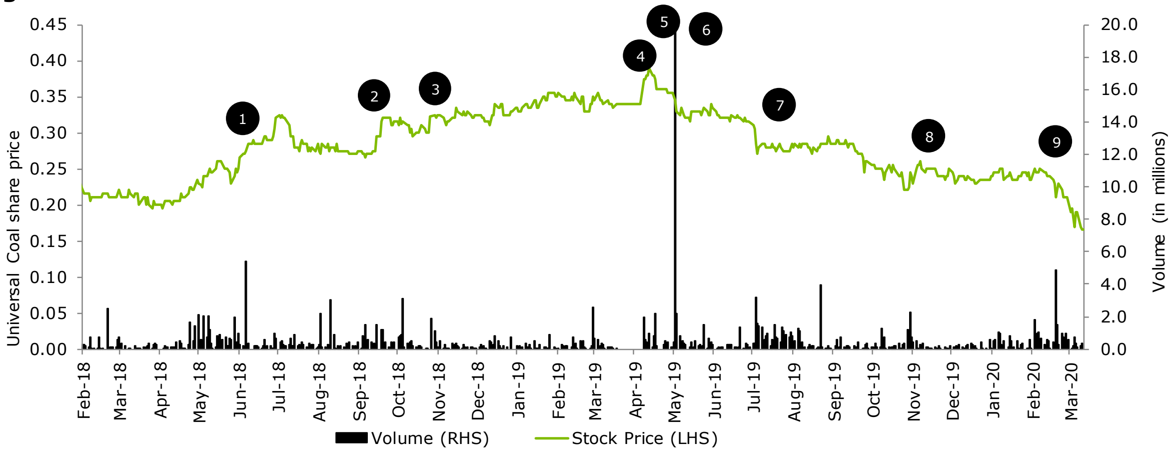
Source: Universal Coal Management

On 30 October 2019, TerraCom announced that it had through TCIG Resources (a wholly owned subsidiary of TerraCom) acquired 104,467,056 shares in Universal Coal, being approximately 19.99% of the issued share capital.

2.5 Share price

The figure below illustrates movements in the Universal Coal's share price in A$ on the ASX since January 2018.

Figure 3



Note: Actual volume traded as at 02/05/2019 was 151.6m
Source: S&P Capital IQ, ASX

Key announcements identified in the chart above are set out in the following table.

Table 9

Note	Date	Commentary
1	28/06/2018	Universal Coal provided updated earnings and production guidance for FY2018, representing an approximate 27% increase on the previous EBITDA guidance.
2	18/09/2018	Universal Coal announced it had received a conditional non-binding indicative offer (**NBIO**) to acquire 100% of Universal Coal by way of scheme or arrangement by a consortium of investors led by Ata Resources Proprietary Limited (**Ata Resources**). Ata Resources proposed to offer cash of A$0.35 for each Universal Coal share.
3	26/10/2018	Ata Resources advised that confirmatory due diligence has been completed and that it had obtained conditional commitments to fully finance the proposed transaction through a combination of debt and equity funding.
4	19/03/2019	Securities in Universal Coal were suspended under Listing Rule 17.2, at the request of Universal Coal, pending the release of an announcement regarding a proposed transaction.
5	8/04/2019	Universal Coal received a new conditional NBIO from Afrimat Limited, superior to the offer proposed by Ata Resources. The NBIO proposed that Afrimat will acquire the entire issued share capital of Universal Coal via a change of control transaction, the structure of which remained under consideration. Afrimat proposed to offer cash of A$0.40 for each Universal Coal share.
6	02/05/2019	IchorCoal NV sold its interest in 151,660,000 ordinary shares in Universal Coal, representing approximately 29% of the issued share capital of Universal Coal. The shares were sold at a price of $0.315 per share.
7	03/07/2019	Universal Coal announced the withdrawal of the NBIO previously received from Afrimat Limited.
8	30/10/2019	TerraCom reached a binding agreement to purchase 104.5m Universal Coal shares, representing approximately 19.9% of Universal Coal issued capital, from Coal Development Holdings B.V. for a disclosed consideration of A$34.6m. The disclosed consideration consisted of A$17.3m cash and approximately 34.2m fully paid ordinary shares in TerraCom at a deemed issue price of A$0.5061.
9	03/02/2020	TerraCom announced an offer to acquire the entire issued share capital of Universal Coal not already directly or indirectly owned by it. The consideration comprised of A$0.10 in cash and 0.6026 in new TerraCom shares per Universal Coal share held.

Source: Universal Coal Management

As at 7 February 2020, the last twelve-month liquidity[3] was 47.9%. This decreases to 18.3% when excluding the sale by IchorCoal NV of its approximately 29% interest of the issued share capital.

[3] Calculated as the total volume of shares traded over the preceding twelve months over the average number of shares outstanding.

2.6 Financial performance

Universal Coal holds a controlling interest in the assets which it owns and manages. The consolidated financial performance for the financial years ended 30 June 2018 and 30 June 2019 is summarised below.

Table 10

A$'m	Audited 2018	Audited 2019	Reviewed HY 2020
Revenue			
Mining and sale of coal:			
- Kangala	148.7	143.5	58.2
- NCC	167.7	186.8	83.0
- NBC[1]	-	103.6	75.4
Exploration and development	-	1.0	0.8
Total revenue	**316.4**	**434.8**	**217.4**
Cost of sales	(235.9)	(314.8)	(182.2)
Gross profit	**80.5**	**120.0**	**35.2**
Gross profit margin %	*25.4%*	*27.6%*	*16.2%*
Operating expenses	(27.7)	(46.5)	(25.5)
Operating profit	**52.8**	**73.5**	**9.7**
Finance income	3.8	5.2	1.7
Foreign exchange gain/(loss)	(0.1)	0.1	(0.0)
Bargain purchase gain	-	20.7	0.0
Share of profit of associated undertaking	0.2	0.0	(0.0)
Decrease in fair value of derivative financial liability	0.3	-	0.0
Finance expenses	(7.5)	(6.9)	(3.2)
Profit before tax	**49.5**	**92.6**	**8.1**
Tax expense	(13.5)	(22.2)	(5.4)
Net profit after tax	**36.0**	**70.4**	**2.7**
Minority interest in net profit before tax	(12.0)	(32.4)	(0.4)
Net income attributable to Universal shareholders	**24.0**	**37.9**	**2.3**

Note:
1. From 1/11/2018 to 30/06/2019.
Source: Universal Coal FY2019 Annual Report, FY2020 Half Year Report

Key observations on recent financial performance are summarised as follows:

- revenue has increased approximately 37% from $316.4m to $434.8m in FY2019, largely as a result of the acquisition of the 49.0% interest in NBC. In FY2019, approximately 79% of revenue was generated by sales to Eskom, with the remaining 21% derived from export sales to Glencore. This compares to FY2018, where approximately 71% of revenue was generated from Eskom and 29% from export sales. Revenue decreased in 1H2020 compared to the prior corresponding period, due to the lower price per tonne on export pricing as well as Eskom lowering volumes from above-contract volumes to the minimum contracted volumes.

- cost of sales consists of operating costs (mining, maintenance, processing, technical services and exploration costs) and selling costs (including haulage, royalties and marketing costs). Operating margins have remained relatively constant across the two year period. Costs increased in 1H2020 compared to the prior corresponding period, and represented a higher relative proportion to revenue, due to the extraction of lower yielding coal from NBC while waiting for the S11 transfer ownership approval as well as excess coal mined above the volume taken by Eskom

- Universal Coal recorded a bargain purchase gain in FY2019 as a result of the acquisition of NBC. The consideration paid totalled $8.8m, compared to the fair value of identifiable net assets acquired of $29.6m, resulting in a gain of $20.7m. The gain arises due to the fair value of the undeveloped Paardeplaats mine adjacent to the current NBC operations.

2.7 Financial position

We have summarised in the table below the reported statement of financial position.

Table 11

A$'m	Audited June 2018	Audited June 2019	Reviewed December 2019
Cash and cash equivalents	36.9	32.1	12.9
Trade receivables	39.6	55.6	41.4
Inventories	3.7	5.5	10.3
Other current assets	4.8	8.4	9.3
Total current assets	**85.0**	**101.6**	**73.9**
Property, plant and equipment	112.6	148.6	230.3
Intangible assets	45.5	116.8	57.5
Long-term investments	8.2	0.0	0.0
Loan receivables	10.6	9.9	(5.6)
Other financial assets	2.7	4.1	4.1
Total non-current assets	**179.6**	**279.5**	**286.3**
Total assets	**264.6**	**381.1**	**360.2**
Trade and other payables	42.7	58.9	44.1
Borrowings	11.0	11.9	8.1
Current tax payable	3.9	0.0	0.6
Total current liabilities	**57.5**	**70.8**	**52.8**
Borrowings	22.0	9.6	8.2
Provisions	35.9	74.7	75.8
Deferred tax	11.2	27.1	28.1
Trade and other payables	0.0	3.0	2.5
Total non-current liabilities	**69.1**	**114.5**	**114.5**
Total liabilities	**126.7**	**185.3**	**167.4**
Net assets	**137.9**	**195.8**	**192.8**
Non-controlling interest	38.7	68.7[1]	69.0
Net assets attributable to equity holders of Universal Coal	**99.2**	**127.1**	**123.8**

Source: Universal Coal FY2019 Annual Report, FY2020 Half Year Report

We note the following in relation to the financial position of Universal Coal:

- during FY2019 Universal Coal acquired all assets and assumed certain liabilities of NBC. As a result of the acquisition, Universal Coal added $14.9m of property, plant and equipment and $55.9m of intangible assets recognised. Further, Universal Coal also recognised a liability of $41.6m for environmental rehabilitation and a deferred tax liability of $8.0m. Other net assets as a result of the acquisition totaled $8.3m

- during FY2019 Universal Coal acquired 100.0% of the Eloff Project. As the Eloff Project does not meet the definition of a business (per IFRS 3), the assets and liabilities of the Eloff Project were included at cost, with the excess of the purchase price over the cost of the assets and liabilities acquired being allocated to exploration assets of $18.6m

- intangible assets of $59.3m was transferred to property, plant and equipment in December 2019, relating to the Paardeplaats mining right at NBC which has commenced production during the period

- borrowings consist of finance facilities at Kangala and NCC as well as a mortgages over the Eloff Project properties, which are incurred at the operating entity level.

As at 31 December 2019, the company had cash reserves attributable to Universal Coal of A$12.9m.

3. Profile of TerraCom

TerraCom is an Australian incorporated coal production and exploration company listed on the ASX. TerraCom engages in the acquisition, exploration, development and production of thermal coal in Australia and thermal and coking coal in Mongolia.

TerraCom was known as Guildford Coal Limited prior to November 2015.

TerraCom's major assets are:

- Blair Athol mine (**Blair Athol**)- a 100% interest in an open pit operating thermal coal mine located in the Bowen Basin of Central Queensland, Australia
- Baruun Noyon Uul (**BNU**) – a 100% interest in an open pit operating coking coal mine, approximately 80km east of Nariin Sukhait, in the South Gobi province of Mongolia
- Northern Galilee Project (**Northern Galilee**) - a 100% interest in the consolidation of the Hughenden and Pentland thermal coal development projects within the Galilee Basin in Queensland, Australia, approximately 200km west of the Bowen Basin
- Clyde Park Coal (**Clyde**) - a 64.4% interest in a thermal coal development project on the north eastern edge of the Galilee Basin in Queensland, Australia
- Springsure project (**Springsure**) – an 86.97% interest in a thermal coal and pulverised coal for injection (**PCI**) coal development project in the Central Western Bowen Basin, approximately 60 km south of Emerald in Queensland, Australia
- Dund (Mid) Gobi Project (**Middle Gobi**) – a 100% interest in two exploration licenses in the coal bearing Ongi Gol Basin in Mongolia, a thermal coal region, approximately 400km south west of Ulaanbaatar.

On 24 February 2020, TerraCom announced that it had executed a binding term sheet for the acquisition of Anglo American Minerals plc, an exploration and development company with bauxite resources located in the Republic of Guinea. The acquisition is subject to precedent conditions being satisfied including due diligence and regulatory approvals.

We have described TerraCom's key assets, Blair Athol and BNU mines in further detail in the following sections.

3.1 Overview of key assets

3.1.1 Blair Athol mine

Blair Athol is an open cut, truck and excavator operation, producing thermal coal that is mid energy, low ash, ultra-low sulphur and low trace elements capable of producing approximately 3.0Mtpa of saleable coal.

The Blair Athol project has reserves of 27.4Mt and resources of 43.8Mt.

Table 12

Production Metric	FY18	FY19
Run of mine coal mined (tonnes)	1,574,920	2,647,216
Strip ratio	9.0	6.7
Saleable production (tonnes)	1,306,761	2,288,115
Sales (tonnes)	994,642	2,298,083
Inventory (tonnes)	312,119	357,891

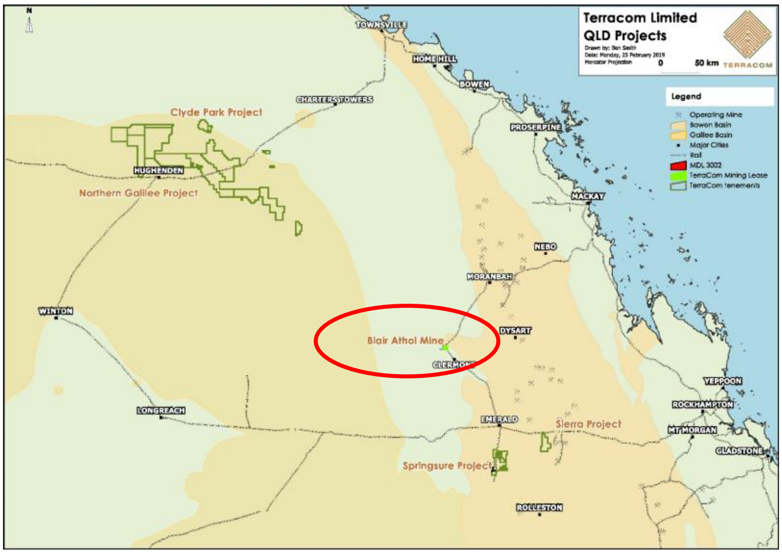
Source: TerraCom FY2019 Annual Report

Blair Athol has a full-service outsourced mining contract with Link Mining Services Pty Ltd for a 5 year term. The Blair Athol mine was acquired for $1 from the Rio Tinto-managed Blair Athol Coal Joint Venture (BACJV) in May 2017. The first coal under new ownership was mined in August 2017 with the first coal washed and trucked to a third party coal handling facility in October 2017.

Blair Athol has a long history with an estimated 250 million tonnes of thermal coal exported into Asia. The thermal coal output from Blair Athol is particularly attractive to Japanese and Korean power utility companies and offtake agreements with major Japanese and Korean power utility companies are forecast for up to 40% of forecast coal production sold[4].

TerraCom constructed and commissioned for a dedicated train load out facility by upgrading the existing unused agricultural rail line which runs across the Blair Athol mine site and connects into the Goonyella Rail Line, which then continues to Dalrymple Bay Coal Terminal (DBCT). The load out facility was completed on 2 April 2018.

Figure 4



Source: TerraCom company website

Coal produced is transported by rail to DBCT and Abbott Point Coal Terminal (**APCT**), under various agreements with rail services providers including Toll, Pacific National and Aurizon.

At 30 June 2019, the mine had 211 full time workers, comprising 9 employees and 202 contractors.

3.1.2 BNU Mine

BNU is a producing coking coal mine located in Umnugovi Aimag, Noyon Soum (South Gobi Desert), Mongolia. All interests are currently held through TerraCom's wholly owned Mongolian subsidiary, Terra Energy.

A 70% interest in Terra Energy, a Mongolian company which owned a number of exploration tenements contained in two projects (South Gobi Project and Middle Gobi project), was acquired for $17.3m on 5 April 2011.

On 20 July 2012, TerraCom acquired an additional 5% in Terra Energy and on 21 December 2012, TerraCom acquired the remaining 25% interest in consideration for the conversion of a loan facility to equity, issue of 40,000,000 fully paid shares (valued at $21.6m), $5m cash and $15m in deferred consideration settled in shares.

BNU was formally approved by the Mongolian Government on 7 February 2014 with the first commercial shipment completed in March 2015.

[4] TerraCom Investor Presentation (May 2019)

The project has resources of 81Mt consisting of:

- BNU 14Mt Measured, 8.2Mt Indicated (JORC 2012)
- KS North 15Mt Inferred (JORC 2012)
- Huvguun East 41 Mt Inferred (JORC 2004) (83.87% ownership).

Some key production metrics are set out in the table below.

Table 13

Production Metric	FY18	FY19
Run of mine coal mined (tonnes)	924,073	720,313
Strip ratio	13.5	17.7
Saleable production (tonnes)	924,073	720,313
Sales (tonnes)	910,534	738,041
Inventory (tonnes)	81,521	50,129

Source: TerraCom FY2019 Annual Report

The project comprises contiguous mining and exploration licences covering 696 km^2 in the Noyon Coal Basin in Mongolia.

TerraCom has secured offtake agreements with two end-users in China, JISCO and Haohai. During FY19, 720,313 tonnes of ROM coal was mined and 738,041 tonnes was sold.

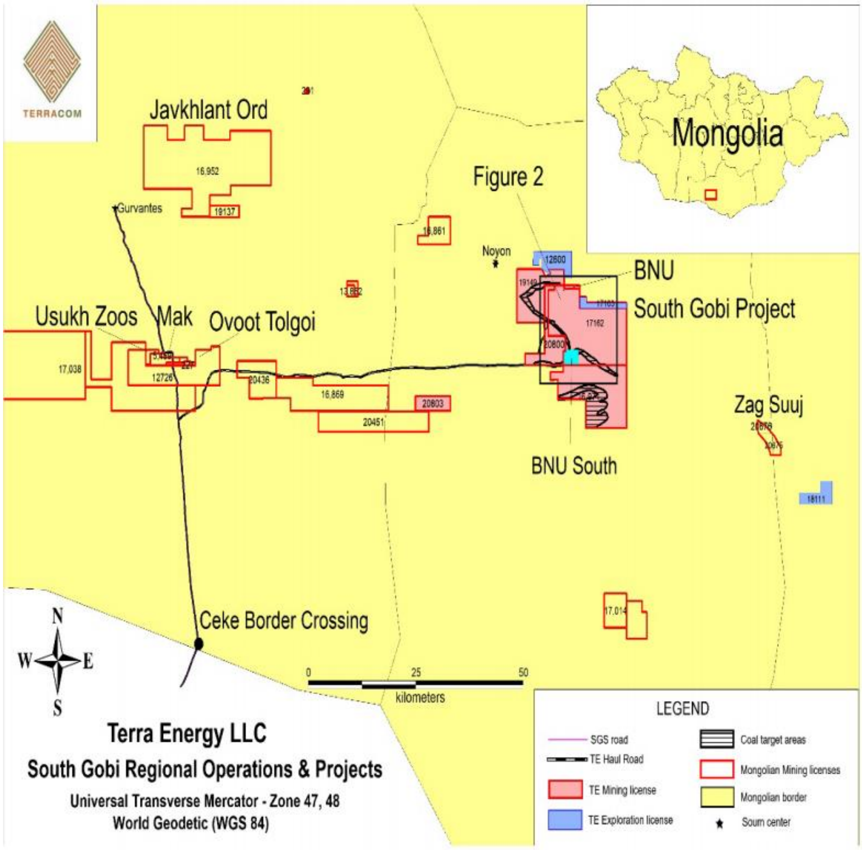
TerraCom has announced its intention to divest its Mongolian interests through a 100% demerger (subject to approval of shareholders) or a divestment of at least 51% of its interests. During the past year TerraCom:

- engaged a Mongolian owned mining contractor, resulting in a reset of the operating cost base of the mine
- increased its customer base, resulting in an increase of the average revenue per tonne.

TerraCom's intention is to maintain management and marketing rights for the Mongolian business.

At 30 June 2019, the mine had 724 full time workers, comprising 219 employees and 505 contractors.

Figure 5



Source: TerraCom 2019 FY Results Presentation

Exploration and Development Projects

3.1.3 Northern Galilee Project

The Northern Galilee Project is a consolidation of the Hughenden and Pentland thermal coal exploration projects in Queensland, Australia. The Hughenden and Pentland projects cover 6,423.2 km^2 and 2492 km^2 respectively. The Northern Galilee Project comprises many tenements (EPC 1300, 1394, 1477, 1478, 1479, 1890, 1892, 1892, 1893, 1962, 1964 and 2049).

The project is in close proximity of the Mt Isa to Townsville rail line.

Exploration drilling work in 2012 delineated underground coal resources of approximately 1,209Mt at the Hughenden Project. TerraCom has developed a drilling program to further explore the potential of the project.

3.1.4 Clyde Park Project

Clyde Park Project (EPC 1250 and EPC1260) is a thermal coal exploration asset situated on the north eastern edge of the Galilee Basin in Queensland, Australia and covers approximately 132km^2. Clyde Park is well located to existing rail and port facilities, as it is in close proximity to key supporting infrastructure such as the Mount Isa to Townsville rail line. Whilst it is close to rail infrastructure, the rail line does not currently carry coal and the Townsville port is currently not available for coal loading. The south eastern boundary of EPC1260 is approximately 15km from a potential rail siding at Pentland.

Clyde Park has an estimated 728Mt Coal Resource, with 677Mt Inferred Resources and 51Mt Indicated Resources.

3.1.5 Springsure

The Springsure Project (MDL 3002 and EPC 1674) is a thermal/PCI coal exploration asset situated on the western margin of the Bowen Basin's Denison Trough in Queensland, Australia.

The Springsure Project covers a total area of 31km^2 and has an estimated coal resource of 191Mt.

The project has secured a Mineral Development Licence (MDL) and TerraCom aims to advance the project to a Mining Lease by 2021.

In March 2019, TerraCom completed the acquisition of 51.19% of Springsure Mining Pty Ltd via the issue of 9,230,769 TerraCom ordinary shares at an issue price of $0.65 per share which increased its interest in the Springsure project to 86.97%.

TerraCom has also secured an adjoining exploration permit tenement, EPC1103 (Fernlee Project), which is 246km^2 in area and provides the potential to expand the Springsure Project MDL area to the East and North East. TerraCom also owns 100% of EPC1103 is 100%.

3.1.6 Middle Gobi

The Middle Gobi Project consists of exploration licences 12929X and 15466X and is located approximately 400km southwest of Ulaanbaatar, Mongolia and just over 200km west of the Mongolian railway grid and logistic route to China via the Erlianhaote border crossing.

The Middle Gobi Project has an estimated coal resource of 221Mt.

3.2 Reserves and resources

The following table summarises the total attributable reserves and resources by asset as at 30 June 2019 in accordance with the 2004 and 2012 Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 and 2012 JORC Codes). The resources are inclusive of the reserves presented in the following table.

Table 14

Mt	Reserves[1]		Resources				
	Proved	Probable	Measured	Indicated	Inferred	Total	Attributable to TerraCom[2]
Thermal coal							
Blair Athol	15.3	12.1	30.2	11.6	2.0	43.8	43.8
Springsure	0.0	0.0	-	43.0	148.0	191.0	166.1
Hughenden	0.0	0.0	-	133.0	1,076.0	1,209.0	1,209.0
Clyde Park	0.0	0.0	-	51.0	677.0	728.0	468.8
Hovguun East	0.0	0.0	-	-	41.0	41.0	34.4
Mid-Gobi	0.0	0.0	-	32.0	189.0	221.0	221.0
Total thermal coal	**15.3**	**12.1**	**30.2**	**270.6**	**2,133.0**	**2,433.8**	**2,143.1**
Coking coal							
BNU	0.0	0.0	14.0	8.2	2.7	24.9	24.9
KS North	0.0	0.0	-	-	15.0	15.0	15.0
Total coking coal	**0.0**	**0.0**	**14.0**	**8.2**	**17.7**	**39.9**	**39.9**
Total	**15.3**	**12.1**	**44.2**	**278.8**	**2,150.7**	**2,473.7**	**2,183.0**

Notes:
1. Recoverable reserves under JORC 2012
2. Subject to rounding.
Source: TerraCom Annual Coal Resources and Reserves Summary as at 30 June 2019 released on 30 September 2019

3.3 Capital structure and ownership

As at 10 February 2020, TerraCom had 501,717,977 ordinary fully paid shares on issue. The largest shareholdings as at 10 February 2020 are set out in the table below.

Table 15

Shareholder	No ordinary shares held (millions)	Percentage of issued shares (%)
OCP Asia (Hong Kong) Limited	74.13	14.77%
Noble Group Limited	69.52	13.86%
Bonython Coal No.1 Pty Limited	58.82	11.72%
Rasia	32.50	6.48%
Springsure Investments Limited	27.68	5.52%
John Singleton Promotions Pty Ltd	20.00	3.99%
TIGA Trading Pty Ltd	19.16	3.82%
OCP Asia (Singapore) Pte Limited	16.88	3.36%
C1 Commodities Pte Ltd	10.00	1.99%
TheChairmen1 Pty Ltd	8.14	1.62%
Total top 10 shareholders	**336.82**	**67.13%**
Other shareholders	**164.90**	**32.87%**
Total shares outstanding	**501.72**	**100.00%**

Source: S&P Capital IQ, ASX Announcements

There are 12,630,833 fully transferable warrants issued on 26 February 2016 which have not yet expired. These warrants expire five years from the date of issue and have an exercise price of $0.262 per share, unless a cross-listing on Singapore Stock Exchange has completed, in which case the exercise price is the lower of the cross-listing price and the market price. These are exercisable at the holder's option.

There is an unlisted convertible bond for USD20 million with OCP Asia, with a strike price of $0.696 and repayment/conversion three years from the issue date of 19 December 2019.

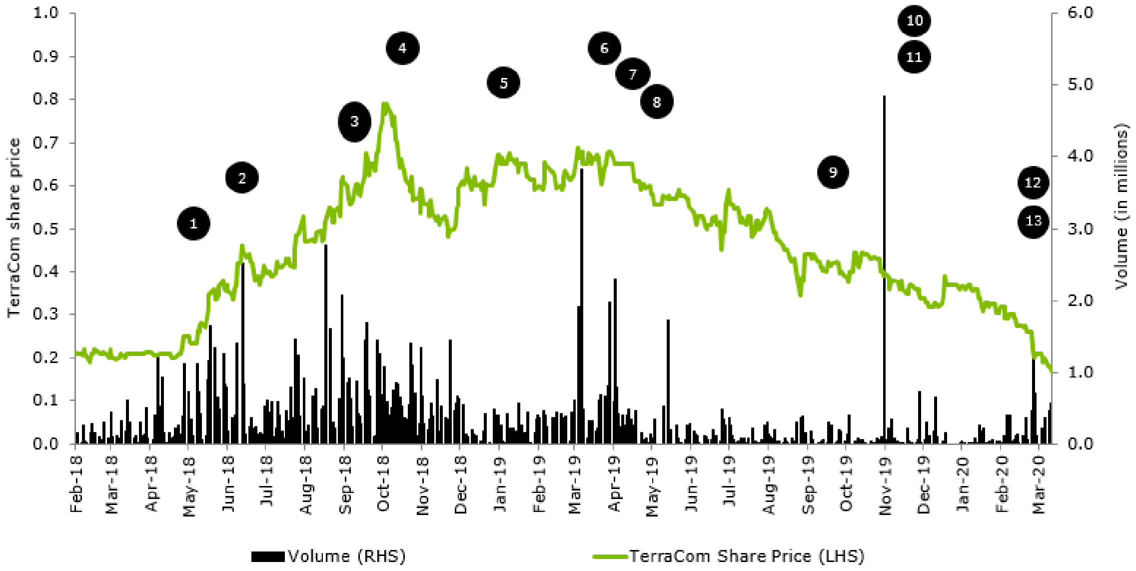
There are also unlisted share options held by the following parties:

- 1,500,000 unlisted ordinary share options held by Foster Stockbroking Pty Ltd at a strike price equal to $0.60, with an expiry date of 31 August 2020 (earliest date of conversion 2 July 2021)
- 647,777 unlisted ordinary share options held by TerraCom's Directors at a strike price equal to $0.415 and expiry date of 27 November 2023 (earliest date of conversion 2 July 2021)
- 400,000 unlisted ordinary share options with a strike price of $0.595 and expiry date of 20 March 2024 (earliest date of conversion 2 July 2021).

3.4 Share price summary

Set out below is the summary of share trading of TerraCom on the ASX since 1 February 2018.

Figure 6



Source: S&P Capital, ASX Announcements, Deloitte Corporate Finance analysis

The increase in TerraCom's share price in 2018 was mainly driven by positive trading updates at the Blair Athol Thermal Coal Mine, while weakness in thermal coal prices drove down the TerraCom share price in 2019 and early 2020.

TerraCom's shares have limited liquidity, with trading volume over the prior year of approximately 9.8% of the outstanding shares.

Table 16

VWAP to 11 March 2020	VWAP ($)	Volume (m)	Volume as % shares outstanding	Total traded value ($m)
1 month	0.22	5.48	1.0%	1.20
3 month	0.25	8.02	1.6%	2.01
6 month	0.33	18.91	3.8%	6.16
9 month	0.37	25.69	5.3%	9.46
1 year	0.48	45.99	9.8%	22.27

Source: S&P Capital IQ, Deloitte Corporate Finance Analysis

The key announcements are summarised in the table below:

Table 17

Note	Date	Commentary
1	07/05/2018	TerraCom released a trading update in relation to coal sales at Blair Athol Thermal Coal Mine, securing buyers for 532,000 tonnes for the June 2018 quarter and trial shipments into Japan and Korea
2	08/06/2018	TerraCom released a trading update in relation to coal sales at Blair Athol Thermal Coal Mine, confirming volumes and prices were in line with forecasts for June 2018 quarter and forecast sales of 650,000 tonnes for September 2018 quarter (including securing buyers for coal sales totalling 520,000 tonnes)
3	31/08/2018	TerraCom announced sales of $141.1m and EBITDA of $28.6m for FY18, reinforcing the significant operational turn-around at the Blair Athol coal mine
4	26/09/2018	TerraCom released a Blair Athol Coal Sales Update, securing buyers for 637,000t for the December 2018 quarter and announcing a 3-year offtake agreement with a major Japanese customer had been reached for up to 1,056,000 tonnes per annum representing 42% of forecast annual sales
5	21/12/2018	TerraCom released a financing update, reporting that it had achieved critical milestones towards finalisation of the refinancing of the TerraCom's existing debt. It advised that it had paid its interest coupon on its listed Euroclear bond entirely in cash for the first time and Noble Resources had agreed to convert US$9 million of Noble Resources' Blair Athol Prepayment facility into ordinary shares for an issue price of $0.75 per share, which represented a 23% premium to the closing share price on 19 December 2018
6	04/03/2019	TerraCom announced the acquisition of an additional 51% interest in Springsure Mining Pty Ltd, increasing total ownership to 87% for the issue of 9,230,769 TerraCom ordinary shares at an issue price of $0.65 per share (i.e. shares to the value of $6 million)
7	20/03/2019	TerraCom announced a further upgrade to the Blair Athol Mine JORC Reserve, increasing JORC marketable reserves from 16.5Mt in June 2018 to 23.5Mt in March 2019, adding more than 3 years to the economic mine life based on the annualised saleable production estimate of 2.9Mtpa as at December 2018. This equates to a remaining economic mine life of 8 years based on a 3mtpa sales profile
8	02/04/2019	TerraCom provided an update on its Mongolian operation, which sold 152,591t for coal for export (including 131,486t of coking coal) for the month of March 2019
9	30/08/2019	TerraCom announced FY19 results, reporting an operating EBITDA of $93.9m, representing an increase of $66.7m compared to prior comparative period
10	30/10/2019	TerraCom announced that it had acquired 19.9% of the issued capital of Universal Coal Plc for a combination of cash and TerraCom shares, totalling $34.6m
11	31/10/2019	TerraCom announced total quarterly coal sales of 921,119t and Blair Athol Coal Sales of 795,532 tonnes for 3 months to 30 September 2019
12	03/02/2020	TerraCom announced its intention to make an offer to acquire the entire issued capital of Universal Coal Plc not already directly or indirectly owned by it.
13	12/02/2020	TerraCom announced a formal offer to acquire the entire share capital of Universal Coal Plc not already directly or indirectly owned by it

Source: ASX Announcements

3.5 Dividends

TerraCom has adopted a dividend policy of at least 1 cent per fully paid ordinary share every 6 months.

On 23 October 2019, TerraCom declared a maiden ordinary dividend of 1 cent per fully paid ordinary share. The dividend was an interim dividend and was unfranked.

3.6 Financial performance

TerraCom's financial performance for the years ended 30 June 2018 and 30 June 2019 is summarised below.

Table 18

A$'m	Audited 2018	Audited 2019	Reviewed HY2020
Revenue	147.1	338.3	160.0
Cost of goods sold	(106.3)	(226.6)	(125.2)
Gross profit	**40.8**	**111.7**	**34.9**
Other operating expenses	(4.4)	(6.8)	(5.0)
Administration expense	(9.1)	(10.7)	(8.3)
Exploration tenement write-off	(0.2)	(0.3)	-
Share of profits/(losses) of associates	(0.0)	(0.0)	1.2
Operating EBITDA	**27.2**	**93.9**	**22.9**
Depreciation and amortisation	(18.2)	(35.5)	(20.6)
Financial income	0.0	4.0	0.8
Financial expense	(36.1)	(74.9)	(18.9)
Net foreign exchange (loss)/gain	1.4	(5.7)	3.8
Loss before income tax benefit	**(25.7)**	**(18.2)**	**(12.1)**
Income tax benefit	6.6	6.9	2.7
Loss after income tax benefit for the year	**(19.1)**	**(11.3)**	**(9.4)**
EBITDA margin	18%	28%	14%
Segment EBITDA			
Australia	27.2	103.1	21.7
Mongolia	7.0	1.5	(1.2)
Unallocated/corporate	(7.1)	(10.8)	2.4
Segment income/(loss) before tax			
Australia	21.4	92.8	13.7
Mongolia	(5.3)	(35.0)	(13.8)
Unallocated/corporate	(41.8)	(76.0)	(11.9)

Source: TerraCom FY2019 Annual Report, FY2020 Half Year Report

Key observations on TerraCom's recent financial performance are summarised as follows:

- revenue increased c. 130% from $147.1m to $338.3m in FY2019, with ROM production increasing 35% from 1.9Mt to 3.4Mt and coal sales increasing 59% from 1.9Mt to 3.0Mt. The increase was predominantly attributable to the Blair Athol Coal Mine, which continued to ramp up production towards 3.0Mtpa, as well as an increase in production at the BNU mine. Revenue decreased in FY2020 compared to the prior period despite higher production at Blair Athol due to the falling coal price and decreased production at BNU

- TerraCom's key customers include Noble Group, a commodities, energy and industrial raw materials trader based in Hong Kong and Kingho Group, a large Chinese coking coal miner and manufacturer. Noble Group and Kingho Group represented 47.2% and 13.4% of FY2019 revenue respectively. The remaining customers are primarily major Japanese and Korean power utilities who purchase under offtake agreements

- TerraCom's gross profit margins have increased from 27.7% in FY18 to 33.0% in FY2019, while EBITDA margin has increased from 18.5% to 27.8% over the same period. This is primarily due to the ramp up of production at Blair Athol

- Of the total FY2019 EBITDA of $93.9m, Australia contributed EBITDA of $103.1m (of which Blair Athol contributed EBITDA of $109.0m) and Mongolia contributed EBITDA of $1.5m (of which BNU contributed an EBITDA loss of $3.0 million), excluding unallocated corporate costs of $10.8m. The decrease in EBITDA in HY2020 is due to increased production costs and lower productivity rates from higher strip ratios

- financial expense relates to interest on loans, special interest amortisation and royalties. The increase in FY2019 is primarily due to:

  - the Euroclear Listed Bond included non-cash amortization over the 5 year term due to the difference in the purchase price and the redemption value of the bonds. As a result of TerraCom's intention to refinance this facility in the September 2019 quarter, TerraCom accelerated non-cash amortisation of $19.8m such that the redemption value of the bonds is recognised as the amount outstanding as at 30 June 2019

  - special interest payable at a rate of 0.75% of total mine gate revenue in relation to TerraCom's Euroclear Listed Bond. This interest is payable every 6 months

  - an expense of $11.4m in relation to amortisation of a Mongolia Royalty issued to OCP Asia which was recognised at amortised cost. The key terms of the bond included a royalty of US$2 per tonne of coking coal sold from BNU MV-17162 in Mongolia for the period 1 October 2018 to 30 September 2023

- the Australian segment profit before tax of $92.8m is primarily driven by the Blair Athol operations while the Mongolian segment loss before tax of $35.0m is primarily due to $25.1m of depreciation and amortisation, as well as the royalty expense of $11.4m, as described above.

3.7 Financial position

TerraCom's financial position as at 30 June 2018 and 30 June 2019 is summarised in the table below.

Table 19

A$'m	Audited June 2018	Audited June 2019	Reviewed December 2019
Current assets			
Cash and cash equivalents	11.9	57.2	67.0
Trade and other receivables	15.3	17.9	37.9
Inventories	16.3	17.0	15.1
Secured deposit	2.4	0.7	-
Other current assets	0.2	0.2	0.6
Total current assets	**46.2**	**93.0**	**120.7**
Non-current assets			
Trade and other receivables	8.0	8.4	7.5
Restricted cash	73.8	73.8	47.0
Investments accounted for using the equity method	1.4	-	30.9
Property, plant and equipment	243.1	253.8	271.5
Exploration and evaluation	40.8	48.0	47.1
Deferred tax	2.7	10.7	13.5
Other non-current assets	3.5	4.5	10.0
Total non-current assets	**373.4**	**399.3**	**427.5**
Total assets	**419.6**	**492.2**	**548.2**
Current liabilities			
Trade and other payables	(75.0)	(91.8)	(86.9)
Borrowings	(22.6)	(7.3)	(7.2)
Lease liabilities	-	-	(11.2)
Provisions	(0.3)	(0.5)	(0.7)
Financial liabilities	(1.8)	(3.5)	(5.8)
Deferred revenue	(13.0)	(16.6)	(29.2)
Total current liabilities	**(112.9)**	**(119.7)**	**(141.0)**
Non-current liabilities			
Trade and other payables	(5.3)	(5.5)	(1.3)
Borrowings	(196.1)	(213.5)	(238.9)
Lease liabilities	-	-	(18.5)
Provisions	(74.2)	(71.1)	(71.0)
Financial liabilities	(3.8)	(12.1)	(12.3)
Total non-current liabilities	**(279.3)**	**(302.2)**	**(341.9)**
Total liabilities	**(392.2)**	**(421.8)**	**(483.0)**
Net assets	**27.4**	**70.4**	**65.2**

Source: TerraCom FY2019 Annual Report, FY2020 Half Year Report

Key observations on TerraCom's financial position are summarised as follows:

- cash has increased from $11.9m in June 2018 to $57.2m in June 2019, primarily as a result of proceeds from a $35.3m share issue from a pro-rata non-renounceable entitlement offer in June 2019 and increased coal sales at Blair Athol mine, which was fully operational in FY2019

- short and long term debt is comprised of:

    - short term borrowings (facility with State Bank of India of $2.8m and a non-interest bearing loan of $4.3m acquired as part of the acquisition of Enkhtunkh Orchlon LLC) totalling $7.3m

    - non-current borrowings (Euroclear Listed Bond of $203.04m, State Bank of India facility $10.44m) totalling $213.5m

- on 1 July 2019, TerraCom announced a binding term sheet with OCP Asia to refinance its existing facilities with a USD80.0m term loan and a USD20.0m convertible bond facility. The term loan has an accelerated repayment profile with 20% in Year 1, 30% in Year 2 and 50% in Year 3

- restricted cash is security for the issue of a bank guarantee to satisfy the financial assurance requirements with the Queensland Government's Department of Environment and Science for the Blair Athol Coal Mine's Environmental Authority EPML00876713

  On 9 January 2020, TerraCom announced that it had obtained an insurance bond, resulting in a release of $27m from restricted cash, reducing the restricted cash balance to approximately $47m

- investments accounted for using the equity method comprises TerraCom's 19.995% holding in Universal Coal acquired 30 October 2019

- the increase in lease liabilities from June 2019 to December 2019 is due to the recognition of leases for mining equipment which have a lease term of three years

- the increase in borrowings in December 2019 was due to the new convertible bond facility (convertible note) for USD20 million with OCP Asia

- TerraCom issued 60,933,436 ordinary shares on 5 June 2019 through a pro-rata non-renounceable entitlement offer at an issue price of $0.58 per share. This resulted in additional equity of $35.3m

- TerraCom acquired an additional 51.19% of Springsure Pty Ltd to increase total ownership to 86.97% in March 2019. Consequently, the investments accounted for under the equity method are now reflected on a consolidated basis

- property, plant and equipment comprises mine development assets, plant, equipment, land and buildings. The increase in June 2019 is due to the development work on projects in Australia and Mongolia, including a thermal coal pit in Mongolia

- during FY2019, TerraCom spent $29.8m on property, plant and equipment (primarily in mine development) and $2.5m on exploration and evaluation.

4. Profile of the Proposed Merged Entity

In this section, we have set out a profile of the Proposed Merged Entity, including:

- major assets
- reserves and resources
- pro-forma capital structure and shareholders
- potential market capitalisation.

4.1 Major assets

The major assets of the Proposed Merged Entity will include the following:

- Australian assets:
    - a 100.0% interest in Blair Athol operating mine (refer to section 3.1.1)
    - development projects comprising:
        - a 100.0% interest in Northern Galilee (refer to section 3.1.3)
        - a 87.0% interest in Springsure (refer to section 3.1.5)
        - a 64.4% interest in Clyde (refer to section 3.1.4)
- South African assets:
    - operating mines comprising:
        - a 70.5% interest in Kangala (refer to section 2.2.1)
        - a 49.0% interest in NCC (refer to section 2.2.2)
        - a 49.0% interest in NBC (refer to section 2.2.3)
    - development projects comprising:
        - a 48.9% interest in Ubuntu (refer to section 2.2.4)
        - a 49.0% interest in Eloff (refer to section 2.2.5)
    - exploration projects comprising:
        - a 50.0% interest in Arnot South (refer to section 2.2.6)
        - a 50.0% interest in Berenice-Cygnus (refer to section 2.2.6)
        - 49.0% of the remaining Eloff resource (refer to section 2.2.5)
- Mongolian assets:
    - a 100.0% interest in the operating BNU mine (refer to section 3.1.2)
    - a 100.0% interest in Middle Gobi exploration project (refer to section 3.1.6).

4.2 Reserves and resources

A summary of current reserves and resources estimates as at 30 June 2019 for the Proposed Merged Entity is set out in the table below.

Table 20

Mt	Reserves		Resources				Attributable to Proposed Merged Entity[1]
	Proved	Probable	Measured	Indicated	Inferred	Total	
Thermal coal							
Australian assets	15.3	12.1	30.2	238.6	1,903.0	2,171.8	1,887.7
South African assets	134.2	13.1	251.6	445.2	458	1154.8	589.2
Mongolian assets	0.0	0.0	0.0	32.0	230.0	262.0	255.4
Total thermal coal	**149.5**	**25.2**	**281.8**	**715.8**	**2,591.0**	**3,588.6**	**2,732.3**
Coking coal							
South African assets	0.0	0.0	424.9	800.9	124.3	1350.1	675.1
Mongolian assets	0.0	0.0	14.0	8.2	17.7	39.9	39.9
Total coking coal	**0.0**	**0.0**	**438.9**	**809.1**	**142.0**	**1,390.0**	**715.0**
Total	**149.5**	**25.2**	**720.7**	**1,524.9**	**2,733.0**	**4,978.6**	**3,447.3**

Note:
1. Subject to rounding.
Source: Universal Coal FY2019 Annual Report, TerraCom Annual Coal Resources and Reserves Summary as at 30 June 2019, Deloitte analysis

4.3 Capital structure and shareholders

The following table sets out the pro-forma capital structure of the Proposed Merged Entity and the ownership interest of Universal Coal shareholders in the Proposed Merged Entity on a fully diluted basis, assuming the Takeover Offer is completed.

Table 21

	Number of shares (millions)
Number of Universal Coal shares on issue	522.47
Less: Universal Coal shares held by TerraCom prior to the Takeover Offer	104.47
Number of Universal Coal shares eligible for acquisition	**418.00**
Number of TerraCom shares offered per Universal Coal share	0.6026
Implied number of shares in the Proposed Merged Entity held by Universal Coal shareholders[1]	251.89
Number of TerraCom shares on issue before Takeover Offer	501.72
Number of Proposed Merged Entity shares on issue after Takeover Offer	753.61
Proportion of shares in the Proposed Merged Entity held by Universal Coal shareholders	**33.42%[1]**

Note:
1. Assumed 100% acceptance of offer
Source: TerraCom Offer document, Deloitte analysis

We have also considered several scenarios where less than 100% acceptance is assumed. The proportion of shares in the Proposed Merged Entity held by Universal Coal shareholders under each scenario is outlined below.

Table 22

	Percent of Universal Coal shareholder offer acceptance			
	51.0%	75.0%	90.0%	100.0%
Proportion of shares in the Proposed Merged Entity held by Universal Coal shareholders	20.38%	27.35%	31.12%	33.42%

Source: TerraCom Offer Document, Deloitte analysis

4.4 Potential market capitalisation

The following table shows the potential market capitalisation of the Proposed Merged Entity using a range of share prices for the Proposed Merged Entity, assuming the Takeover Offer is completed at 100% acceptance.

Table 23

	Proposed Merged Entity share price						
	0.18	0.20	0.22	0.24	0.26	0.28	0.30
Potential share market capitalisation (A$m)	131.12	145.68	160.25	174.82	189.39	203.96	218.53

Source: Deloitte analysis

4.5 Financial performance

For the pro forma income statement of the Proposed Merged Entity prepared by TerraCom for the year ended 30 June 2019, refer to the Offer Document.

4.6 Financial position

For the pro forma balance sheet of the Proposed Merged Entity prepared by TerraCom for the year ended 30 June 2019, refer to the Offer Document.

The interests of Non-associated Shareholders in the net tangible assets of the Company will be diluted as set out in the proforma financial statements in Part I Section 3 of the Offer Document. We note that the proforma net assets shown in the Offer Document are likely to be significantly overstated as the proforma acquisition of Universal Coal has been calculated based on a deemed issue price of TerraCom shares of $0.39 rather than the closing share price at the date of the acquisition pursuant to the Takeover Offer, as required by International Financial Reporting Standards, which is expected to be significantly lower, given it is approximately 51% lower as of the date of this report.

5. Valuation of Universal Coal

5.1 Introduction

For the purpose of our opinion, we have referred to the concept of fair market value which is defined as the amount at which the shares in the entities valued would be expected to change hands in a hypothetical transaction between a knowledgeable willing, but not anxious, buyer and a knowledgeable willing, but not anxious, seller acting at arm's length.

Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation has not been premised on the existence of a special purchaser.

5.2 Selection of valuation methodologies

We have estimated the fair market value of Universal Coal by aggregating the estimated fair market value of its underlying assets and projects and surplus assets on a sum-of-the-parts basis and deducting the net present value of corporate overheads and net debt. We have considered the following:

- operating assets and development projects – we have selected the discounted cash flow method to value the operating assets and development projects, namely Kangala, Eloff, NBC, NCC and Ubuntu, due to the following factors:
  - Universal Coal's management have prepared long-term cash flow projections for each of the operating assets and development projects
  - Universal Coal's operating assets and development projects have a finite life and thus it is not appropriate to use an earnings multiple approach
  - capital expenditure will be required for the operating assets and development projects

  Key assumptions underpinning the discounted cash flow valuation are set out in Section 5.4.
- evaluation and exploration assets – we have engaged SRK Consulting to assess the value of evaluation and exploration assets. These assets have been valued based on a number of valuation methodologies including those based on resource multiples, the planned future expenditure in respect of the exploration permits, and expenditure incurred to date on the permits.
- cash and debt position – cash and interest-bearing liabilities attributable to Universal Coal after allowing for the minority interest
- surplus assets – assets not already included in the cash flow models for the operating assets and development assets.

To provide additional evidence of the fair market value of a share in Universal Coal, we have also considered the following:

- recent and proposed transactions in the shares in Universal Coal
- resources multiples implied by our valuation compared with the resource multiples observed for comparable transactions and comparable listed companies
- recent share market trading activity.

Appendix 1 contains a detailed discussion on the various valuation methodologies which can be adopted in valuing corporate entities and businesses.

5.3 Appointment and role of the technical expert

SRK Consulting, an independent mining expert, was engaged by us to prepare a report providing a technical assessment of certain key assumptions included in the future cash flows of the operating assets and development projects, namely Kangala, Eloff, NBC, NCC and Ubuntu. SRK Consulting also provided an assessment of the value of Universal Coal's other evaluation and exploration assets.

In relation to cash flows and in respect of each asset/project, SRK Consulting reviewed and/or provided input into the following assumptions:

- reserves and resources
- production profiles
- operating expenditure, including rehabilitation and abandonment costs
- capital expenditure
- other relevant assumptions.

SRK Consulting has visited relevant sites, held discussions with management, reviewed data, reports and other information that is either publicly available or made available to them by Universal Coal.

SRK Consulting prepared its technical report having regard to the code for Technical Assessment and Valuation of Minerals and Petroleum Assets and Securities for Independent Expert Reports (VALMIN code). The scope of the work was controlled by Deloitte and a copy of their report is provided in Appendix 5.

5.4 Future cash flows

Universal Coal management have prepared detailed cash flow projections for the operating assets and development projects (the **Universal Coal Model**), which includes projections of ZAR denominated, nominal after tax cash flows up to and including the year ending:

- 30 June 2034 for NBC
- 30 June 2032 for NCC
- 30 June 2020 for Kangala
- 30 June 2035 for Eloff
- 30 June 2027 for Ubuntu.

We have adopted the ZAR denominated nominal cash flows for the purposes of our valuation for the following reasons:

- coal sales (approximately 80% of FY2019 coal sales) are primarily to the domestic South African market and denominated in ZAR
- operating costs (mining, maintenance, processing, technical services and exploration costs) and selling costs (including haulage, royalties and marketing costs) are denominated in ZAR
- exports (approximately 20% of FY2019 coal sales are USD denominated) and USD denominated costs (such as fuel) represent a small proportion of cash flows.

The Universal Coal Model was based on:

- historical costs and production profiles
- the latest reserves statements for Kangala, NBC, Eloff, NCC and Ubuntu, which are certified in accordance with the 2012 JORC standards
- the life of mine plans.

The analysis we have undertaken in respect of the Universal Coal Model includes:

- engaging SRK Consulting to review the technical assumptions
- holding discussions with management on the preparation of the projections and their views and support for the assumptions on which the projections are based
- limited analytical procedures regarding the mathematical accuracy of the Universal Coal Model.

Deloitte Corporate Finance has made some adjustments to the cash flow projections included in the Universal Coal Model where it was considered appropriate. These adjustments included, but were not limited to, pricing, foreign exchange rates and inflation rate assumptions.

We have valued the operating assets and development projects based on the technical assumptions reviewed or provided by SRK Consulting and our assessment of coal prices, foreign exchange rates, inflation rates and the discount rate applicable to the future cash flows associated with these assets.

Our work did not constitute an audit or review of the projections in accordance with the AUASB Standards and accordingly we do not express any opinion as to the reliability of the projections or the reasonableness of the underlying assumptions. However, nothing has come to our attention as a result of our limited work that suggests that the assumptions on which the projections are based have not been prepared on a reasonable basis.

Since projections relate to the future, they may be affected by unforeseen events and they depend, in part, on the effectiveness of management's actions in implementing the plans on which the projections are based. Accordingly, actual results are likely to be different from those projected because events and circumstances frequently do not occur as expected, and those differences may be material.

The key assumptions underpinning our analysis are described in the following sections.

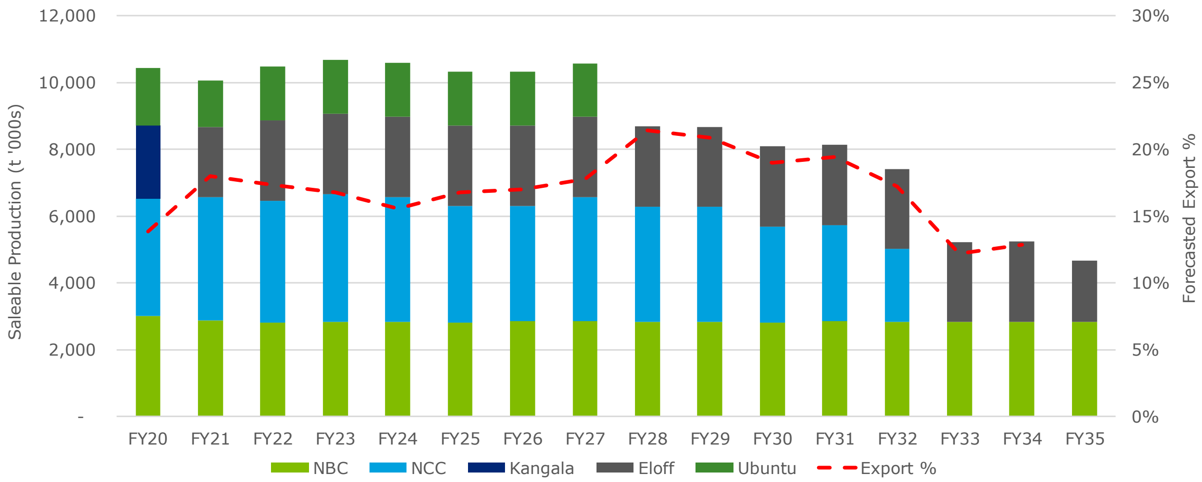
5.4.1 Revenue assumptions

Sales revenue is a function of commodity prices and estimated saleable production volumes.

Production volumes

The figure below shows the projected saleable production volumes.

Figure 7



Source: Universal Coal Financial Model, Deloitte analysis

We note the following:

- NBC is expected to produce saleable coal volumes of 45.6 mt at an annual rate of 2.8 mtpa commencing FY2020 through to FY2035, reflecting production of all proven and probable reserves plus approximately 9.2 mt (17.1%) of measured, indicated and inferred resources excluding reserves. Approximately 77.6% of production from NBC is expected to be sold into the domestic South African market with the remainder expected to be exported
- NCC is expected to produce saleable coal volumes of 43.9 mt at an average annual rate of 3.4 mtpa commencing FY2020 through to FY2032. This reflects production of all proven and probable reserves (but none of the measured, indicated or inferred resources). Approximately

68.7% of production from NCC is expected to be sold into the domestic South African market with the remainder expected to be exported

- Kangala is expected to produce 2.2 mtpa in FY2020, and thereafter cease production
- Eloff, which serves as an effective extension of Kangala, is expected to produce saleable coal volumes of 35.1 mt at an annual rate of 2.1 mt in FY2021 and 2.4 mtpa commencing FY2022 through to FY2034 and 1.8 mt in FY2035, reflecting production of all proven and probable reserves plus approximately 51.7 mt (9.8%) of measured, indicated and inferred resources excluding reserves. Production from Eloff is expected to be sold into the domestic South African market
- Ubuntu is expected to produce saleable coal volumes of 12.8 mt at an annual rate of 1.6 mtpa commencing FY2020 through to FY2027, reflecting production of all proven and probable reserves plus approximately 3.6 mt (5.4%) of measured, indicated and inferred resources excluding reserves. Production from Ubuntu is expected to be sold into the domestic South African market

Coal pricing assumptions

Approximately 82.8% of Universal Coal's projected coal sales from FY20 to FY35 are expected to be sold into the domestic South African market under contracts with Eskom.

Domestic sales are assumed to be sold at contract prices consisting of a base price negotiated with Eskom at inception of the coal sales agreement and escalated at a price adjustment factor reflecting a weighted average of inflation indices of various cost components (such as labour, diesel, electricity, maintenance and overheads etc). For the purpose of our valuation, all domestic sales are assumed to be sold under contract with Eskom.

Uncontracted revenue associated with export sales has been projected with reference to available information on future export coal prices from South Africa, including various discounts to adjust for differences in the quality of coal produced by Universal Coal compared to relevant pricing benchmarks.

For the purpose of our valuation, we have selected an API4 benchmark price which reflects FOB delivery of thermal coal (6,000 kcal/kg NAR) at the Richards Bay Coal Terminal for projected export sales.

Our forecast API4 export prices are set out in the table below.

Table 24

USD per tonne (real)	2020	2021	2022	2023	2024	LT
API4 coal prices - selected	60.0	65.0	68.0	69.0	70.0	70.0

Source: Deloitte Corporate Finance analysis

We have converted these real coal prices to nominal coal prices to use in the Universal Coal Model.

In selecting these projected export coal prices, we have had regard to:

- historical API4 and Newcastle coal prices and the relativity between these two price benchmarks
- broker forecasts for API and Newcastle coal prices
- forecasts prepared by economic forecasters
- other public commentary including, but not limited to, industry research and announcements released by comparable companies and market commentators
- the perceived risk associated with market factors such as the impact of the COVID-19 outbreak.

Where appropriate, we have applied discounts to the above prices to reflect differences in the quality of coal produced by Universal Coal compared to the API4 benchmark.

Other revenue

Other revenue reflected in the Universal Coal Model includes:

- distribution fees received by the joint ventures for delivering coal to certain customer sites

- payments received by the joint ventures in respect of leasing farmland within certain permit areas.

5.4.2 Operating costs

The Universal Coal Model includes projections of operating costs in nominal terms, denominated in ZAR. The key operating costs are summarised as follows:

- coal mining costs based on an average rate of ZAR 60 per ROM tonne on real terms
- washing, crushing and screening costs based on an average rate of ZAR 11 per ROM tonne on real terms
- diesel costs based on a rate per tonne of diesel used
- road haulage, rail, siding and vessel costs based on a rate per tonne of product coal sold
- South African Government royalty payments calculated at applicable rates under relevant legislation
- management fees paid by each joint venture entity to Universal Coal and the BEE partner as a percentage of sales revenue based on existing contractual arrangements.

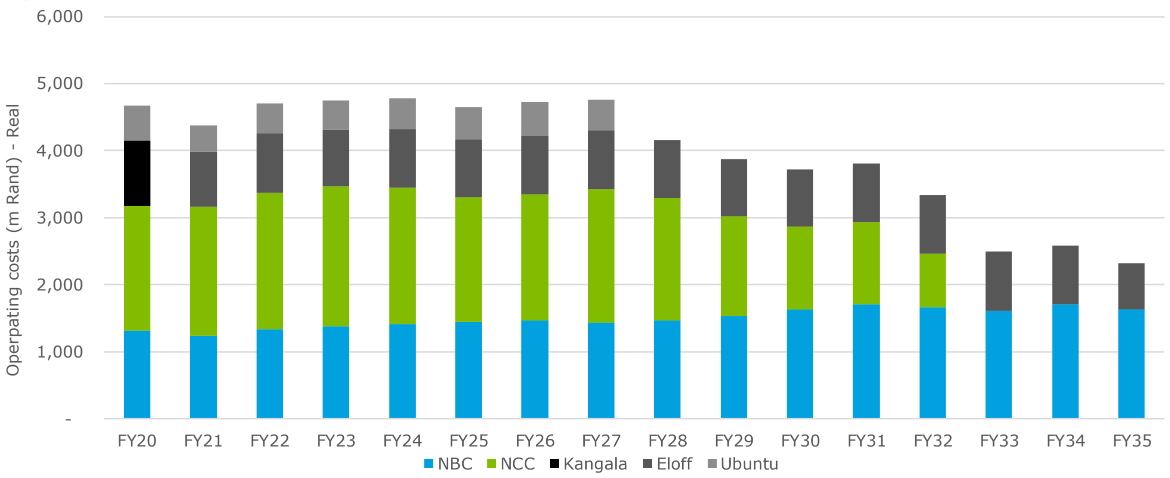
Operating and development projects are operated on a contract mining basis with a contractor being paid on a ZAR per ROM tonne basis, with the contractor being responsible to control, direct, operate, maintain, supply and install any machinery, infrastructure and equipment that may be required. Typically, Universal Coal will design, purchase and supply the complete surface conveyor infrastructure, electrical power supply and mine service water supply.

Operating expenses in the Universal Coal Model split between the operating and development assets as follows:

- for NBC, operating costs of ZAR 1,500 million per annum in real terms between FY2020 and FY2035
- for NCC, operating costs of ZAR 1,713 million per annum in real terms between FY2020 and FY2032
- for Kangala, operating costs of ZAR 972 million per annum in real terms in FY2020
- for Eloff, operating costs of ZAR 800 million per annum in real terms between FY2021 and FY2035
- for Ubuntu, operating costs of ZAR 464 million per annum in real terms between FY2020 and FY2027.

We have converted operating costs from real to nominal using our selected inflation assumptions.

Figure 8



Source: Deloitte Corporate Finance analysis

5.4.3 Capital costs

The Universal Coal Model incorporates capital costs in nominal terms, which equates to real terms of approximately ZAR 2,016 million between FY2020 and FY2035, which largely consists of capital expenditure of ZAR 1,006 million and closure and rehabilitation costs of ZAR 966 million. These are described as follows:

- for NBC, capital costs between FY2020 and FY2035 totals ZAR 681 million on real terms. This includes ZAR 268 million (real) of capital expenditure incurred in FY2020 and approximately ZAR 52 million (real) of rehabilitation costs incurred per annum between FY2020 and FY2032

- for NCC, capital costs between FY2020 and FY2032 totals ZAR 496 million on real terms. This includes ZAR 199 million (real) of capital expenditure for the three years ended FY2022 and approximately ZAR 23 million (real) of rehabilitation costs incurred per annum between FY2020 and FY2032

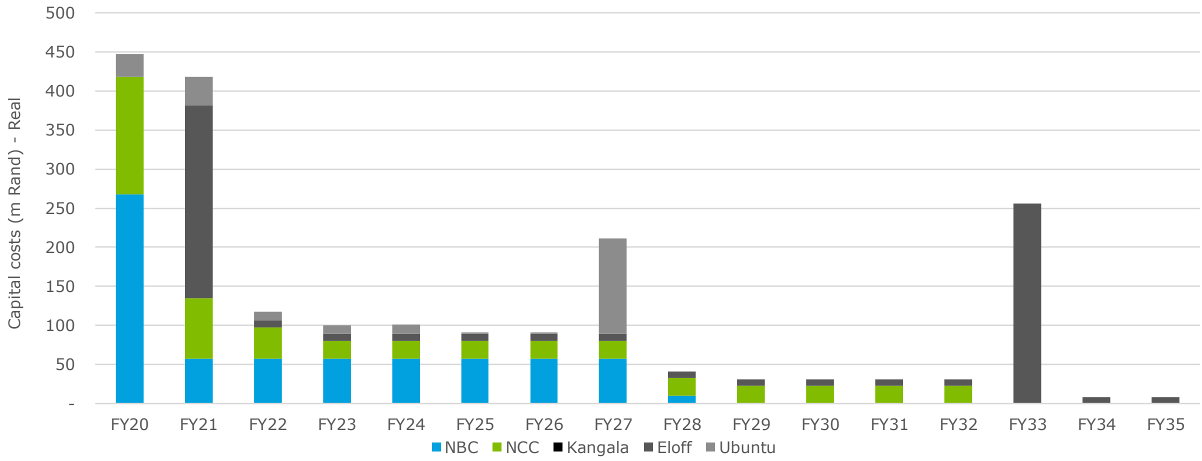
- for Eloff, capital costs total ZAR 612 million on real terms for the period FY2021 to FY2035. This includes ZAR 247 million (real) of capital expenditure at FY2021 and FY2033, respectively. Closure and rehabilitation costs average ZAR 8 million (real) per annum for FY2022 to FY2035

- for Ubuntu, capital costs total ZAR 227 million on real terms for the period FY2020 to FY2027. This comprises of ZAR 44 million (real) of capital expenditure over the next two years and closure and rehabilitation costs of ZAR 139 million (real) over the period FY2020 to FY2027. Land royalty expenditure totals approximately ZAR 44 million (real) for the period FY2020 to FY2024.

- no capital costs have been modelled for Kangala, as Eloff is expected to be developed by making use of the Kangala infrastructure.

The total capital costs for are set out in the figure below.

Figure 9



Source: Deloitte Corporate Finance analysis

5.4.4 Corporate segment

Universal Coal receives management fees from each of the operating assets and development projects. The management fee is calculated as a percentage of sales.

Corporate overheads have been projected on a nominal basis, which equates to approximately ZAR 90 million per annum (real).

5.4.5 Economic assumptions

Inflation

While the cash flow assumptions above have been presented in real terms, we have adopted an inflation rate assumption to convert them into nominal cashflows. In selecting our inflation rate assumptions, we have considered the following:

- forecasts prepared by economic analysts and other publicly available information
- US monetary policy inflation target of 2%, consistent with the Federal Reserve's statutory mandate

Based on our analysis, we have selected the following inflation rate assumptions.

Table 25

Inflation rate assumption	2020	2021	2022	2023	2024	LT
ZAR	4.6%	5.6%	4.8%	4.4%	4.6%	4.6%
USD	1.8%	1.9%	2.1%	1.8%	1.8%	1.8%

Source: Deloitte analysis

Foreign exchange rate

To convert the USD denominated revenue from export sales in the Universal Coal Model to ZAR, we have had regard to the following:

- historical and current USD to ZAR exchange rates
- the USD to ZAR exchange rate forward curve
- forecasts prepared by economic analysts and other publicly available information including broker consensus.

We have adopted the following nominal foreign exchange rate assumptions:

Table 26

ZAR/USD (nominal)	2020	2021	2022	2023	2024	2025
Deloitte selected	15.2	15.6	16.3	16.4	16.3	16.7

Source: Deloitte Corporate Finance analysis

A long term real ZAR/USD assumption of 14.5 (in current terms) has been adopted beyond 2024.

We have applied our selected inflation rate assumptions and the Fisher equation to calculate the implied nominal rates with reference to the inflation rate differences.

We have converted the ZAR denominated values to AUD at the prevailing 5 day average exchange rate of 10.5 ZAR per AUD as at 12 March 2020.

5.4.6 Other assumptions

The Universal Coal Model assumes the following:

- a corporate tax rate of 28% consistent with the South African corporate tax rate
- working capital is calculated as inventory plus receivables less payables.

5.5 Sum of the parts valuation

Since Universal Coal owns equity interests in its operating, development and exploration assets, we have first estimated the equity value of these assets in order to estimate the value of Universal Coal under the sum of the parts approach.

5.5.1 Operating assets and development projects

The value of the operating assets and development projects has been estimated using the discounted cash flow methodology, which estimates the market value of an asset by discounting the future cash flows of the asset to the net present value. The discounted cash flow method requires the determination of the following:

- future cash flows
- an appropriate discount rate to be applied to those future cash flows
- an estimate of the terminal value (if applicable).

Our consideration of each of these factors is presented below.

Future cash flows

The projected future cash flows included in the valuation have been described in Section 5.4.

Discount rate

The discount rate used to reduce the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected a ZAR-denominated, nominal, post-tax discount rate in the range of 16.0% to 19.0%.

In selecting this range, we considered the following:

- the rates of returns for comparable listed South African and international coal mining and exploration companies
- the debt to equity ratios of comparable listed South African and international coal mining and exploration companies
- the specific business and financing risks associated with Universal Coal
- the current cost of debt and level of financial gearing for Universal Coal.

A detailed consideration of these matters is provided in Appendix 4.

Terminal value

The Model incorporates all the proven and probable reserves and approximately 1.3% of the measured, indicated and inferred resources excluding reserves. The value of the remaining resources has been reflected in the valuation of exploration assets prepared by SRK Consulting and discussed in Appendix 6. No terminal value has been included in our valuation.

Discounted Cash Flow value

The value of the operating assets and development projects derived from the discounted cash flow methodology is sensitive to selected assumptions, such as export coal prices, foreign exchange rates, discount rate and delays in the commencement of mining projects.

We have performed a sensitivity analysis by applying the following (where applicable):

- a discount rate range of 16.0% to 19.0% for the operating assets and development projects
- +/- USD 10.0 per tonne to the selected long-term export coal prices from FY26
- a long-term exchange rate in the range of ZAR/USD 11.5 to 17.5
- delay in commencement of projects.

NBC

The following table sets out the fair market value of NBC derived using the discounted cash flow method together with a sensitivity analysis.

Table 27

Assumptions		Value of NBC (ZAR million)	
Discount rate	**16.00%**	**17.50%**	**19.00%**
Long term coal price (real per tonne)			
USD 60	1,305	1,246	1,191
USD 65	1,392	1,323	1,260
USD 70	1,480	1,400	1,328
USD 75	1,567	1,477	1,397
USD 80	1,654	1,554	1,465
Long term exchange rate assumption (ZAR/USD real)			
11.5	1,220	1,169	1,122
13.0	1,353	1,287	1,227
14.5	1,480	1,400	1,328
16.0	1,607	1,513	1,429
17.5	1,734	1,627	1,531

Source: Deloitte Corporate Finance analysis
Note:
1. Selected long term export coal prices based on the figures set out in Table 24

The value of NBC is sensitive to the long-term real export coal price assumption. A change of USD 5.0 results in a change of approximately 5% to the value of NBC.

The value of NBC is also sensitive to the long-term exchange rate assumption. A depreciation of the ZAR against the USD in the long term from ZAR/USD 14.5 to ZAR/USD 16.0 increases the value of NBC operating assets by approximately 8%.

Based on the above analysis, we have selected a fair market value of NBC in the range of ZAR 1,300 million to ZAR 1,500 million.

NCC

The following table sets out the fair market value of NCC derived using the discounted cash flow method together with a sensitivity analysis.

Table 28

Assumptions	Value of NCC (ZAR million)		
Discount rate	**16.00%**	**17.50%**	**19.00%**
Long term coal price (real per tonne)			
USD 60	565	513	468
USD 65	712	646	588
USD 70	844	764	694
USD 75	974	882	800
USD 80	1,105	999	905
Long term exchange rate assumption (ZAR/USD real)			
11.5	335	302	274
13.0	615	557	506
14.5	844	764	694
16.0	1,063	963	874
17.5	1,281	1,160	1,053

Source: Deloitte Corporate Finance analysis

Note:

1. Selected long term export coal prices based on the figures set out in Table 24

The value of NCC is sensitive to the long-term real export coal price assumption. A change of USD 5.0 per tonne results in a change of approximately 15% to the value.

The value of NCC is also sensitive to the long-term exchange rate assumption. A depreciation of the ZAR against the USD in the long term from ZAR/USD 14.5 to ZAR/USD 16.0 increases the value of NCC by approximately 26%.

Based on the above analysis, we have selected a fair market value of NCC in the range of ZAR 700 million to ZAR 850 million.

Kangala and Eloff

Due to the contiguous nature of the Kangala and Eloff projects, and the expected development of Eloff as an extension to Kangala, we have considered the two projects together.

The following table sets out the fair market value of Kangala and Eloff derived using the discounted cash flow method together with a sensitivity analysis.

Table 29

Assumptions	Value of Kangala and Eloff (ZAR million)		
Discount rate	**16.00%**	**17.50%**	**19.00%**
Delay in Eloff (months)			
0	1,433	1,333	1,243
6	1,345	1,245	1,157
12	1,263	1,164	1,078

Source: Deloitte Corporate Finance analysis
Note:
1. Selected long term coal export prices based on the figures set out in Table 24

The value of Kangala and Eloff is most sensitive to a delay in the commencement date of the Eloff project. A one year delay results in a decrease in value of approximately 13%.

Kangala and Eloff is not sensitive to long term coal price or long term exchange rate assumption as all coal is assumed to be sold into the domestic market.

Based on the above analysis, we have selected a fair market value of Kangala and Eloff in the range of ZAR 1,050 million to ZAR 1,250 million.

Ubuntu

The following table sets out the fair market value of Ubuntu derived using the discounted cash flow method together with a sensitivity analysis.

Table 30

Assumptions		**Value of Ubuntu (ZAR million)**	
Discount rate	**16.00%**	**17.50%**	**19.00%**
Long term coal price (real per tonne)			
USD 60	166	159	153
USD 65	166	159	153
USD 70	166	159	153
USD 75	166	159	153
USD 80	166	159	153
Long term exchange rate assumption (ZAR/USD real)			
11.5	166	159	153
13.0	166	159	153
14.5	166	159	153
16.0	166	159	153
17.5	166	159	153

Source: Deloitte Corporate Finance analysis
Note:
1. Selected long term export coal prices based on the figures set out in Table 24
2. Total resources consist of attributable JORC reserves and measured, indicated and inferred resources

The value of Ubuntu is most sensitive to the discount rate. A 1.5% increase in the discount rate assumption results in a movement of approximately 4% decrease to the value.

Ubuntu is not sensitive to long term coal price or long term exchange rate assumption as all coal is assumed to be sold into the domestic market.

Based on the above analysis, we have selected a fair market value of Ubuntu in the range of ZAR 150 million to ZAR 170 million.

5.5.2 Exploration assets

Deloitte engaged SRK Consulting to provide an assessment of the value of the evaluation and exploration assets.

The valuation methodology used by SRK Consulting was to apply a resource multiple (ZAR per tonne) to the risk-adjusted resource base. The resource bases adopted their valuation were not already reflected in the discounted cash flow analysis. The resource multiple applied to each prospect varies depending on the grade of the resource and the type of coal expected to be recovered.

SRK Consulting has estimated the value of the exploration and evaluation assets to be in the range of ZAR 684 million to ZAR 1,945 million, with a preferred value of ZAR 1,314 million. For the purpose of our sum of the parts valuation, we have adopted the low value in SRK Consulting's range of ZAR 684 million. We have adopted this for the following reasons:

- SRK has advised that its valuation range reflects the uncertainty inherent in the value of these assets, and noted that any single point of the range is as valid as another
- the exploration and evaluation assets associated with operating and development assets comprise 'remnant' resources which have not been reflected in the life of mine plans that have supported our discounted cash flow valuation. Whilst SRK has had regard to the nature of the 'remnant' resources in estimating the value, we consider that it may be difficult to realise a value towards the higher end of SRK's range given the integrated nature of the 'remnant'

resources (excluding pure exploration assets) with other operating assets within Universal Coal's portfolio

- Berenice and Arnot South exploration projects are not expected to be developed for a substantial period of time. Furthermore, the Berenice project is located in a remote part of South Africa with significant barriers to development.

As set out in Section 9.6 of its report, SRK Consulting notes that adopting a value for the remnant resources of the operating and development assets and the exploration and evaluation assets at the low end of the range is not unreasonable.

Our selected valuation range for remnant resources of operating and development assets, and exploration and evaluation assets is set out in the table below.

Table 31

ZAR million	Selected
Remnant resources of operating and development assets	
NBC	26.8
NCC	83.7
Kangala and Eloff	266.4
Ubuntu	20.3
Exploration and evaluation	
Berenice	207.2
Arnot	79.6
Total exploration and evaluation assets	**684.0**

Source: Deloitte Corporate Finance analysis

Further details are set out in Section 9 of SRK Consulting's technical expert's report at Appendix 5.

5.5.3 Net external debt at operating asset level

The net external debt at the operating asset level as at 31 December 2019 is shown below.

Table 32

As at 31 December 2019 (ZAR million)	Net debt (ZAR'm)
NBC	(31.2)
NCC	20.7
Kangala and Eloff	42.9
Ubuntu	(0.2)
Net external debt at operating asset level	**32.2**

Source: Deloitte Corporate Finance analysis

5.5.4 Surplus assets at operating asset level

A surplus asset for Universal Coal's Kangala operations relates to a receivable from Eskom relating to historical coal price escalations to Universal Coal of ZAR 80 million as at 31 December 2019.

Table 33

As at 31 December 2019 (ZAR million)	Surplus assets
Kangala and Eloff	80.0
Surplus assets at operating asset level	**80.0**

Source: Deloitte Corporate Finance analysis

5.5.5 Loans payable

Loans at the operating asset level as at 31 December 2019 are shown below.

Table 34

As at 31 December 2019 (ZAR million)	Loans
NBC	(105.5)
NCC	(174.7)
Ubuntu	(145.1)
Loans	**(425.3)**

Source: Deloitte Corporate Finance analysis

The loans are comprised of the following:

- the loans payable to Ndalamo from the operating entities have been valued at the face value of ZAR 77.6 million for NBC, ZAR 90.7 million for NCC and ZAR 97.3 million for Ubuntu
- loans payable to Universal Coal from the operating entities of ZAR 27.8 million for NBC, ZAR 84.0 million for NCC and ZAR 47.8 million for Ubuntu.

5.5.6 Net debt at group level

Table 35

As at 31 December 2019 (ZAR million)	Net debt
Arnot South liability	(59.0)
Cash	3.1
Net debt	**(55.9)**

Source: Deloitte Corporate Finance analysis

Net debt is comprised of the following:

- a liability in respect of the remaining purchase price on Arnott South of ZAR 59.0 million
- cash of ZAR 3.1 million.

The net debt position at the group level attributable to Universal Coal shareholders as at 31 December 2019 is ZAR 55.9 million.

5.5.7 Surplus assets at group level

Table 36

As at 31 December 2019 (ZAR million)	Surplus assets
Loan receivable (Ndalamo)	197.7
Loans receivable (NBC, NCC and Ubuntu)	159.6
Surplus assets at corporate level	**357.3**

Source: Deloitte Corporate Finance analysis

We have identified a surplus asset at the corporate level relating to the loan receivable from Ndalamo which has been valued at its face value of ZAR 198 million and loans receivable from NBC, NCC and Ubuntu with a face value of ZAR 159.6 million.

5.5.8 Corporate segment

The future cash flows in respect of the management fees received and corporate overheads have been discounted to their present value using the discount rate adopted for Universal Coal, in the range of ZAR 114.7 million to ZAR 122.0 million.

5.5.9 Valuation: sum of the parts

The value of a share in Universal Coal using the sum of the parts method is summarised below.

The enterprise value of Universal Coal's operating, development and exploration assets (on a 100%, control basis) is set out in the table below.

Table 37

	Unit	Low	High
Enterprise Value			
Operating and development assets (selected)			
NBC	ZAR million	1,300.0	1,500.0
NCC	ZAR million	700.0	850.0
Kangala/Eloff	ZAR million	1,050.0	1,250.0
Ubuntu	ZAR million	150.0	170.0
Total operating and development assets	**ZAR million**	**3,200.0**	**3,770.0**
Exploration and evaluation assets			
NBC	ZAR million	26.8	26.8
NCC	ZAR million	83.7	83.7
Kangala/Eloff	ZAR million	266.4	266.4
Ubuntu	ZAR million	20.3	20.3
Berenice	ZAR million	207.2	207.2
Arnot South	ZAR million	79.6	79.6
Total exploration and evaluation assets	**ZAR million**	**684.0**	**684.0**
Operating and development assets, including exploration and evaluation assets			
NBC	ZAR million	1,326.8	1,526.8
NCC	ZAR million	783.7	933.7

	Unit	Low	High
Kangala/Eloff	ZAR million	1,316.4	1,516.4
Ubuntu	ZAR million	170.3	190.3
Berenice	ZAR million	207.2	207.2
Arnot South	ZAR million	79.6	79.6
Total enterprise value of Universal Coal's operating assets, development and exploration assets (100% basis)	**ZAR million**	**3,884.0**	**4,454.0**
Surplus assets at the operating entity level			
Kangala/Eloff	ZAR million	80.0	80.0
Loans at operating entity level			
NBC	ZAR million	(105.5)	(105.5)
NCC	ZAR million	(174.7)	(174.7)
Ubuntu	ZAR million	(145.1)	(145.1)
Total loans at operating entity level	**ZAR million**	**(425.3)**	**(425.3)**
Net (debt)/cash			
NBC	ZAR million	31.2	31.2
NCC	ZAR million	(20.7)	(20.7)
Kangala/Eloff	ZAR million	(42.9)	(42.9)
Ubuntu	ZAR million	0.2	0.2
Net debt of Universal Coal's operating assets, development and exploration assets (100% basis)	**ZAR million**	**(32.2)**	**(32.2)**
Equity value			
NBC	ZAR million	1,252.5	1,452.5
NCC	ZAR million	588.3	738.3
Kangala/Eloff	ZAR million	1,353.5	1,553.5
Ubuntu	ZAR million	25.5	45.5
Berenice	ZAR million	207.2	207.2
Arnot South	ZAR million	79.6	79.6
Total equity value of Universal Coal's operating assets, development and exploration assets (100% basis)	**ZAR million**	**3,506.5**	**4,076.5**

Source: Deloitte Corporate Finance analysis

The assessed value of a Universal Coal share (on a control basis) is set out in the table below.

Table 38

		100% control basis		UNV attributable share[1]	
	Unit	Low	High	Low	High
NBC	ZAR million	1,252.5	1,452.5	613.7	711.7
NCC	ZAR million	588.3	738.3	288.2	361.7
Kangala/Eloff	ZAR million	1,353.5	1,553.5	734.0	832.0
Ubuntu	ZAR million	25.5	45.5	12.4	22.2
Berenice	ZAR million	207.2	207.2	103.6	103.6
Arnot South	ZAR million	79.6	79.6	39.8	39.8
Total value of Universal Coal's operating assets, development and exploration assets	**ZAR million**	**3,506.5**	**4,076.5**	**1,791.9**	**2,071.2**
Surplus assets - group	ZAR million			357.3	357.3
Corporate segment[2]	ZAR million			114.7	122.0
Enterprise value of Universal Coal (on a control basis)	**ZAR million**			**2,263.9**	**2,550.5**
Net debt of Universal Coal	ZAR million			**(55.9)**	**(55.9)**
Equity value of Universal Coal (on a control basis)	**ZAR million**			**2,208.1**	**2,494.6**
Equity value of Universal Coal (on a control basis)	**AUD million**			**210.3**	**237.6**
Number of shares on issue	million			522.5	522.5
Value of a share in Universal Coal (on a control basis)	AUD			0.40	0.45
Deloitte assessed value of a share in Universal Coal (on a control basis)	**AUD**			**0.40**	**0.45**

Notes:
1. Values on an attributable basis have been calculated in line with the ownership interests attributable to Universal Coal.
2. Corporate management fees received net of corporate costs
Source: Deloitte Corporate Finance analysis

We have selected the value of share in Universal Coal in the range of AUD 0.40 to AUD 0.45 on a control basis.

5.6 Cross-checks

We have cross checked our valuation with reference to the following:

- recent transactions in Universal Coal shares
- reserve and resource multiples implied by our valuation of a Universal Coal share
- recent share market trading activity in Universal Coal.

5.6.1 Recent and proposed transactions

Recent and proposed transactions in Universal Coal shares include:

- on 18 September 2018, Universal Coal announced it had received an NBIO to acquire 100.0% of the issued share capital of Universal Coal by way of scheme or arrangement via a consortium of investors led by Ata Resources. The scheme proposed to offer cash of $0.35 per share, implying a premium of 18.6% to the closing share price at 17 September 2018. On 26 October 2018, Ata Resources announced it had received irrevocable acceptances (including sophisticated institutional investors) representing 56.5% of the issued share capital of Universal Coal.

  On 8 April 2019, Universal Coal announced Ata Resources had increased the cash consideration to $0.36 per share, with a further option for up to 160.0 million Universal Coal shares to elect payment in the form of deferred consideration notes, redeemable at $0.43 per share within 12 months and one day after the payment of the cash consideration. Notwithstanding, the announcement also indicated the directors were unable to make a recommendation in favour of the Ata Resources proposal as they had been unable to reach agreement on the terms and conditions of the offer

- on 8 April 2019, Universal Coal announced it had received a new conditional NBIO from Afrimat Limited for 100.0% of the issued share capital of Universal Coal. The NBIO proposed that Afrimat Limited would acquire the entire issued share capital of Universal Coal via a change of control transaction, the structure of which remained under consideration. Afrimat Limited proposed to offer cash of $0.40 for each Universal Coal share

- on 3 May 2019, Ichor Coal sold its 151,660,000 ordinary shares in Universal Coal (representing approximately 29% of the issued share capital) to institutional investors for a price of $0.315 per share. The sale price represented an 8.7% discount to the closing price on 2 May 2019

- on 30 October 2019, TerraCom stated that they had paid $34.6m for the acquisition of 19.9% of the issued capital of Universal Coal. The purchase price consisted of cash of $17.3m and 34.2 million TerraCom shares at a deemed issue price of $0.5061 per share, based on the 6 month VWAP of TerraCom shares. Using the deemed issue price of a TerraCom share, this implied a total consideration of $0.33 per Universal Coal share. However, based on the closing TerraCom share price on 30 October 2019 of $0.405, the implied consideration per Universal Coal share was only $0.30.

The Afrimat offer is within with our valuation range, albeit at the low end. The other offers and transactions are below our valuation range:

- the initial Ata Resources offer was later revised to include an option for Universal Coal shareholders to elect for deferred consideration notes redeemable at $0.43 per share, consistent with our valuation range. However, the election was offered for only up to 160.0 million Universal Coal shares only

- the Ichor Coal transaction and the initial TerraCom acquisition were for significant but non-controlling stakes in the business, and as such these transactions may not reflect a full control value.

5.6.2 Resource and Reserve multiples

A reserve multiple is only intended to provide a high-level cross check for our valuation of Universal Coal. The reserve multiples implied by comparable transactions may vary significantly due to various factors including different cost structures, different geotechnical / geomechanical issues, different stages of development, different ratios of reserves to total resources plus reserves and different mine lives.

The reserve multiples are calculated on publicly available information, however there are limitations due to the following:

- the multiples may be affected by issues such as quality and coal type, development risk, projected levels of capital expenditure, long term favourable/unfavourable contracts and synergies and special value attributed to strategic benefits that only the acquirer could achieve

- reserve and resource multiples do not make allowance for the relative proportions of Measured, Indicated and Inferred resources as a percentage of total resources attributable to an asset, nor do they allow for different cost structures of the resources

- reserve and resource multiples implied by transactions are historical and are generally influenced by the economic environment surrounding the transaction, which may not reflect the current environment.

The following table sets out the reserve multiples implied by our selected valuation range of $0.40 to $0.45 per Universal Coal share.

Table 39

	Unit	Low	High
Deloitte assessed value of a share in Universal Coal	**AUD**	**0.40**	**0.45**
Number of shares on issue	million	522.5	522.5
Equity value (on a control interest basis)	**AUD million**	**209.0**	**235.1**
Net debt at group level	AUD million	5.6	5.6
Enterprise value of Universal Coal (on a control basis)	**AUD million**	**214.6**	**240.7**
Reserves	Mt	78.2	78.2
Reserve multiple (on a control basis)	AUD per tonne	2.74	3.08
Resources	Mt	1,264.2	1,264.2
Resource multiple (on a control basis)	AUD per tonne	0.17	0.19

Source: Deloitte Corporate Finance analysis

An analysis of the reserve multiples implied by recent transactions in the coal mining sector and those implied by current share trading in comparable listed companies is set out in Appendices 3 and 4.

We note the following with regard to recent transactions for a controlling stake in the coal mining sector:

- there are limited transactions in South African thermal coal assets that are comparable to Universal Coal. Recent transactions include the sale of Anglo American's interest in the New Largo Thermal Coal Project and Old New Largo colliery. We note there is limited publicly available data for this sale. The enterprise value implied by the transaction is considerably lower than that implied in the value of Universal Coal

- transactions in Australian thermal coal assets range between $0.47 to $8.32 per tonne, with a median of $3.57 per tonne. We note, however, that Australian assets have different pricing, export markets and cost structures, different quality and coal composition as well as differing levels of development risk.

We note the following observations with regards to comparable listed coal companies:

- our analysis identified a limited number of companies of a similar size with directly comparable operations to those of Universal Coal. Notwithstanding this, the average and median trading reserve multiples of South African coal companies is $1.81 and $0.94 per tonne of resource, respectively. We note, however, that Exxaro Resources Limited has significantly larger scale relative to Universal Coal. Excluding Exxaro results in an average and median reserve multiple of $2.03 and $1.09 per tonne respectively, and a range from $0.14 to $5.79 per tonne. The reserve multiple implied by our valuation of Universal Coal is within the range observed for these companies

- Wescoal Holdings Limited (reserve multiple of $1.57 per tonne) is broadly comparable to Universal Coal both in terms of size and reserves. Its resource base, however, is substantially lower than Universal Coal. As such, we consider Universal Coal could be expected to have a higher reserve multiple than Wescoal Holdings Limited, all else being equal.

Based on our consideration of the foregoing, we consider this cross check provides broad support for our valuation of Universal Coal.

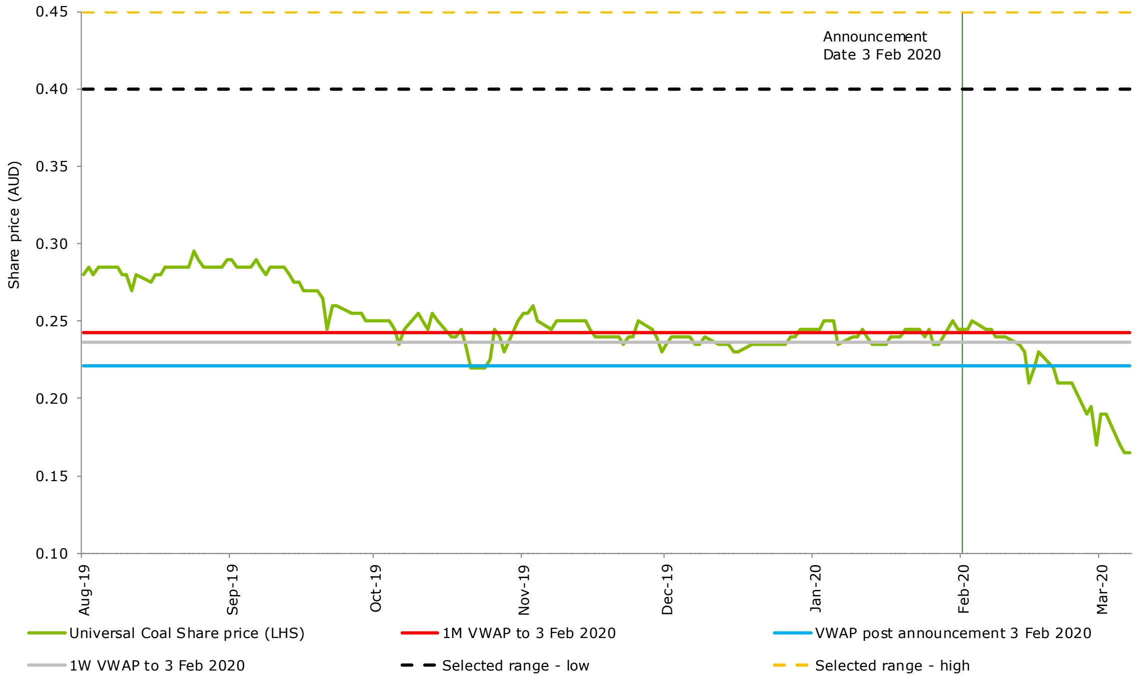
5.6.3 Recent share trading in Universal Coal

We have also prepared an analysis of recent share trading activity in Universal Coal. We note that the market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's securities.

There is lower than typical liquidity in Universal Coal shares. We note that for the six months prior to the date of the Takeover Offer on 3 February 2020, the total number of shares traded in Universal Coal was approximately 17.8% of the total issued share capital (excluding the sale of Ichor Coal's approximate 29% of the issued share capital). In comparison, comparable companies (as outlined in Appendix 3) have a median liquidity over the period of 51.7%.

The share trading in Universal Coal shares over the past six months is set out in the following chart.

Figure 10



Source: S&P Capital, ASX Announcements, Deloitte Corporate Finance analysis

Our selected valuation range of Universal Coal is higher than the market price of shares over the past six months. In particular, we note that this may be due to the following:

- the selected valuation range is reflective of a control basis, whereas share prices from market trading do not typically reflect the market value for control of a company as they are for portfolio holdings. It may be possible for an acquirer of Universal Coal to derive operating synergies
- the observed share prices for Universal Coal may reflect the lower than typical liquidity in Universal Coal shares
- market perception that the Kangala asset is in runoff and expected to conclude operations within a year
- the relatively short-term duration of contracts (maximum of ten years) with Eskom
- the relatively limited information provided by Universal on its operations

- The implied price of $0.331 paid by TerraCom for the acquisition of 19.9% of the share capital of Universal Coal is lower than the bottom end of our range as it reflects the acquisition of a minority stake and does not reflect a control premium
- a substantial downturn in global equity markets as a consequence of the COVID-19 outbreak.

6. Valuation of the Proposed Merged Entity

6.1 Introduction

In this section we have estimated the fair market value of the shares in the Proposed Merged Entity. This valuation has been performed on a minority interest basis because Non-associated Shareholders who accept the Takeover Offer will become minority shareholders in the Proposed Merged Entity.

In light of limited publicly available information on the underlying financial and operating metrics and no access to long term forecasts, LOM plans and financial models for TerraCom, we are unable to perform a valuation using the discounted cash flow method. In the event that Deloitte Corporate Finance had been given access to the management team of TerraCom, alternative methodologies may have been considered.

Considering the limitations above, we are of the opinion that the most appropriate methodology to value a share in the Proposed Merged Entity in the circumstances is a market based method, based on recent share trading activity in TerraCom shares.

The decision whether to hold or sell shares in the Proposed Merged Entity is an investment decision which Non-associated Shareholders will have to make if they accept the Takeover Offer. This report has not been prepared to assist Non-associated Shareholders in deciding whether to hold or sell shares in the Proposed Merged Entity following the Takeover Offer.

To provide additional evidence of the fair market value of a share in the Proposed Merged Entity we have considered the resource multiples implied by our valuation of the Proposed Merged Entity compared with the resource multiples observed for comparable transactions and comparable listed companies. Our implied resource multiple is within the range of the resource multiples implied by the transactions in minority interests and those observed for the comparable listed companies, providing some support for our valuation of the Proposed Merged Entity.

Our analysis is set out in the following sections.

6.2 Analysis of recent TerraCom share trading

New shares to be issued to Non-associated Shareholders pursuant to the Takeover are effectively shares in the Proposed Merged Entity. Share trading in TerraCom since the announcement of the intention to make an offer on 3 February 2020 provide evidence of the value the market attributes to the consideration offered and the price at which shares in the Proposed Merged Entity might trade immediately after the completion of the Takeover Offer.

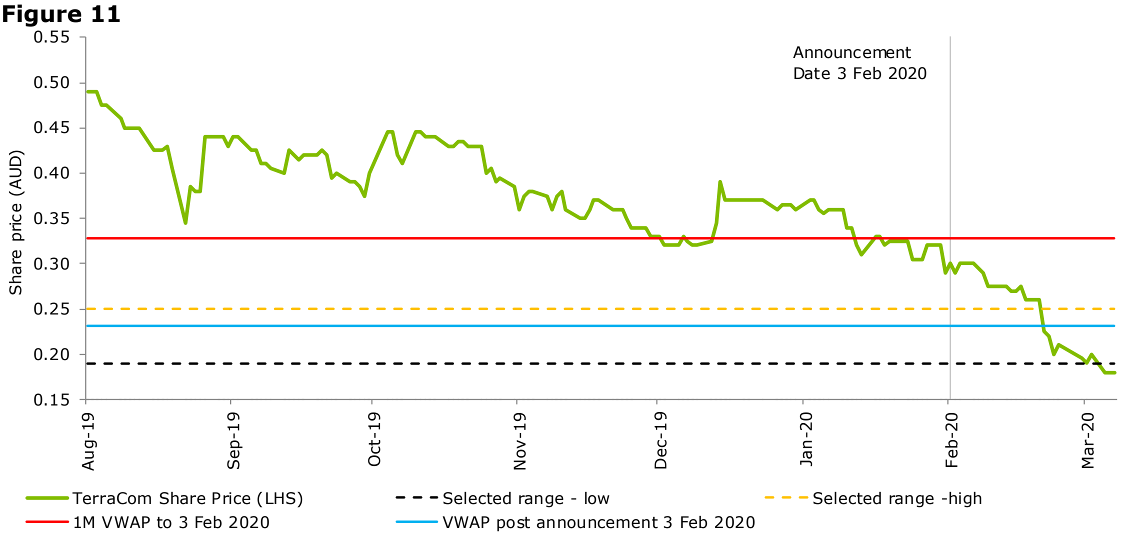
The market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity’s securities.

As the shares in TerraCom are very thinly traded, we consider that the share price provides relatively weak evidence of the underlying fair market value of a TerraCom share. For the six month period to the date of the announcement of the intention to make the Takeover Offer, the total number of shares traded was approximately 3.1% of the total issued capital. By comparison, comparable companies (as outlined in Appendix 3) had a median liquidity over the period of 51.6% and Universal Coal shares had liquidity over the period of 17.8%. Nevertheless, Non-associated Shareholders accepting the Takeover Offer will receive TerraCom shares as part of the consideration for their Universal Coal shares and will own shares in the Proposed Merged Entity which is thinly traded.

Share prices from market trading may not always reflect the market value for control of a company as they are for portfolio holdings.

The market price of TerraCom shares is set out in the following chart.

Figure 11



Source: S&P Capital, ASX Announcements, Deloitte Corporate Finance analysis

The market price of shares in TerraCom has fluctuated in response to information such as:

- the release of financial reports and quarterly production updates
- changing commodity prices (Newcastle benchmark coal prices have declined 14.1% from USD76.0/tonne on 5 June 2019 to $65.3/tonne on 28 February 2020)
- the expected effect of the Takeover Offer to the extent to which the market anticipates the transaction to be successful
- changes in the market's sentiment to the coal mining industry and TerraCom
- overall share market movements including due to the impact of the COVID-19 outbreak.

The market price of shares in TerraCom will continue to fluctuate in response to these factors.

As we are required to estimate the value of shares in the Proposed Merged Entity, our analysis has been limited to consideration of the TerraCom share price since the intention to make the Takeover Offer was announced.

The intention to make an offer was announced on 3 February 2020 and the Takeover Offer was formally made on 12 February 2020. The following table sets out the trading in TerraCom shares prior to and since the announcement of the intention to make an offer.

Table 40

	Low	High	VWAP	% volume traded
Share prices after the announcement of intention to make an offer				
Period from 3 February to 11 March 2020	0.18	0.32	0.23	1.2%
Period from 3 February to 2 March 2020 (pre interim stop order)	0.20	0.32	0.25	0.9%
1 week after announcement	0.29	0.32	0.30	0.2%
2 weeks after announcement	0.28	0.32	0.30	0.3%
3 weeks after announcement	0.26	0.32	0.29	0.4%
1 month after announcement	0.20	0.32	0.25	0.9%

Source: S&P Capital IQ, Deloitte analysis

Based on the share market trading activity in TerraCom shares since the announcement of the intention to make an offer, we have assessed the value of a share in the Proposed Merged Entity to be in the range of $0.19, being the current share price as at 12 March 2020 at the low end, to $0.25, being the VWAP post announcement of the intention to make an offer up to the date of the interim stop order, at the high end.

6.3 Cross-checks

We have also cross-checked our valuation range to other transactions in TerraCom shares and implied resource multiples.

6.3.1 Other transactions in TerraCom shares

Recent transactions in TerraCom shares include the following:

- on 5 June 2019, TerraCom issued 60,933,436 ordinary shares (57% subscribed, with the remaining taken up by the underwriter) via a 3 for 20 pro-rata non-renounceable entitlement offer at an issue price of $0.58 per share. This resulted in additional equity of $35.3m.

- on 30 October 2019, TerraCom issued shares as part of consideration for the acquisition of 19.9% of the issued capital of Universal Coal. The deemed issue price was $0.5061 based on the 6 month VWAP compared to the closing share price of $0.405 on 30 October 2019.

- on 16 March 2020, TerraCom announced that it had the right to exercise an aggregate of approximately 59% of the voting rights attached to Universal Coal shares, which implied that it had received pre-acceptances from holders of approximately 39% of the issued capital of Universal Coal. This provides some evidence of the value some major shareholders in Universal Coal attribute to the consideration offered.

The share price of $0.41 on 30 October 2019 and the $0.58 price for the June 2019 entitlement offer are both higher than our selected valuation range. However, a reasonably significant period of time has elapsed and as the Newcastle benchmark coal price, a key revenue driver for TerraCom, has fallen significantly in that period, as well the general downturn in global equity markets due to the COVID-19 outbreak, we consider the recent share trading to be more relevant to estimate the value of a share in the Proposed Merged Entity.

6.3.2 Resource multiples

We have also cross checked the estimated value of a share in the Proposed Merged Entity with reference to the implied resource multiples. This cross check provides limited support for our valuation as we have not identified any transactions concerning companies with coal operations, development projects and exploration acreage in each of South Africa, Australia and Mongolia or listed comparable companies with that profile. Nonetheless, have set out our calculations below.

The reserve multiples are calculated on publicly available information, however there are limitations on their use due to the following:

- the multiples may be affected by issues such as quality and coal composition, development risk, projected levels of capital expenditure, long term favourable/unfavourable contracts and synergies and special value attributed to strategic benefits that only the acquirer could achieve

- reserve and resource multiples do not make allowance for the relative proportions of measured, indicated and inferred resources as a percentage of total resources attributable to an asset, nor do they allow for different cost structures of the resources

- reserve and resource multiples implied by transactions are static and are generally influenced by the economic environment surrounding the transaction, which may not reflect the current environment.

Table 41

	Unit	Low	High
Deloitte assessed value of a share in the Proposed Merged Entity	**AUD**	**0.19**	**0.25**
Number of shares on issue[1]	million	753.6	753.6
Equity value (on a minority interest basis)	**AUD million**	**143.2**	**188.4**
Net debt[2]	AUD million	138.7	138.7
Enterprise value of the Proposed Merged Entity (on a minority interest basis)	**AUD million**	**281.9**	**327.1**
Proposed Merged Entity's interest in proved and probable reserves[3]	Mt	105.7	105.7
Reserve Multiple (on a minority interest basis)	AUD per tonne	2.67	3.10
Proposed Merged Entity's interest in resources[3]	Mt	3,447.0	3,447.0
Resource Multiple (on a minority interest basis)	AUD per tonne	0.08	0.09

Notes:
1. Ordinary shares assuming 100% ownership of Universal Coal. 12,630,833 TerraCom warrants and 2,947,777 unlisted options are out of the money at the current share price and are assumed not to be converted to shares
2. Net debt comprised of pro-forma current borrowings of $28.5m, non-current borrowings of $146.9m and negative cash balance of $10.9m as presented in the TerraCom Takeover Offer Document
3. Includes recoverable proved and probable reserves
4. Includes measured and indicated resources and is inclusive of reserves
Source: TerraCom Takeover Offer Document, Deloitte analysis

An analysis of the resource multiples implied by recent transactions in the coal mining sector and those implied by current share trading in comparable listed companies is set out in Appendix 3.

We note there are limited transactions in Australian and South African thermal coal assets that are comparable to the assets of the Proposed Merged Entity:

- the most recent transaction for a controlling stake in an Australian coal mining company was T2 Resource's 100% acquisition of Realm Resources in September 2018. Realm Resources is an independent Australian coal producer, with its key asset being a 70% operated-interest in the Foxleigh PCI coal mine in the Bowen Basin in Queensland, Australia. Realm Resources had 152Mt of resources (inclusive of 48.3Mt of reserves), implying reserve and resource multiples of $5.22 per tonne and $1.65 per tonne respectively. Realm's resources were comprised of 20.4% measured, 51.2% indicated and 28.5% inferred

- Golden Energy and Resource Limited's acquisition of a 20% stake in Stanmore Coal Limited in December 2018 and a further 6% in January 2019 implied reserve and resource multiples of $1.35 per tonne and $0.10 per tonne respectively. Stanmore Coal is an independent Australian coal company with operations and exploration projects in the Bowen and Surat Basins in Australia. Stanmore Coal has a diversified portfolio of coking, thermal and PCI coal exploration properties. Stanmore Coal's resources were comprised of 4.7% measured, 29.7% indicated and 65.6% inferred

- Seriti Resources acquisition of 20% of Anglo America's South African coal assets, including three collieries that supplied Eskom with coal as well as four shuttered mines, implied reserve and resource multiples of $2.23 per tonne and $0.08 per tonne respectively.

The Proposed Merged Entity has a significant proportion of inferred resources, with the resources split between measured (14.2%), indicated (30.5%) and inferred (54.8%). The Proposed Merged Entity has a significantly greater proportion of inferred resources compared to Universal Coal, suggesting the Proposed Merged Entity would have a significantly lower resource multiple than for Universal Coal, which trades at a reserve and resource multiples of $1.86 per tonne and $0.12 per tonne respectively, all else being equal.

We note the following with regards to comparable listed coal companies:

- our analysis identified a limited number of companies of a similar size with directly comparable operations to those of the Proposed Merged Entity
- Whitehaven Coal and New Hope have significantly larger scale relative to the Proposed Merged Entity and a higher quality reserve/resource profile
- the average and median trading reserve multiples of Australian coal companies is $2.00 and $1.87 per tonne of reserve respectively. Excluding Whitehaven Coal and New Hope results in an average and median resource multiple of $1.72 per tonne and $0.68 per tonne respectively, and a range from $0.21 to $4.28 per tonne.
- the average and median trading reserve multiples of South African coal companies is $1.81 and $0.94 per tonne of reserve respectively
- the average and median trading resource multiples of Australian coal companies is $0.26 and $0.10 per tonne of resource respectively. Excluding Whitehaven Coal and New Hope results in an average and median resource multiple of $0.06 per tonne and a range from $0.03 to $0.10 per tonne
- the average and median trading resource multiples of South African coal companies is $0.64 and $0.39 per tonne of reserve respectively.

The resource multiple implied by our valuation of a share in the Proposed Merged Entity reflects a minority interest value.

We did not identify any transactions concerning companies with coal operations and exploration acreage in Mongolia or listed comparable companies with that profile.

Appendix 1 : Valuation methodologies

Common market practice and the valuation methodologies which are applicable to corporate entities and businesses are discussed below.

Market based methods

Market based methods estimate an entity's fair market value by considering the market price of transactions in its shares or the fair market value of comparable companies. Market based methods include:

- earnings multiple method
- analysis of an entity's recent share trading history
- industry specific methods.

The earnings multiple method estimates fair market value as a multiple of an entity's earnings. An appropriate earnings multiple is derived from market transactions involving comparable companies. The earnings multiple method is appropriate where the entity's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in an entity where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of an entity than other valuation methods because they may not account for entity specific factors.

Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting an entity's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

Asset based methods

Asset based methods estimate the market value of an entity's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of an entity but does not take account of realisation costs.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of an entity's assets are liquid, or for asset holding companies.

Appendix 2 : Discount rate

We have valued the Universal Coal operating and development assets using the discounted cash flow methodology. Our valuation has been undertaken in ZAR on the basis that:

- the majority of projected revenues are generated in ZAR, as Universal Coal's coal pricing is contracted primarily with reference to ZAR-denominated prices
- we would expect potential purchasers would adopt ZAR as their functional currency given Universal Coal predominantly sells into the domestic market
- the financing facilities are denominated in ZAR.

As a result, we have determined a discount rate denominated in ZAR to apply to the projected cash flows of the operating and developing assets.

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor for the asset or business being valued. Selecting an appropriate discount rate is a matter of judgement having regard to relevant available market pricing data and the risks and circumstances specific to the asset or business being valued.

Whilst the discount rate is in practice normally estimated based on a fundamental ground up analysis using one of the available models for estimating the cost of capital (such as the Capital Asset Pricing Model (**CAPM**)), market participants often use less precise methods for determining the cost of capital such as hurdle rates or target internal rates of return and often do not distinguish between investment type or region or vary over economic cycles.

Since our definition of fair market value is premised on the estimated value that a knowledgeable willing buyer would attribute to the asset or business, our selection of an appropriate discount rate also needs to consider that buyers incorporate other alternatives to the typical CAPM approach in estimating the cost of capital.

For ungeared cash flows, discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the weighted average cost of capital (**WACC**).

$$\mathbf{WACC} = \left(\frac{\mathbf{E}}{\mathbf{V}} \times \mathbf{K_e}\right) + \left(\frac{\mathbf{D}}{\mathbf{V}} \times \mathbf{K_d} \times (\mathbf{1} - \mathbf{t_c})\right)$$

The WACC can be derived using the following formula:

The components of the formula are:

K_e	=	cost of equity capital
K_d	=	cost of debt
t_c	=	corporate tax rate
E/V	=	proportion of enterprise funded by equity
D/V	=	proportion of enterprise funded by debt

The adjustment of K_d by (1- t_c) reflects the tax deductibility of interest payments on debt funding. The corporate tax rate has been assumed to be 28%, in line with the South African corporate tax rate.

Cost of equity capital (K_e)

The cost of equity, K_e, is the rate of return that investors require to make an equity investment.

We have used the CAPM to estimate the K_e for Universal Coal. CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

The cost of equity capital under CAPM is determined using the following formula:

$$\mathbf{K_e = R_f + \beta\ (R_m - R_f) + \alpha}$$

The components of the formula are:

K_e	=	required return on equity
R_f	=	the risk free rate of return
R_m	=	the expected return on the market portfolio
β	=	beta, the systematic risk of a stock
α	=	specific company risk premium

In order to estimate a ZAR-denominated cost of equity, we have first determined a USD-denominated cost of equity and then adjusting for the inflation differential between South Africa and the US.

Each of the components in the above equation is discussed below.

Risk free rate (R_f)

The risk free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk free rate is the long-term Government bond rate. In determining this risk free rate, we have identified the five-day average of the yield on the 20-year US Government treasury bond as at 11 March 2020 of 1.12%. This rate represents a nominal rate and therefore includes US inflation.

Equity market risk premium (EMRP)

The EMRP (R_m – R_f) represents the risk associated with holding a market portfolio of investments, that is, the excess return a shareholder can expect to receive for the uncertainty of investing in equities as opposed to investing in a risk free alternative. The size of the EMRP is dictated by the risk aversion of investors – the lower (higher) an investor's risk aversion, the smaller (larger) the equity risk premium.

The EMRP is not readily observable in the market and therefore represents an estimate based on available data. There are generally two main approaches used to estimate the EMRP, the historical approach and the prospective approach, neither of which is theoretically more correct or without limitations.

The former approach relies on historical share market returns relative to the returns on a risk free security; the latter is a forward looking approach which derives an estimated EMRP based on current share market values and assumptions regarding future dividends and growth.

In evaluating the EMRP, we have considered both the historically observed and prospective estimates of EMRP. Based on our analysis, we have selected an EMRP of 6.00%.

Beta estimate (β)

Description

The beta coefficient measures the systematic risk or non-diversifiable risk of a company in comparison to the market as a whole. Systematic risk, as separate from specific risk as discussed below, measures the extent to which the return on the business or investment is correlated to market returns. A beta of 1.0 indicates that an equity investor can expect to earn the market return (i.e. the risk free rate plus the EMRP) from this investment (assuming no specific risks). A beta of greater than one indicates greater market related risk than average (and therefore higher required returns), while a beta of less than one indicates less risk than average (and therefore lower required returns).

Betas will primarily be affected by three factors which include:

- the degree of operating leverage employed by the firm in that companies with a relatively high fixed cost base will be more exposed to economic cycles and therefore have higher systematic risk compared to those with a more variable cost base
- the degree of financial leverage employed by a firm in that as additional debt is employed by a firm, equity investors will demand a higher return to compensate for the increased systematic risk associated with higher levels of debt
- correlation of revenues and cash flows to economic cycles, in that companies that are more exposed to economic cycles (such as retailers or energy and resources companies), will generally have higher levels of systematic risk (i.e. higher betas) relative to companies that are less exposed to economic cycles (such as regulated utilities).

Betas can also be influenced by the index against which they have been calculated, the time period over which they were calculated and the level of trading in the share of the relevant company.

The geared or equity beta can be estimated by regressing the returns of the business or investment against the returns of an index representing the market portfolio, over a reasonable time period. However, there are a number of issues that arise in measuring historical betas that can result in differences, sometimes significant, in the betas observed depending on the time period utilised, the benchmark index and the source of the beta estimate. For unlisted companies it is often preferable to have regard to sector averages or a pool of comparable companies rather than any single company's beta estimate due to the above measurement difficulties.

Market evidence

In estimating an appropriate beta for Universal Coal we have considered the betas of listed companies that are comparable to Universal Coal. These betas, which are presented below, have been calculated based on weekly returns over a two year period and monthly returns over a four year period, compared to the local domestic index.

Table 42

Company name	Enterprise value[1] ($ million)	Debt to enterprise value (%)	2-year weekly beta			4-year monthly beta		
			Levered beta	Unlevered beta	R^2 correlation	Levered beta	Unlevered beta	R^2 correlation
Universal Coal Plc	292	61.3%	n/m	n/m	2.2%	n/m	n/m	0.6%
South African coal producing companies								
Exxaro Resources Limited	4,029	13.3%	1.07	1.04	24.8%	1.10	1.06	10.3%
Ichor Coal N.V.	139	91.5%	n/m	n/m	0.2%	n/m	n/m	2.4%
Resource Generation Limited	122	70.4%	n/m	n/m	0.4%	n/m	n/m	4.2%
Wescoal Holdings Limited	108	55.3%	n/m	n/m	5.1%	n/m	n/m	0.3%
MC Mining Limited	67	15.7%	n/m	n/m	0.0%	n/m	n/m	0.2%
Buffalo Coal Corp.	49	94.3%	n/m	n/m	0.0%	n/m	n/m	1.5%
Average		**56.8%**	**1.07**	**1.04**		**1.10**	**1.06**	
Median		**62.9%**	**1.07**	**1.04**		**1.10**	**1.06**	
Australian coal producing companies								
Whitehaven Coal Limited	2,224	26.4%	1.05	0.93	14.6%	1.26	1.04	7.1%
New Hope Corporation Limited	1,312	23.0%	1.29	1.21	14.9%	1.58	1.52	18.9%
TerraCom Limited	292	61.3%	1.49	0.77	10.2%	n/m	n/m	1.9%
Stanmore Coal Limited	147	0.0%	n/m	n/m	0.4%	n/m	n/m	0.1%
Australian Pacific Coal Limited	76	90.1%	n/m	n/m	0.2%	n/m	n/m	0.3%
Bounty Mining Limited	37	69.7%	n/m	n/m	1.8%	n/m	n/m	1.1%
Average		**45.1%**	**1.28**	**0.97**		**1.42**	**1.28**	
Median		**43.9%**	**1.29**	**0.93**		**1.42**	**1.28**	

Note:
1. As at 11 March 2020
Source: S&P Capital IQ, Deloitte Corporate Finance analysis

The observed beta is a function of the underlying risk of the cash flows of the company, together with the capital structure and tax profile of that company. This is described as the levered beta.

The capital structure and tax position of the entities in the table may not be the same as those of Universal Coal. The levered beta is often adjusted for the effect of the capital structure and tax. This adjusted beta is referred to as the unlevered beta. The unlevered beta is a reflection of the underlying risk of the pre-financing cash flows of the entity.

Selected beta (β)

In selecting an appropriate beta we have considered the following:

- of the companies whose operations are principally based in South Africa, we can only observe a statistically meaningful beta for Exxaro Resources Limited, of 1.04 over a two year period and 1.06 over a four year period
- the betas for the Australian coal producing companies are in the range of 0.77 to 1.21 with an average of 0.97 over a two year period, and in the range of 1.04 to 1.52 with an average of 1.28 over a four year period
- coal mining assets generally have varying risk profiles depending on the maturity of the asset and the stage of their development
- Universal Coal largely serves the domestic market, with approximately 88% of FY2019 coal supply directed to the domestic market. As a result, Universal Coal has limited exposure to the global market
- sales are largely through fixed-price CSA agreements in place with Eskom, minimising exposure to export coal price fluctuations
- for the purpose of this analysis, we have also considered the betas of major diversified mining companies. The scale, product and geographic diversification of these businesses are of a different magnitude compared to Universal Coal. Their larger scale of operations and number of producing assets generally serve to limit exposure to short term market fluctuations.

Based on our consideration of the foregoing, we have selected an unlevered beta of 1.10 to 1.20 for Universal Coal. We have then adjusted this measure to reflect a debt to enterprise value ratio of 20.0%, having regard to comparable companies, and a tax rate of 28.0%, in line with the South African corporate tax rate. The resulting re-levered beta (including the Blume adjustment) for Universal Coal is calculated as 1.20 to 1.28.

Gearing

We have considered the current capital structure of Universal Coal and the capital structure of the companies considered comparable to Universal Coal to determine a gearing (debt to enterprise value) ratio of 20%.

Country specific risk premium

With the exception of country-specific risk, we haven't incorporated any specific asset risks in our projected cash flows assumptions for the various assets.

The country specific is the risk arising from an unpredictable change in government policy or behaviour of a regulatory agency and other risks attributable to an unstable political or civil environment. Market perception of country risk is subjective and conclusions drawn require the exercise of professional judgement. To arrive at a reasonable approximation of the additional return required to compensate for the risk inherent in investing in South Africa we have had regard to a variety of external evidence, including:

- the country risk premium attributed by Aswath Damodaran
- current general macroeconomic and political conditions facing South Africa

- country ratings attributed to South Africa by ratings agencies such as Moody's, Standard & Poor's (S&P), and other market analysts such as EIU
- the differential between US Government bond rates and USD-denominated government bonds issued by countries with a similar credit rating to South Africa.

Whilst some elements of sovereign risks may be estimated through quantitative methods discussed above, the nature of certain sovereign risks, including risks of nationalisation of assets, are typically asymmetric in nature, with the downside risk substantially greater than any upside uncertainty

Based on our analysis, we have selected a country risk premium for South Africa of 3%.

Specific company risk premium (α)

The specific company risk premium adjusts the cost of equity for company specific factors, including unsystematic risk factors such as company size, depth and quality of management, reliance on key personnel, ramp-up risk, etc.

The CAPM assumes, amongst other things, that rational investors seek to hold efficient portfolios, that is, portfolios that are fully diversified. One of the major conclusions of the CAPM is that investors do not have regard to specific company risks (often referred to as unsystematic risk). There are several empirical studies that demonstrate that the investment market does not ignore specific company risks.

In determining whether or not a specific risk premium should apply to Universal Coal, we have had regard to the following:

- Universal Coal is subject to a customer concentration risk by virtue of its dealings with Eskom, in the absence of whom, Universal would face significant challenges in finding a purchaser for its domestic coal product
- Eskom has been subject to some financial headwinds in recent times suggesting there are counterparty risks for Universal Coal
- relative to the comparable companies considered in the selection of the beta, such as Exxaro, Universal Coal faces additional execution risk in relation to its relatively early stage projects, such as NCC, NBC, Eloff and Ubuntu. Furthermore, the size and scale of Universal Coal is substantially smaller than Exxaro Coal and with a less diverse portfolio of operations. These factors would suggest addition risks to those reflected in the measure of systemic risk, beta.

Having regard to the foregoing, we have selected a specific risk premium in the range of 4% to 7% to account for these risks.

Cost of debt capital (K_d)

We have selected a pre-tax cost of debt of 10.0 to 11.5% for Universal Coal. We note that this reflects a ZAR-denominated cost of debt. This has been estimated after consideration of the following:

- Universal Coal has a relatively low level of debt
- Universal Coal's borrowing margins (above the Johannesburg Interbank Average Rate) on its debt facility with Investec are in the range of 4.0% to 4.5%
- the selected range reflects a margin in the range of 3.5% to 5.0% above three month Johannesburg Interbank Average Rate, which is the standard base rate benchmark in South Africa.

Calculation of WACC

Based on the above, we have calculated the nominal post-tax WACC for Universal Coal as set out in the table below.

Table 43

	Low	High
Risk free rate (R_f)	1.12%	1.12%
Equity market risk premium (EMRP)	6.00%	6.00%
Beta (ungeared β)	1.10	1.20
Beta (geared β)	1.20	1.28
Country specific risk premium	3.00%	3.00%
Specific risk premium (α)	4.00%	7.00%
Inflation differential	2.80%	2.80%
Calculated K_e	**18.11%**	**21.58%**
Debt to enterprise value ratio (%)	20.00%	20.00%
Tax rate	28.00%	28.00%
K_d (pre-tax)	10.00%	11.50%
Calculated WACC (post-tax)	15.93%	18.92%
Selected WACC (post-tax)	**16.00%**	**19.00%**

Source: Deloitte analysis

Appendix 3: Comparable companies

Table 44 – Trading multiples - Control Premium (0%)

Company name	Enterprise value[1] ($ million)	Net Debt ($ million)	Net Debt / Enterprise value	Reserves (Mt)	Resources (Mt)	EV / Reserves	EV / Resources
TerraCom Limited	292	179	61.3%	27	2,183	10.66x	0.13x
Universal Coal Plc	185	29	15.9%	78	1,264	2.36x	0.15x
South African coal producing companies							
Exxaro Resources Limited	4,029	537	13.3%	4,306	11,201	0.94x	0.36x
Ichor Coal N.V.	139	127	91.5%	24	56	5.79x	2.48x
Resource Generation Limited	122	86	70.4%	198	2,557	0.62x	0.05x
Wescoal Holdings Limited	108	60	55.3%	69	226	1.57x	0.48x
MC Mining Limited	67	11	15.7%	465	1,924	0.14x	0.03x
Buffalo Coal Corp.	49	46	94.3%	-	113	n/a	0.43x
Average	**752**	**144**	**56.8%**	**844**	**2,680**	**1.81x**	**0.64x**
Median	**115**	**73**	**62.9%**	**133**	**1,075**	**0.94x**	**0.39x**
Australian coal producing companies							
Whitehaven Coal Limited	2,224	587	26.4%	752	4,040	2.96x	0.55x
New Hope Corporation Limited	1,312	302	23.0%	701	2,442	1.87x	0.54x
Stanmore Coal Limited	147	(58)	0.0%	217	1,464	0.68x	0.10x
Australian Pacific Coal Limited	76	69	90.1%	370	2,534	0.21x	0.03x
Bounty Mining Limited	37	26	69.7%	9	633	4.28x	0.06x
Average	**759**	**185**	**41.8%**	**410**	**2,222**	**2.00x**	**0.26x**
Median	**147**	**69**	**26.4%**	**370**	**2,442**	**1.87x**	**0.10x**

Note:
1. As at 11 March 2020
Source: S&P Capital IQ, Annual Reports, Company Announcements, Deloitte Corporate Finance analysis

Appendix 4: Comparable transactions

We identified the following transactions involving similar businesses:

Table 45

Target name	Buyer Name	Closed date	Consideration (USD m)	Interest Sought (%)	Implied EV (USD m)	Reserves (Mt)[1]	Implied EV / Reserves	Resources (mt)	Implied EV / Resources
South African Thermal Coal Assets									
Universal Coal Plc	TerraCom Limited	Nov-19	23.8	20.0%	106.5	47.8	2.49x	1,264.2	0.09x
Universal Coal Plc	Various institutional investors	Aug-18	71.0	100.0%	71.0	n/a	n/a	585.0	0.12x
New Largo Thermal Coal Project and Old New Largo	New Largo Coal Proprietary Limited (Owned by Seriti Resources Proprietary Limited and Coalzar Proprietary Limited)	Jun-17	40.0	100.0%	40.0	81.1	0.49x	347.4	0.12x
Keaton Energy Holdings Limited	Wescoal Holdings Limited	Jun-17	23.4	91.0%	25.7	472.9	0.05x	2,392.0	0.01x
Uitkomst Colliery Proprietary Limited	MC Mining Limited	Jan-17	164.0	100.0%	164.0	304.7	0.54x	178.7	0.92x
Anglo American Plc domestic coal mines	Sereti Resources	Nov-19	21.3	20.0%	106.5	47.8	2.23x	1,264.2	0.08x
Average			**59.3**	**73.3%**	**89.2**	**190.9**	**1.20x**	**1,005.2**	**0.23x**
Median			**36.7**	**95.5%**	**93.2**	**81.1**	**0.54x**	**924.6**	**0.10x**

Target name	Buyer Name	Closed date	Consideration (USD m)	Interest Sought (%)	Implied EV (USD m)	Reserves (Mt)[1]	Implied EV / Reserves	Resources (mt)	Implied EV / Resources
Australian Thermal Coal Assets									
Stanmore Coal Limited	Golden Energy and Resources Limited and Asian Distressed Segregated Portfolio	Jan-19	9.9	5.6%	177.4	130.9	1.35x	1,749.0	0.10x
Stanmore Coal Limited	Golden Energy and Resources Limited	Dec-18	34.7	19.9%	174.6	130.9	1.33x	1,749.0	0.10x
Bengalla Joint Venture	New Hope Corporation Limited; Taipower Bengalla Pty. Limited	Dec-18	638.4	40.0%	1,596.0	187.0	8.53x	422.0	3.78x
Bengalla Joint Venture	New Hope Corporation Limited	Nov-18	155.5	10.0%	1,555.4	187.0	8.32x	422.0	3.69x
Realm Resources	T2 Resources Fund Pty Limited	Sep-18	252.2	100.0%	252.2	48.3	5.22x	152.6	1.65x
Warkworth	Yancoal Australia Ltd	Mar-18	230.0	28.9%	795.9	334.0	2.38x	1,458.0	0.55x
Curragh	Coronado Coal Group	Dec-17	700.0	100.0%	700.0	252.0	2.78x	957.0	0.73x
Hunter Valley Operations	Glencore plc	Sep-17	496.0	16.6%	2,987.7	824.0	3.63x	3,816.0	0.78x
Coal & Allied Industries Limited	Yancoal Australia Ltd	Sep-17	3,547.0	100.0%	3,547.0	753.9	4.70x	3,598.3	0.99x
Hunter Valley Operations	Yancoal Australia Ltd	Sep-17	710.0	32.4%	2,191.4	824.0	2.66x	3,816.0	0.57x
Mount Pleasant	MACH Energy Australia Pty Limited	Aug-16	224.0	100.0%	224.0	474.0	0.47x	571.0	0.39x
Bengalla	New Hope Corporation Limited	Mar-16	616.7	40.0%	1,541.8	218.0	7.07x	187.0	8.24x
Average			**634.5**	**49.4%**	**1,311.9**	**363.7**	**4.04x**	**1,574.8**	**1.80x**
Median			**374.1**	**36.2%**	**1,168.8**	**235.0**	**3.20x**	**1,458.0**	**0.78x**

Note:
1. Marketable reserves where available, otherwise ROM reserves
Source: S&P Capital IQ, Annual Reports, Company Announcements, Deloitte Corporate Finance analysis

Appendix 5: Technical Expert's Report

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16 March 2020

DTT006_Deloittes_Universal_ISR

Deloitte Corporate Finance Pty Limited
550 Bourke Street
MELBOURNE VIC 3000

Attention: Stephen Reid

Dear Stephen

Short-form report on certain mineral assets held by Universal Coal PLC

On 3 February 2020, Universal Coal PLC (Universal Coal or the Company) received an intention to make a takeover offer from its significant shareholder, TCIG Resources Pte Ltd, a wholly owned subsidiary of TerraCom Limited (TerraCom) to acquire all of the ordinary issued shares in Universal Coal that it did not then already directly or indirectly own (the Takeover Offer). Following this, on 12 February 2020, TerraCom and TCIG Resources Pte Ltd published an offer and disclosure document containing the terms and details of the Takeover Offer. Under the Takeover Offer, TCIG Resources Pte Ltd offered to acquire all of the shares in Universal Coal it did not then currently own for a cash consideration of A$0.10 per share and approximately 0.6026 TerraCom shares per Universal Coal share.

On 12 February 2020, TerraCom released an offer document in relation to the Takeover Offer confirming the details of the bid.

Deloitte Corporate Finance Pty Limited (Deloitte) has been engaged by Universal Coal to prepare an Independent Expert Report (IER) in relation to the Takeover Offer.

Deloitte has subsequently commissioned SRK Consulting (Australasia) Pty Ltd (SRK) to assist Deloitte on certain specialist matters relating to the preparation of its IER. In accordance with its mandate from Deloitte, SRK's scope of work was to:

- input and advice on the appropriateness of the technical assumptions adopted in the financial models for the Projects, namely those relating to;
  - the levels of Coal Resources and Coal Reserves
  - the production profiles (including development profiles or potential expansion cases)
  - the operating expenditure, including rehabilitation and abandonment costs
  - the capital expenditure
  - other material technical assumptions
- Provide an independent opinion on the market value of any Coal Resources or Coal Reserves not included in the financial models (residual resources or residual reserves)
- Assist Deloitte with an assessment of the reasonableness of the technical assumptions for additional development scenarios for the Projects (and the Exploration Assets, as appropriate), in the event that more than one development scenario is considered by Deloitte
- Provide an independent opinion on the market value of the exploration assets within the Universal Coal portfolio.

- Prepare a short-form Independent Specialist Report (ISR) summarising SRK's findings in accordance with the Australasian Code for the Public Reporting of Technical Assessment and Valuation of Mineral Assets – VALMIN Code (2015), which incorporates the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves – JORC Code (2012).

In accordance with its mandate, SRK has not undertaken any analysis of marketing, commodity price and exchange rate assumptions, on the understanding that these aspects are to be covered by Deloitte as part of its IER.

SRK has relied on documents and information available in the public realm and made available by Universal Coal through an online data room containing numerous technical files relating to the Company's mineral assets.

The information in this report that relates to the Technical Assessment and Valuation of Mineral Assets reflects information compiled and conclusions drawn by technical consultants under the supervision of Mr Jeames McKibben, who is a Chartered Professional Fellow of the Australasian Institute of Mining and Metallurgy, a Member of the Australian Institute of Geoscientist and a Chartered Valuation Surveyor and Registered Valuer with the Royal Institution of Chartered Surveyors. Mr McKibben is a full-time employee of SRK. Mr McKibben has sufficient experience relevant to the Technical Assessment and Valuation of Mineral Assets under consideration and to the activity that he is undertaking to qualify as a Representative Specialist as defined in the VALMIN Code (2015).

This Independent Specialist Report has been prepared by a team of consultants from SRK's offices in Australia and South Africa, principally Shaun Barry, Norman McGeorge, Lesley Jeffrey, Peter Hand and Darryl Kilian. Peer review of the ISR was conducted by Karen Lloyd and project management by Jeames McKibben. Mr McGeorge and Mr Hand made a site inspection of the Company's mineral assets on 10, 11 and 12 February 2020. Details of the experience and qualifications of SRK's team are presented in Appendix A.

Table ES-1: Details of the qualifications and experience of SRK's consultants

Specialist	Position/ Company	Responsibility	Length and Type of Experience	Site Inspection	Professional designation
Norman McGeorge	Principal Mining Engineer/ SRK Consulting South Africa (Pty) Ltd	Mine engineering, OPEX/ CAPEX, Infrastructure	+38 years, 33 years in operations and 5 years in consulting	Yes (10,11,12 Feb 2020)	MSc, BSc MSAIMM, Pr.Eng (South Africa)
Peter Hand	Associate Principal Consultant/ Isandia Coal Consulting CC	Coal processing, OPEX/ CAPEX	+35 years, 20 years in operations and 15 years in consulting	Yes (10,11,12 Feb 2020)	BSc, Pr.Eng (South Africa)
Lesley Jeffrey	Principal Consultant/ SRK Consulting South Africa (Pty) Ltd	Geology and Coal Resources	+30 years; 17 years in operations, 7 year in research, 9 years in consulting	None	MSc, BSc, PrSciNat MGSSA, SAMREC
Darryll Kilian	Partner / Principal Consultant/ SRK Consulting South Africa (Pty) Ltd	Environmental and Social	25 years; 5 years in government, 5 years in academia, 15 years in consulting	None	MA, BA (Hons), BA, CEAPSA, MSAIE&ES
Shaun Barry	Principal Consultant/ SRK Consulting (Australasia) Pty Ltd	Valuation	30 years; 13 years in operations, 3 years in government and 4 years in mining analyst, 10 years in consulting	None	MSc, BSc (Hons, Dip Inv Mgt, MAusIMM(CP), MRICS

Specialist	Position/ Company	Responsibility	Length and Type of Experience	Site Inspection	Professional designation
Karen Lloyd	Associate Principal Consultant/ SRK Consulting (Australasia) Pty Ltd	Peer Review	24 years; 8 years in operations, 7 years in strategic planning, 3 years in funds management, 6 years in consulting	None	BSc (Hons), MBA, FAusIMM
Jeames McKibben	Principal Consultant/ SRK Consulting (Australasia) Pty Ltd	Project Manager	+25 years; +15 years in valuation and corporate advisory, 2 years as an analyst and 8 years in exploration and project management roles	None	BSc (Hons), MBA, FAusIMM(CP), MAIG, MRICS

All monetary figures used in this ISR are expressed in either Australian dollar (A$), South African rand (ZAR) or United States dollar (US$) terms, unless otherwise stated. The final valuation is presented in South African rand (ZAR). The conclusions expressed in this ISR are appropriate at the date of the ISR. The valuation is only appropriate for this date and may change in time in response to variations in economic, market, legal or political factors, in addition to ongoing mining, development and exploration results.

This short form report has the following sections: overview of the setting of Universal Coal's Projects (Section 1), followed by technical assessments of each asset, namely: Kangala Colliery (Section 2),New Clydesdale Colliery (Section 3), North Block Complex (Section 4), Ubuntu Colliery (Section 5), Eloff Project (Section 6), Arnot South Project (Section 7), Berenice/ Cygnus Project (Section 8), and Valuation of the Residual Coal Resources (Section 9). A Glossary is provided in Appendix E.

In forming its overall opinion regarding the market value for each of the coal assets, SRK has considered the market valuation approach (third party and actual transactions) while using the yardstick approach as a secondary guide.

Table ES-2 summarises SRK's opinion regarding the current market value of the portfolio of the residual (remnant) Coal Resources of the Company. SRK has not attributed any additional value to the exploration potential as, in its view, this value is encapsulated in the value of the residual Resources outside of the mine schedule, given the valuation approach and methodologies adopted.

Table ES-2: Valuation summary of residual resources

Operations	100% Basis (ZAR M)		Attributable (ZAR M)	
	Low	High	Low	High
Kangala	65.1	156.1	45.9	110.1
NCC	83.7	193.0	41.0	94.6
Ubuntu	20.3	55.6	10.0	27.2
Eloff	201.3	679.2	98.6	332.8
NBC	26.8	71.9	13.1	35.2
Arnot South	79.6	271.1	39.8	135.6
Berenice Cygnus	207.2	517.9	103.6	259.0
Total (ZAR M)	**684.0**	**1,944.8**	**352.1**	**994.4**

Source: SRK Analysis

Note: Table subject to rounding

In considering its overall value positioning, SRK is cognisant that certain market participants may place greater weighting towards the following factors, resulting in a positioning towards the lower end of SRK's valuation range:

- Universal Coal's residual resources are unlikely to be mined for some 10 to 15+ years at current mining rates, given Universal Coal's existing Coal Reserve position
- the implied multiples associated with several previous actual transactions and other third-party transactions may include a value component attributable to either Coal Reserves and/or scheduled LOM tonnages, which when removed may result in a lower overall multiple than evident in SRK's analysis
- the current market sentiment towards thermal coal projects globally
- the thermal coal divestment thematic being adopted by several major mining houses.

1 Projects

The Company holds an equity interest in seven coal projects (Projects) that are located in South Africa (Table 1-1,Table 1-2 and Table 1-3). The Projects comprise eight granted Mining Rights, four granted Prospecting Rights and one Mining Right Application. The Mining Rights cover a combined area of 16,913.113 hectares (ha), while the granted Prospecting Rights cover 976.426 ha. Further details are provided in Appendix C.

Table 1-1: Production stage projects

Mine	Interest (%)	Type	Method	Production Rate	Coal Product
Kangala	70.5	Open Pit	Truck & shovel	3.2 Mt/a ROM	Thermal (domestic)
New Clydesdale Colliery (NCC) (operational control)	49	Open Pit and Underground	Truck & shovel/ Room & Pillar	3.7 Mt/a ROM	Thermal (domestic/ export)
North Block Complex (NBC) (operational control)	49	Open Pit	Truck & shovel	3.7 Mt/a ROM	Thermal (domestic/ export)

Mt/a = million tonnes per annum

Table 1-2: Developments Stage projects

Development Project	Interest (%)	Proposed Type	Status	Coal Product
Ubuntu	48.9	Open Pit	In development (proposed 1.2 Mt/a product)	Thermal (domestic)
Eloff	49	Open Pit	Granted Mining Right & environmental authorisation	Thermal (domestic)

Mt/a = million tonnes per annum

Table 1-3: Exploration stage projects

Exploration Project	Interest (%)	Proposed Type	Status	Coal Product
Arnot South	50	Open Pit	Feasibility Study completed and Mining Right application lodged	Thermal
Berenice/ Cygnus	50	Open Pit	Mining Right & environmental authorisation lodged for 10 Mt/a open cut operation	Thermal/ Coking

Mt/a = million tonnes per annum

1.1 Location and access

The Projects are located in the Witbank Coalfield of Mpumalanga Province of South Africa (Figure 1-1). The towns of Emalahleni (previously known as Witbank), Middelburg, Delmas, Devon and Leandra provide labour and services to the Projects and several mining contracting companies operate regionally. Major economic activities in the region include steel mining, coal mining, power generation, agriculture, commerce and light engineering. The Projects are readily accessed along sealed regional roads.

Climatically, the Projects are situated within the Mpumalanga Highveld region, which experiences a dry, temperate climate conducive to continuous mining operations year-round. Weather in the region is characterised by hot summer days and late afternoon thundershowers. In the summer, daytime high temperatures can range from 25–32°C. Most precipitation in this area occurs during summer and autumn. Winter daytime average temperatures are a cool 15–19°C, but night-time temperatures often drop below freezing and morning frost is common. The average rainfall in the area is 768 mm per year.

The general topography of the region is flat to undulating with mostly north-flowing drainages. The drainage pattern is mainly dendritic with numerous pans and wetlands occurring across the region and potentially causing drainage issues for proposed developments. Elevations typically range from 1,500–1,650 m above sea level, with low gradients. Vegetation is dominated by grasslands that have been cleared for agricultural activity.

The main economic activity in the surrounding area is agriculture (grazing and cropping mainly for potatoes, maize and wheat), as well as coal mining. Delmas is an important railway junction on the Springs to Witbank rail line, a line that connects to the Port of Richards Bay and the Richards Bay Coal Terminal.

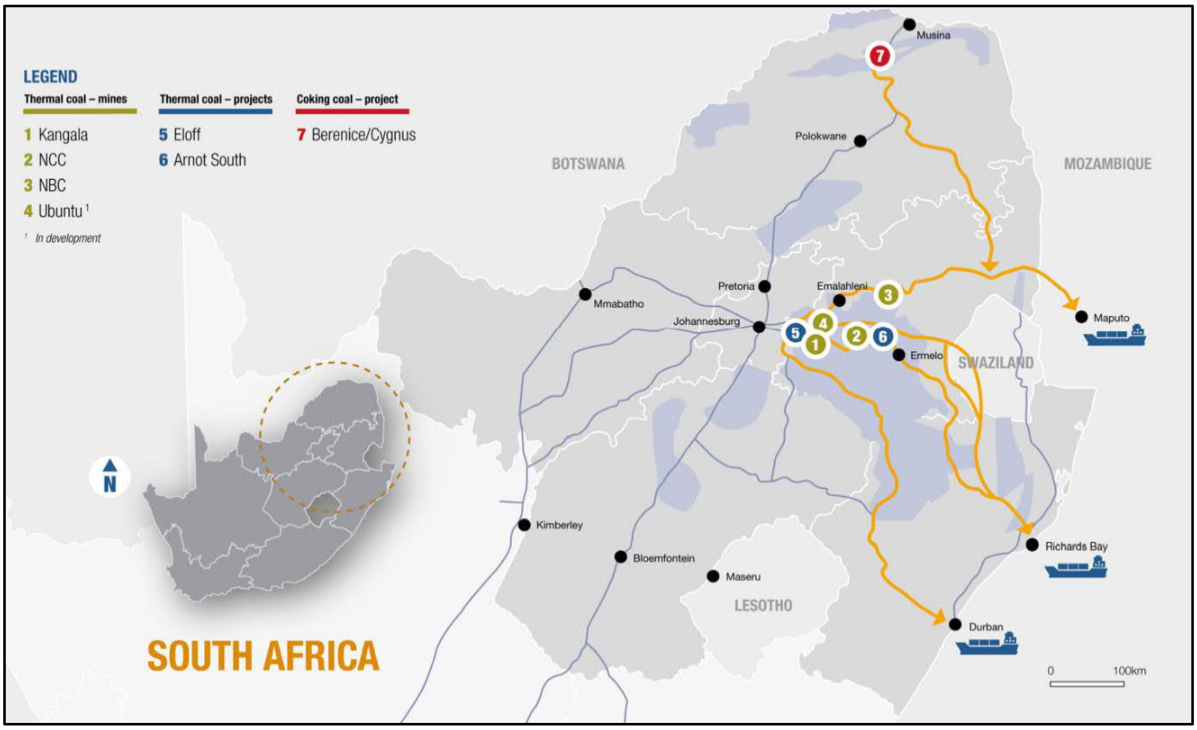

Figure 1-1: Location of the Projects

Source: Universal Coal presentation (2020)

1.2 Regional geological setting

The Witbank Coalfield is the largest producing coalfield in South Africa, supplying more than 50% of South Africa's saleable coal. It produces both metallurgical coal and A-grade to D-grade thermal coals for the export and domestic markets, and hosts most of the major coal-fired power stations in South Africa. Previous extensive exploitation of the coalfield has resulted in the area being well serviced by efficient coal transportation and other infrastructure. All of Universal Coal's assets lie within the Witbank Coalfield, with the exception of the Berenice/ Cygnus Coking Coal Project, which is located in the Mopane Coalfield of the Limpopo Province.

In the Witbank Coalfield, there are five depositional sequences with associated potentially economic coal seams within a 70 m-thick sedimentary succession of the Vryheid Formation within the Ecca Group of the Karoo Supergroup. The seams are numbered from 1 (at the base) to 5 (at the top). The distribution and extent of the No. 1 and No. 2 seams are primarily controlled by the pre-Karoo topography, particularly erosional glacial valleys, with the No. 4 and No. 5 seams controlled by the present-day land surface. In some areas, parts or all of these seams have been lost to erosion.

The No. 1 seam comprises predominantly high-grade steam coal suitable for export after beneficiation. The No. 1 seam typically has a very low phosphorus content and is usually mined separately as a metallurgical feedstock.

The No. 2 seam contains the best quality coals. It displays a well-defined zoning with up to seven (five in some areas) distinct coal zones of differing qualities with the three basal zones being mined mainly for the production of low-ash metallurgical and export steam coal. The upper part of the seam is typically shaly and uneconomic.

The No. 3 seam is thin (usually less than 0.5 m thick) and is generally uneconomic. Where it is of high quality and attains a thickness of approximately 0.8 m, it can represent an important opencast coal source.

No. 4 seam is generally of poorer quality and consists of predominantly dull to dull lustrous coal. Mining is usually restricted to the lower 3.5 m of the No. 4 seam, which is mainly used as a domestic steam coal.

The No. 5 seam has previously been mined as a source of blend coking coal and for metallurgical uses, especially in the central Witbank area, where it is of higher quality.

1.3 Summary of Resources and Reserves

Table 1-4 summarises the Company's Coal Resources and Coal Reserves. The Coal Resources and Coal Reserves have been reported in accordance with the JORC Code (2012 Edition) except those for the Eloff Project, which have been reported in accordance with the SAMREC Code (2016 Edition).

Table 1-4 Summary of Coal Resources and Coal Reserves (as reported)

Project	Reserves (Mt)		Resources (Mt)				
	Proved	**Probable**	**Measured**	**Indicated**	**Inferred**	**Total**	**Attributable***
Kangala	28.30	0.00	51.33	15.03	32.33	98.69	69.58
NCC	48.19	6.61	88.82	41.82	6.03	136.67	66.97
NBC	48.50	6.46	65.66	17.67	25.38	108.71	53.27
Ubuntu	9.15	0.00	31.70	39.40	4.70	75.80	37.14
Eloff	0.00	0.00	11.76	265.96	250.57	528.29	258.86
Arnot South	0.00	0.00	2.28	65.30	139.00	206.58	103.29
Total Thermal	*134.16*	*13.08*	*251.55*	*445.18*	*458.01*	*1154.74*	*589.11*
Berenice/ Cygnus	0.00	0.00	424.90	800.90	124.30	1,350.10	675.05
Total Coking	*0.00*	*0.00*	*424.90*	*800.90*	*124.30*	*1,350.10*	*675.05*
Total	**134.16**	**13.08**	**676.45**	**1,246.08**	**582.31**	**2,504.84**	**1,264.16**

Source: Universal Coal ASX Announcement dated 29 October 2019

*Attributable to Universal Coal.

Notes

Coal Resources are stated on a gross in situ basis and inclusive of Coal Reserves.

Rounding (conforming to JORC Code) may cause computational discrepancies.

The acquisition of the Arnot South Project is subject to the successful transfer of the prospecting right to Universal Coal in accordance with Section 11 of the Mineral and Petroleum Resources Development Act, 2002.

The Eloff Project hosts a SAMREC (South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves, 2016 edition)-compliant coal resource.

Universal holds an option to acquire up to a 74% interest in the Berenice Project.

Universal holds an option to acquire up to a 74% interest in the Cygnus Project.

In SRK's opinion, the Coal Resource and Coal Reserve estimates (Estimates) presented in Table 1-5 have been reported to suitable quality standards. Having undertaken a reasonableness assessment on the technical information supporting the Estimates, SRK has made adjustments to the Estimates for valuation purposes.

Table 1-5: SRK-modified Coal Resources and Coal Reserves

Project	Reserves (Mt)		Resources (Mt)				
	Proved	Probable	Measured	Indicated	Inferred	Total	Attributable*
Kangala	3.52	0.00	51.33	15.03	32.33	98.69	69.58
NCC	48.19	6.61	88.74	41.82	6.05	136.61	66.94
NBC	48.50	6.46	65.67	17.67	25.38	108.72	53.27
Ubuntu	9.15	0.00	18.65	23.28	2.91	44.84	21.97
Eloff	0.00	0.00	49.92	227.80	250.57	528.29	258.86
Arnot South	0.00	0.00	2.28	65.31	138.99	206.58	103.29
Total Thermal	*109.36*	*13.08*	*276.59*	*390.91*	*456.23*	*1,123.73*	*573.29*
Berenice/ Cygnus	0.00	0.00	406.79	753.31	96.49	1,256.58	628.29
Total Coking	*0.00*	*0.00*	*406.79*	*753.31*	*96.49*	*1,256.58*	*628.29*
Total	**109.36**	**13.08**	**683.38**	**1,144.22**	**552.72**	**2,380.31**	**1,201.58**

*Attributable to Universal Coal

Notes

Effective date for Kangala, NCC and NBC is 30 June 2019.

Effective date for Ubuntu and Eloff is 30 June 2018.

Effective date for Arnot South and Berenice/ Cygnus is 29 January 2016.

Resources attributable to Kangala include those for Wolverfontein and Middelbult.

Ubuntu Resources are stated per farm portion.

Coal Resources are stated on a gross in situ basis and inclusive of Coal Reserves.

Rounding (conforming to JORC Code) may cause computational discrepancies.

Differences between the publicly reported Mineral Resources and Ore Reserves and the SRK-modified Estimates arise for the following reasons:

- At Kangala, the stated Ore Reserves are estimated as a combination of the Wolverfontein property (3.6 Mt) and the Middelbult property (24 Mt), of which the latter is not part of any ongoing mining plan, and therefore cannot be quoted as Ore Reserves. However, the value associated with these tonnages has been captured in SRK's valuation of the residual resources (i.e. those resources outside the life-of-mine plan). In SRK's opinion, the best estimate of the Ore Reserves for valuation purposes is the budget schedule for Kangala, which envisages the completion of the Ore Reserves in September 2021.
- Within the Ubuntu project, the stated Mineral Resources were estimated to cover the full extent of the mining right. In SRK's opinion, the distribution and intensity of the dolerite sills within the area are likely to reduce the area available for economic extraction and hence SRK has modified and provided its best estimate (i.e. a lower estimate) of the likely coals available for valuation purposes.
- At Bernice/ Cygnus, SRK considers the basal horizons in the lower sequence Zone 18 are unlikely to meet the reasonable prospects for eventual economic extraction (RPEEE) definition under the JORC Code and hence SRK has excluded this component from the stated resource for valuation purposes.

2 Kangala Colliery

The Kangala Colliery (Kangala) is located approximately 65 km due east of Johannesburg and 5 km southwest of Delmas. Kangala is located adjacent to Exxaro Coal (Pty) Ltd's (Exxaro) Leeuwpan Colliery and in proximity to excellent road and rail infrastructure, as well as being within a 70 km radius of four coal-fired power stations. The main integrated coal export rail lines with connections to Richards Bay run in close proximity to Kangala. Mine production commenced in February 2014, with steady state production achieved in October 2014. Production is expected to continue until late 2020.

Kangala consists of an operational opencast coal mine with two main resource areas, namely the Kangala Colliery (located on Wolverfontein farm) and Middelbult. Mining is by a mining contractor using conventional open cut mining techniques with truck and shovel and excavators for pre-stripping operations. Coal is also removed with truck and shovel method and the waste material is drilled and blasted. The waste material is placed into the coal voids in a rollover mining method. The equipment is of a small size, typically 80 tonne (t) excavators and 60 t haul trucks.

The Kangala coal handling and preparation plant (CHPP) has two processing streams. One has capacity to screen and crush 350 tonnes per hour (t/h) ROM for the sale of raw coal and a second consists of a pre-screening and crushing section and a dense media separation (DMS) washing section that can process 320 t/a ROM. Current annual installed capacity at Kangala is 3.5 million tonnes per annum (Mt/a) ROM and 2.4 Mt/a product coal.

Kangala currently produces an Eskom 32.5% ash product and a 27 megajoules per kilogram (MJ/kg) export product. The mine is predominantly an Eskom product mine and it achieves this by selectively mining the coal seams split between the require calorific value of the Eskom product (19.5 MJ/kg) and beneficiation of the lower grade material and recombining it with the unbeneficiated material to create the final product. Any coal horizons that are of exceptionally high grade in situ are beneficiated to an export grade product. This export product is an opportunistic coal exposure and is less than 5% of the annual coal sales and, in some years, is not produced at all.

The current contract miner is Stefanutti Stocks Mining Services, while the processing plant is operated by Mineral Resource Development.

2.1 Ownership and tenure

Kangala comprises a single granted Mining Right (Wolverfontein 244IR Potion 1 and Remainder 2), and a granted Prospecting Right (now lapsed) with an associated Mining Right application (Middelbult 235IR Portions 82 and 40), covering a total combined area of 1,893 ha, as outlined in Appendix C.

The Company's interest in Kangala is held through its wholly owned subsidiary, Universal Coal and Energy Holdings South Africa (Pty) Ltd, which in turn holds a 70.5% interest in Universal Coal Development I (Pty) Ltd (UCDI). The residual 29.50% interest in UCDI is held by Mountain Rush Trading 6 (Pty) Ltd (Mtn Rush), a private company registered in South Africa. UCDI is the registered holder of the Kangala Mining and Prospecting Rights. Universal Coal is the registered surface owner of portion 1 of the farm Wolverfontein 244 IR and has a grant of servitude agreement in place with the Kallie-Madel Trust, which is the registered surface owner of the remaining extent of portion 2 of the farm Wolverfontein 244 IR. The opencast and all relevant surface infrastructure are located on portion 1.

Kangala is governed by a Shareholders Agreement dated 6 May 2013 (and amended on 7 August 2015) with Mountain Rush Trading 6 (Pty) Ltd regulating the relationship between each of the Shareholders and between the Shareholders and UCDI. Other agreements executed at the same date include Management and Facilitation and Service Fee agreements

In addition to the Shareholders Agreement, a number of material contracts are also in place, including:

- Mining Services agreement with Stefanutti Stocks Mining Services to operate the mine until 2023. This agreement is a standard mining contracting agreement based on volumes moved. It covers all the mining process and the management of the discard coal from the process plant and its placement back in the pit.
- Processing agreement with Mineral Resource Development (Pty) Ltd (MRD) to operate the process plant and covers the provision of the labour to operate the plant and also the maintenance of the plant
- Coal transportation agreements with 10 local transportation and logistics companies.

There is a Coal Supply Agreement (CSA) with Eskom Holdings SOC Ltd (Eskom), South Africa's state-owned electricity supplier to supply 2.0 Mt/a until 2023. The CSA was executed in 2014 (Universal Coal's ASX Announcement 18 March 2014) and has a termination date of 2023, unless extended by mutual agreement. While pricing details are commercially sensitive, SRK understands that it is on 'a cost of production plus a fair return' basis. The coal price is escalated yearly according to a predetermined basket of escalation indices that cover the major cost components. The CSA provided guidelines and procedures for coal quality management. It calls for the supplier to provide a specified quantity of energy in Gigajoules (GJ) and the compensation (or price) is determined as a Rand per Megajoule supplied. For example, the initial contract was to supply a 17.6 MJ/kg product (As Received) which was set at ZAR15.6 per Megajoule supplied in 2013. Hence the price for the coal would then be 17.6 * ZAR15.6 = ZAR275/t. There have been numerous addendums to the agreement that have accommodated increased washing facilities and an improvement of the coal quality supplied with variations to the price. This has been necessary as the coal supplied is transported to different power stations, each of which have different coal quality requirements. The coal product is assembled into stockpiles that are then sampled and, if they pass the requirements, are then transported to the respective power stations.

The mine manages the transport arrangements for the coal from the mine to the power station, but is then reimbursed for the costs incurred, so their revenue is based at mine gate for the point of sale. All these logistics contracts are managed by the mine.

Any exports produced are subject to a marketing arrangement with Glencore.

In 2013, Universal Coal secured a 51,000 t export coal allocation at the Richards Bay Coal Terminal (RBCT) through the RBCT Quattro entitlement scheme, for an initial three-year period. This was followed shortly thereafter in July 2013 by an off-take agreement with Exxaro for the supply of up to 100,000 t/a of export quality coal.

2.2 Local geology

Kangala is located along the western margin of the Witbank Coalfield. Three seams, namely the Top, Mid and Bottom seams are recognised. The Top and Mid seams are interpreted to be correlates of the No. 5 seam and the combined No. 4 and No. 3 seams of the Witbank Coalfield, respectively. The thicker Bottom seam is interpreted as the equivalent of a combined No. 2 and No. 1 seams of the Witbank Coalfield.

- The Mid seam ranges in thickness from 0.98–3.74 m, averaging 1.04 m, and consists of high quality bright to dull coal.
- The Bottom seam consists of alternating coal and carbonaceous shale layers. It varies between 8.45 m and 17.5 m in thickness but can attain a thickness of up to 30 m within local basement depressions. The bottom seam is subdivided from top to bottom into BA, BB, BC and BD coal plies, which are all separated by carbonaceous coal partings.

Dolerite sills and dykes are restricted to the east and south of the current mining area, with some local devolatilisation of the coal. Highly variable surface weathering impacts the Top and Mid seams, reducing the mineable coal resources but allowing for easy free dig of much of the overburden material.

2.3 History

The first prospecting for coal was completed at Middelbult between 1977 and 1981 by Southern Sphere Mining and Development Co (Pty) Ltd (SSMD). This transitioned in the 1980s to the adjacent Kangala area with work completed by SSMD and Ingwe Coal Corp Ltd. The initial exploration program at Kangala drilled a total of 28 boreholes. The first prospecting for coal at Middelbult was carried out from 1977 to 1981 by SSMD. In 2008, Universal Coal commenced a follow-up exploration and drilled an additional 211 boreholes on the Wolverfontein property. A further 7 holes were drilled on Middelbult in 2008 and 30 holes in 2011. The holes were diamond drill holes of TNW core size. In 2010, Coffey Mining SA (Pty) Ltd completed a Competent Persons Report that assessed the geological model developed and determined the Coal Resources and coal quality with the input from Minproc (AMEC) and Gemecs (Pty) Ltd (Gemecs). This report was included in the Prospectus for the listing of Universal Coal on the ASX.

In October 2011, the Company announced that it had completed its feasibility study at Kangala. In December of that same year, Universal Coal was undertaking additional drilling designed to optimise its bankable feasibility study.

In June 2012, the Company secured a long-term Eskom contract for the supply of domestic coal from Kangala. The company also announced that it had been granted the water licence for Kangala. During the December 2012 quarter, the Company concluded its development programs and contracts for the development of Kangala.

Between 2012 and 2014, the Company completed 96 diamond drill holes to infill the resource area and to assist with detailed mining planning and grade control.

In June 2013, the Company announced plans to bring its Kangala Colliery into production by June 2014, two months earlier than previously planned. In September 2013, Universal Coal completed the offsite assembly of the Kangala crushing and screening circuit.

In late January 2014, the Company announced the hot commissioning of the BC1/BC2 circuit at Kangala. Production was still on schedule for February 2014. By early March 2014, the Company announced that production started at Kangala, with the first coal subsequently sold in April 2014. Steady state production was achieved in December 2014.

From 2015 to 2017, a further 198 infill diamond holes were completed to further assist with mine planning and grade control. Updated geological resource and reserve estimates were prepared in January 2016, June 2016, October 2017 and June 2018.

Kangala's production history since the commencement of mining in 2014 is summarised in Table 2-1.

Table 2-1: Kangala Production History

	2014 FY	2015 FY	2016 FY	2017 FY	2018 FY	2019 FY
ROM (t)	633,384	2,472,232	3,269,212	3,660,697	4,025,000	3,865,246
Plant Feed (t)	461,948	2,569,448	3,124,199	3,672,853	4,045,795	3,894,811
Saleable (t)	375,300	1,680,243	2,037,390	2,463,224	2,609,920	2,403,660

Source: S&P Global Market Intelligence, Universal Coal, 'Monthly production - since inception.xls'

2.4 Coal Resources and Coal Reserves

Table 2-2 presents the publicly reported Kangala Coal Resources and Coal Reserves as at 30 June 2019.

Table 2-2: Summary of Kangala Coal Resources and Coal Reserves as at 30 June 2019

Project	Reserves (Mt)		Resources (Mt)				
	Proved	Probable	Measured	Indicated	Inferred	Total	Attributable*
Kangala	28.30*	0.00	51.33	15.03	32.33	98.69	69.58

*including Middelbult Reserves

The cut-off parameters and the associated values are appropriate for the type of deposit, mining method and saleable products. Based on its assessment of the Coal Resource estimates, SRK has modified the global Coal Resource and Coal Reserve tonnages to be appropriate for valuation purposes.

Table 2-3: SRK-modified Kangala Coal Resources and Coal Reserves

Project	Reserves (Mt)		Resources (Mt)				
	Proved	Probable	Measured	Indicated	Inferred	Total	Attributable*
Kangala	3.52*	0.00	51.33	15.03	32.33	98.69	69.58

Note: *excludes Middelbult Reserves as these are not included in the LOM Schedule. The Middelbult tonnages have been considered in SRK's valuation of residual resources.

In SRK's opinion, the Coal Reserves for valuation purposes are best estimated from the budget file *Kangala LOM V7 Budget 2020.xls*, which excludes the Middelbult property on the basis that it is not currently scheduled in the mine plan. The value associated with the Middelbult tonnages has been captured by SRK in its valuation of residual resources.

Raw coal qualities for Kangala are presented in Table 2-4.

Table 2-4: Raw coal qualities for Kangala

RD	IM (%)	Ash (%)	VM (%)	CV (MJ/kg)	TS (%)
1.69	3.8	36.6	19.4	17.55	1.21

Source: Company Management Information

2.5 Mining

The mining operation at Kangala is run on a contract mining model managed by Universal Coal's onsite management team. Stefanutti Stocks Mining Services supply both the mining fleet and manpower. As the mine is a low strip ratio operation and is shallow, the ability to vary the coal exposure rate is easily achieved and, in recent months, the mine has been able to expose up to 4.0 Mt/a of coal in the strip length available. The waste material is placed in the coal void adjacent to the existing strips and, together with the discards, completes a concurrent rehabilitation of the pit.

The Stefanutti Stocks Mining Services contract is volume based and continues until 2023. The mine contractor is responsible for all mining costs and maintenance of the equipment, as well as the provision of all the labour and associated costs. The mine provides the services of survey, mine planning geology, mine management and safety to cover the legal appointments for the mine. The diesel is provided by the mine, but forms part of the mining costs to the contractor.

At present the MM, BA, BB, BCC and BD seams are mined. The major mining method employed is a terrace-style truck and shovel operation. The terrace mining areas are mined at an advancing face angle of between 8° and 15°, allowing for specific pit geometry and mining equipment intensity and interaction. There are numerous mining areas along the strike of each outcrop. The mining selection is to mine the coal in shorter lifts that separate the coal around the Eskom quality to be supplied and then beneficiation of the lower quality coals and recombining it with higher quality coals, which are only crushed and screened. As noted earlier, the coal is prepared into pre-qualified stockpiles, which are sampled and then delivered to Eskom. Within the mine, the pits are split between a low volatile area of the mine and a high volatile to manage that Eskom parameter. Hence, there are two mining pits, which expose the coal in two strips 40 m wide to allow the selective mining of the seams. There are limited geotechnical concerns associated with the mine plan.

The mine is currently producing a domestic grade product at 19.5 MJ/kg target at approximately 270,000 tonnes per month (t/m) and yielding at 62% sales tonnes

There are no capital costs for the remaining Kangala pit and most of the capital will be associated with the extension to the adjacent Eloff block.

2.6 Processing

The process plant operation is based on a Build, Own, Operate, Transfer (BOOT) contract with Mineral Resource Development (Pty) Ltd (MRD). The processing facility has two plants:

- a 350 tonnes per hour (t/h) crushing and screening circuit to crush raw coal to minus 50 mm, feeding Eskom product stockpiles
- a 320 t/h DMS washing plant, with a feed crushing and screening plant that then feeds a DMS plant that uses using Dense Medium Cyclones (DMC). This plant can produce a higher-grade product for export, which is fed onto stockpiles for export coal or to wash coal that needs beneficiation before feeding to Eskom, which is mixed with raw coal on to the Eskom stockpiles.

Stockpiles are built ahead of the two plants, one for raw crushing and one for DMS plant feed. The control of the coal being fed is critical. After the plant a series of stockpiles are built such that the final qualities are known and comply with the required product qualities, particularly precertification of coal for Eskom. Based on the plant production statistics shown, the total feed to plant averages 10,000 tonnes per day, 46% to the crushing plant and 54% to the DMS plant.

The average DMS yield of the DMS plant over its operating history is 70.2%. The variance is 45.1%. Based on its review, SRK considers that yields will be lower than budgeted and needs to be actively monitored.

The Kangala CHPP service agreement with MRD is all-inclusive, except for the provision of additional mobile machinery as required. The original cost per tonne in 2013 was ZAR14.79 per feed tonne and it is now equivalent to ZAR 25.81. It is broken down into a total fixed cost and a variable cost per tonne is paid depending on whether the coal is fed to the crushing and screening plant or fed to the DMS plant. The contract is administered by Venn & Milford on behalf of Kangala. Under the contract, guarantee of availability and utilisation of 87% for each plant is set, i.e. an overall plant run time of 76%, which is relatively low. Some analyses show that the crush plant runtime is 65% and the DMS plant is 70%. This is lower than budgeted but probably does not allow for changeover of stockpiles and no coal.

2.7 Infrastructure and services

The coal handling and processing infrastructure at Kangala is capable of supporting annual capacity of 3.5 Mt/a of product. The designed capacity was 2.4 Mt/a, but over time this has increased with the addition of extra beneficiation facilities. The key constraint to the process is having sufficient pre-qualified stockpile space to accommodate the higher ROM volumes. In the financial model supplied for the mine extension, there is capital allowed for the extension of the stockpile space to use this increased capacity.

Coal is loaded out onto contractor trucks by front-end loader (FEL). Trucks are weighed in and out of the area on a sized weighbridge. Tonnages are reconciled daily with customers.

Eskom coal is produced according to the contact supply schedule, which is modified from time to time with the agreement of both parties. The contract is based upon Gigajoules supplied with adjustments made once the tonnages, adjusted for moisture, and qualities have been agreed. The price is subject to annual adjustment based on a basket of price indices. SRK has examined a number of the invoices and is satisfied with the method and veracity of the procedures followed.

SRK has assessed the materials handling system and logistics. The infrastructure and logistics chains are capable of supporting an annual capacity of 4.5 Mt of product. The system is under good control in terms of ensuring product quality. However, this may be at the expense of sacrificing some yield due to product quality being conservatively higher. The mine has a standard electricity supply from Eskom that is reliable, and the mine has the facility to obtain municipal water, though there is adequate groundwater in the vicinity and the mine has a large dam for water control, from which it recycles water.

The remaining roads are gravel roads maintained by the mine and, where the provincial road is used between the mine and the plant, then the mine maintains the road periodically. Where export coal is produced, it is trucked to the local siding and loaded using a FEL system.

The rail link for Kangala is used for the export coal and is a FEL system, loading trains at 8,500 t per train. Kangala's entitlement to usage of the rail to ship the coal to the RBCT is either through the marketing agent (i.e. Glencore) or as part of the agreement for usage of the common user capacity at RBCT, termed 'Quatro', where Universal Coal has previously used 250,000 t/a of port capacity. The RBCT port is a private owner terminal and the smaller mines either use the shareholder entitlement when they are acting as agent for the exports or use the Quatro system, which was established to facilitate B-BBEE (Broad-Based Black Economic Empowerment) companies' export tonnages. This capacity was limited to 250,000 t/a per user.

2.8 Approvals and permitting

The South African legislation requires that extractive operations obtain mining rights supported by environmental authorisations and licences. Presently, the main legislation governing environmental and social management includes: the *National Environmental Management Act (NEMA), Act 107 of 1998*; the *Mineral and Petroleum Development Act (MPRDA), Act 28 of 2002*; the *National Water Act (NWA), Act 36 of 1998*; and *National Environmental Management: Waste Act (NEM:WA), Act 59 of 2009*; and *National Environmental Management: Air Quality Act (NEM:AQA), Act 39 of 2004*.

Environmental aspects of the Kangala operation (including the mine, associated coal processing facility and support infrastructure) are administered primarily under an Environmental Management Programme (EMP) (dated December 2014) and authorised on 15 March 2016 by the Department of Mineral Resources (DMR). The mine has also obtained the following approvals:

- Environmental authorisation for supporting infrastructure, granted on 31 January 2012
- Environmental authorisation amendment for pollution control dam, granted on 15 March 2013
- Integrated Water Use Licence (IWUL), granted 25 May 2012
- Integrated Water Use Licence (IWUL) amendment for water storage, granted 8 April 2013
- Waste Management Licence for wastewater treatment plant, granted 27 June 2012
- Land re-zoning from agricultural to mining, approved by Victor Khanye Local Municipality on 27 March 2013 and gazetted on 29 March 2013.

Other approvals

Mining and related operations at Kangala are regulated under a range of other environmental (and related) legislation, including (but not limited to):

- *National Heritage Resources Act (Act 25 of 1999)* – Approvals to impact heritage resources on the designated mining area between 09 April 2103 and 9 April 2016
- *Section 46 of the MPRDA* – requiring a Social and Labour Plan (SLP).

Management system

Environmental aspects regulated under the environmental authorisations and other statutory approvals are generally managed under the auspices of the company's certified ISO 14001 and 45001 safety, health and environment (SHE) management system. The SHE management system is implemented by a dedicated safety manager and an environmental officer who report to the Mine General Manager. ISO certification commits the company to continual improvement of its environmental performance.

The environmental officer oversees regular environmental monitoring, reporting and internal auditing. Suitably qualified technical experts are appointed to undertake regular monitoring (e.g. dust, water, biomonitoring and noise) to determine compliance to specified environmental parameters and identify areas needing additional management intervention.

Compliance status

Based on a review of the findings of the most recent external environmental audit report of the approved EMP, conducted in December 2019, it is evident that the mine is largely compliant with its environmental conditions, although soil management was found to need attention to avoid the risk of soil erosion. The absence of detailed closure planning documentation and information pertaining to closure-related risks precluded auditors from determining whether the EMP mitigation and management measures were adequate to deal with closure risks.

Based on a review of the findings of an external audit of the water use licence conditions, conducted in October 2018, it is evident that the mine achieved a high level of compliance. It was calculated to be 97% compliant, an improvement from the 2017 audit when it was 95.8% compliant. Based on observation from the site visit, the overall site housekeeping was good, stormwater channels were clear of silt and the waste disposal area was found to be in good condition. The mine makes use of a finger drain system below the discard facility and water is gravity-fed to a pollution control dam (PCD) with a capacity of 200,000 Ml. The PCD forms part of a closed circuit and contact water is reused as process water in the plant.

Overall, the external audits are indicative of an adequate level of environmental control, with no conspicuous evidence to suggest that Kangala is having significant adverse impacts on the surrounding environment. As the above compliance matters are largely management-related, as opposed to being critical flaws, this risk does not need to be reflected in the financial model at this stage.

Social Licence to Operate

In terms of Section 46 of the MPRDA, a mining operation is required to submit an SLP as part of the mining right application. An SLP contains a five-year plan detailing how the mine will encourage, amongst other commitments, local procurement, local recruitment, employee skills development and local economic development projects. A mandatory yearly SLP report must be submitted to DMR to track progress of commitments and a new SLP has to be submitted every five years to DMR for approval. The 2014–2018 SLP was successfully closed out for the Kangala operation in May 2019.

A new 5-year SLP for the Kangala–Eloff consolidation has been prepared and submitted to DMR. The total financial provision for the consolidated SLP is ZAR26,465,000.

According to mine personnel, there is ongoing stakeholder engagement and grievance management at the Kangala operation. This is used to proactively identify and address any social issues that can escalate into labour or community unrest and potentially impact the sustainability of the operation.

The 2019 closure cost assessment (Digby Wells, January 2019) was done in accordance with the requirements of the MPRDA and NEMA as amended, which provides that the holder of a mining right must make full financial provision for rehabilitation of negative environmental impacts. The report and its associated costing has been based upon DMR guidelines set out by the 2005 'Guideline Document for the Evaluation of the Quantum of Closure-Related Financial Provision Provided by a Mine'. The guidelines outline the methods for infrastructure removal and rehabilitation required for closure.

The 2019 closure cost assessment notes that concurrent backfilling as part of mining activities has been undertaken at site and the Kangala operation has fully rehabilitated and the Old Sewerage Area has been demolished and removed. The 2019 closure cost estimate indicates that approximately 229.25 ha would still need to be rehabilitated. SRK has not independently verified the estimated spatial extent of ground disturbance.

The cost for rehabilitation and closure of Kangala according to the DMR methodology and rates is ZAR51,179,177 (incl. VAT). A contingency of 10% on all infrastructure costs has been allowed for. A 12% allowance has been included for project management fees. These fees account for the costs required to manage the closure and rehabilitation phase as well as provide personnel to monitor and maintain the rehabilitated areas after closure. It should also be noted that the DMR methodology includes VAT at 15%. A GuardRisk Financial Guarantee was lodged on 29 January 2020 for ZAR7,049,213.46.

The rehabilitation estimate appears to satisfy current requirements and the sums nominated for rehabilitation and closure activities are generally consistent with the magnitude of costs that would be expected for the type of disturbance observed at Kangala and the proposed rehabilitation land uses. The estimate could however be lower than the actual liability for the existing operation, particularly when there are likely post-closure water management requirements.

Kangala holds valid environmental permits for its current mining activities and appears to substantially comply with permit conditions and, where necessary, undertakes the requisite authorisation amendment processes to ensure that the mine remains legally compliant.

The current estimate of financial provisioning required for mine rehabilitation and closure appears reasonable but should be reviewed in the relatively short term to take account of imminent changes to South African policy and the regulatory framework around mine rehabilitation.

2.9 Risk and opportunity

SRK considers the Coal Resource estimation and classification for the Kangala deposit to be reasonable and based its assessment on the available information and its understanding of the Project. However, Kangala is of limited remaining life and is dependent on the extension into the Eloff resource area. The mine is predominantly an Eskom domestic grade mine and has a firm contract until 2023. There is a high likelihood that Eskom will extend the current contracts due to the supply required at the nearby power stations.

The coal is not suitable for beneficiating into an export quality product. The mine is dependent upon grade control and site management have a clear plan to allocate the correct coal to the correct stockpile to ensure product consistency to Eskom. There is a risk that the washing plant is overused to offset poor grade control, leading to reduced yields of saleable product. Greater emphasis should be placed on planning based on coal yields.

The ability to keep the mining cost increases linked to inflation is important, as this is the key means of controlling the profitability of the operation. Price-led increases are unlikely. It is important to maintain all permits and adhere to authorisation and licence conditions to avoid the operation receiving notices from authorities, which could lead to fines or loss of legal licence to operate. Ongoing grievance management is essential to maintain stakeholder relations, thus minimising the risk of losing the mine’s social licence to operate. The key opportunity is to maximise the usage of the coal processing infrastructure that exists onsite to keep producing the tailored product that Eskom requires. Where possible, Kangala should use the infrastructure for the extension to Eloff. There is scope for continued improvement to provide higher than contract tonnages as there is a high degree of flexibility in the current mine plan.

2.10 Preferred valuation scenario

SRK has considered various production scenarios and advised Deloitte of its Preferred Production Case. The Preferred Production Case is based on the Coal Resource estimates. SRK derived the mining physicals through a combination of an Excel exercise and the Life-of-Mine Plan (LOMP) physicals developed previously by third-party consultancy. In the future, SRK recommends mine scheduling is conducted using appropriate mine planning software. In conjunction with selection of the nominated pits, high-level first pass pit values were calculated to define sequencing of pits.

Table 2-5 presents SRK's Preferred Production Case schedule.

Table 2-5: Production Schedule – SRK's Preferred Case scenarios

	2020 FY
ROM (t)	3 257 550
Domestic Sales	2 205 405

Table 2-6 presents SRK's recommended operating cost inputs for the Preferred Production Case. These are taken from the original forecast cost in the plan and scaled for the impact of the yield. All estimates were derived from the current contractual rates and the volumes as illustrated above.

Table 2-6: Operating costs – SRK's Preferred Case scenarios

Parameter	Units	
Mining Cost	ZAR/t ROM	100.68
CHPP	ZAR/t ROM (Feed)	34.4
Product haul & Train Loadout	ZAR/t Product	101.35
Other	ZAR/t ROM (Av.)	60.99

Source: SRK analysis and Kangala LOM V7 Budget 2020.xls

For SRK's adopted Preferred Production Case, the rehabilitation and closure cost for Kangala is estimated to be ZAR 51,179,177 (including VAT).

3 New Clydesdale Colliery

The New Clydesdale Colliery (NCC) and associated Roodekop Coal Resource is located in the Kriel district, approximately 120 km east of Johannesburg, 40 km south of Middelburg and 30 km south of Emalahleni in Mpumalanga Province. Kriel (Ga-Nala) is the nearest large population centre, with approximately 15,500 people. The main economic activity in the area is maize and wheat farming, together with coal mining. The project is located proximal to several coal-fired power stations and benefits from excellent road, rail, rail siding and power infrastructure that includes rail connections to the RBCT.

Historically, the New Clydesdale Colliery was an operating mine producing about 717 kt/a of export quality thermal coal after Dense Medium Separation (DMS). Both underground and opencast mining were deployed at NCC and the ROM coal was processed in the CHPP, before the mine was placed under care and maintenance in 2013. Underground coal production recommenced at NCC in 2016 and is projected to continue to at least 2029. The Project has an existing coal handling and processing plant, an access adit to the historical 2 Lower (2L) Seam workings, access roads, power and water supplies and all support infrastructure.

The Roodekop Resource Project consists of a thermal coal deposit with favourable stripping ratios for open pit mining located contiguously with the New Clydesdale Colliery. The majority of the opencast resources occur in the Roodekop and Middeldrift areas, whereas the majority of the underground resources occur in the Diepspruit area.

The current installed capacity at NCC is 3.9 Mt/a ROM, with approximately 2.9 Mt/a product coal. Mining is a combination of open pit and underground operations with the surface operations conducted by conventional open cut mining techniques with truck and shovel and excavators for pre-stripping operations, while room and pillar is used underground. Coal mining was contracted to Trollope Mining for the opencast (which has now changed to Inayo and Andru Mining) and STA Mining (now Boipelo Mining) for the underground. Coal processing is contracted to Ingwenya Minerals Processing, with an 800 t/h coal handling and preparation plant (CHPP).

The products produced are an Eskom 29% ash product (CV 21.5 MJ/kg), and a 15% ash export product (RB1 spec 6,000 Kcal/kg). All five seams of the Witbank Coalfields are found within the NCC property. Within the opencast area, the 2L and 1A seams typically wash best for export quality at 15% ash. Within the underground area only the 2L seam produces good yields for export product at 15% ash, with the 1A and 4U seams exhibiting qualities suitable for Eskom product. At this stage the No. 4 Lower Seam is under investigation for potentially being mined for the Eskom product.

3.1 Ownership and tenure

NCC comprises a single granted Mining Right covering 4,960 ha, as outlined in Appendix C.

NCC was originally registered under two separate legal entities: Universal Coal Development IV (Pty) Ltd (UCDIV) and Universal Coal Development VII (Pty) Ltd (UCDVII). Amalgamation of these entities was completed in 20 September 2018 and the Project has now been legally combined as one entity, Universal Coal Development IV (Pty) Ltd (UCDIV).

Universal Coal holds a 49.0% interest in UCDIV, with the remaining 51% interest held by Ndalamo Resources (Pty) Ltd, a South African Broad-Based Black Economic Empowerment (B-BBEE) registered company.

UDCIV is the registered holder of NCC.

NCC has a long-term offtake agreement with a global trader for the supply of 650,000 t/a of premium export quality thermal coal (6,000 kcal, 15% ash) to 2021. This material is exported through the RBCT.

In addition, NCC has a CSA with Eskom for the supply of 1.2 Mt/a (amended to 1.6 Mt/a) of thermal coal over 7 years to the local power generator with first delivery from the second quarter in FY2017. This contract has to produce coal at approximately 21.5 MJ/kg and is compensated in a price per Megajoule delivered. The contract duration is until 2023 and the coal is delivered to the power station by truck, which is managed by the mine, but paid for by Eskom. The CSA has undergone some addenda to account for volume and quality variation, as the different power stations each require different specifications.

NCC is supported by the following material contracts:

- An underground mining services contract dated 19 June 2019 with Boipelo Mining Contractors for the mining of the 2L Seam using mechanised bord and pillar extraction with conventional drill and blast where required
- An opencast mining services contract with Inayo and Andru Mining for the exploitation of the open pits

- A contract for plant modifications and upgrade to the existing coal processing facility at NCC dated June 2016 with Ingwenya Mineral Processing (Pty) Ltd encompassing design, build and operate aspects of the NCC processing plant
- Various equipment and coal transportation agreements with eight logistics/ transportation companies.

3.2 History

NCC is one of the oldest collieries in South Africa, having been worked on an intermittent basis since 1949 and in operation up to 2013, before being placed on care and maintenance by Exxaro. NCC has been subject to various exploration programs by numerous mineral exploration and mining companies from the middle of the last century to 2014. Historically, a total of 872 holes (42,124 m) were drilled, including 82 holes completed by Exxaro between 2008 and 2014, aimed at improving the confidence level of the defined coal Resources from Indicated to Measured, delineate new resource blocks and prepare the planned resources for mining. In 2013, Exxaro submitted an application to convert the mining rights at NCC.

In February 2014, the Company announced its intention to acquire NCC from Exxaro, a transaction that was ultimately completed in August 2015.

During the December 2014 quarter, the Company announced plans for the commissioning of a bankable feasibility study at NCC and Roodekop.

In mid-April 2015, the Company announced upgraded reserves and resources at NCC and Roodekop.

In September 2015, the Company reported that preparations for the consolidation of Roodekop and NCC Mining Rights were in progress.

In August 2016, the Company commenced the refurbishment of the CHPP at NCC with the start of processing thermal coal in September 2016. The Company was in negotiation with Eskom and other partners for off-take agreements.

In November 2016, the Company announced that it had executed a 7-year coal supply agreement with Eskom. Under the agreement, Universal would deliver to Eskom 1.2 Mt/a of domestic thermal coal sourced primarily from the Roodekop deposit.

In January 2017, the Company reported that it has begun open pit mining at NCC, after securing a 5-year, 650,000 t/a export contract. The underground mine began in September 2016 and was set to reach annual nameplate capacity of 900,000 Mt/a of primarily 6,000 Kcal thermal coal by the end of the first quarter of 2017.

In late April 2017, the Company reported an update on its coal reserves at NCC. A life-of-mine production schedule targeting a 2.7–3.15 Mt/a production rate over a 22-year life-of-mine was generated for NCC based on the reserves update.

By June 2017, the Company had been granted a Section 102 authorisation to amalgamate the NCC and Roodekop mining rights. NCC's production history since the recommencement of mining in 2017 is summarised in Table 3-1.

Table 3-1: NCC Production History since 2017

	2017 FY	2018 FY	2019 FY
ROM (t)	763,892	3,673,712	2,993,850
Plant Feed (t)	1,681,351*	3,278,141	4,173,393
Domestic Saleable (t)	209,696	1,373,028	1,699,892
Export Saleable (t)	329,999	766,633	614,209

Source: S&P Global Market Intelligence, Universal Coal

Note: *includes 872,425 t of historic low-grade stockpiled coal.

For the half year ended 31 December 2019, NCC produced 1,952,667 t ROM, 2,243,313 t plant feed and 928,150 t saleable thermal domestic coal and 264,998 t saleable thermal export coal.

3.3 Coal Resources and Reserves

Table 3-2 presents the NCC Coal Resources and Coal Reserves as at 30 June 2019.

Table 3-2: Summary of NCC Coal Resources as at 30 June 2019

Project	Reserves (Mt)		Resources (Mt)				
	Proved	Probable	Measured	Indicated	Inferred	Total	Attributable
NCC	48.19	6.61	88.82	41.82	6.03	136.67	66.97

The following cut-off parameters were applied to define the main Coal Resource area:

- Seam thickness >0.5 m
- A stripping ratio of ≤4:1 BCM of waste material per tonne of coal was used to demarcate the opencast and underground resource areas.

No quality cut-offs were applied. The following cut-offs to determine the mineable Coal Resources were used:

- A restriction to the 1:100-year flood line along the river
- The stripping ratio of ≤4:1
- Minimum seam thickness of 0.5 m for opencast areas and 1 m for underground areas.

In SRK's opinion, a 1 m seam thickness is too thin to be practically mineable underground and a minimum mining height of 1.8 m should be used to accommodate thin seam mining equipment. This would reduce the mineable resources, particularly in Block RPUGS2, where the 2L Seam and the 1A Seam rarely attain thicknesses in excess of 1.8 m. In addition, SRK is of the opinion that the data density in this block is insufficient to classify the Resources as mainly Measured (using the criteria applied by Universal Coal in the remainder of NCC); most of the block should be classified as Indicated.

The cut-off parameters and the associated values for the opencast areas are appropriate for the type of deposit, mining method and saleable products.

The presently defined Coal Resources well exceed the Coal Reserve estimates and the plan below provides an indication of the underground and opencast split. In SRK's opinion, the Coal Reserve estimate is likely to be conservative. The typical coal quality is characterised by the 2L Seam being of good quality and can potentially be made into an export grade coal. The balance of the coal seams are mostly suitable for the domestic market at around 20–21 MJ/kg. This is achieved by selective mining and beneficiation.

Raw coal qualities for the NCC Resource areas are summarised in Table 3-3.

Table 3-3: Summary of raw seam qualities in NCC opencast Coal Resource areas (air dried)

Aspect	IM (%)	Ash (%)	Relative Density (t/m^3)	VM (%)	CV (MJ/kg)	TS (%)
Average opencast	2.5	31.7	1.63	21.8	20.3	0.91
Average underground	2.2	33.3	1.65	21.5	20.0	0.82

Source: Rantao (2019)

The products currently produced match the RB1 specification and are easily sold and the Eskom-quality product matches several of the nearby power stations' requirements, such as Arnot, Kriel, Kusile and Kendal.

Table 3-4: Product quality by type

Air Dried Basis	Thermal Export	Domestic
Inherent Moisture (%)	2.31	2.31
Ash (% ad)	15.57	39.2
Volatiles (% ad)	29.27	20.2
Sulphur (% ad)	0.73	0.83
Calorific Value (MJ/kg) GAR	27.78	21.0

Source: NCC schedule. xls

3.4 Mining

At NCC, the opencast areas are divided into two pits, namely the Middeldrift and the Roodekop areas.

Both pits expose the 4L, 2U, 2L, 1 and 1A seams in terrace-type mining benches that extend from the mining boundary to within 100 m of the Steenkoolspruit River. This is within the permitted requirements. Each terrace is designed to be a nominal 40 m in width and access is from a highwall ramp. The waste material at the lowest bench is dozed over into the void and the material from the upper benches is moved using 100 t excavators and 100 t trucks around the pit to the spoil area in the last void. As the coal is mined, it is done so in layers that separate the qualities between coal that can bypass the beneficiation process and coal that has to be beneficiated. The 2L coal is selected as the primary coal for beneficiation to the export product.

The coal is selectively placed at the ROM area, where it is sent in selected batches to the plant. The domestic coal is placed into pre-qualified stockpiles from the mix of the raw and beneficiated coals, as well as the secondary coal wash of the export discards.

Underground mining at NCC is a conventional bord and pillar layout with 6 m bords and a pillar size of approximately 6 m. The mining height ranges from 1.8 m thick to approximately 2.5 m and is mined by a contractor, Boipelo Mining Company (Pty) Ltd. The panels are designed to a safety factor of 1.6 and the section is quite shallow for underground mining (70 m) but is definitely deeper than the shallow mining guidelines. There is potential for pillar extraction at the completion of the mining as the geotechnical conditions are good, but this is not included in the mine planning for valuation purposes. The production schedule is presented in Table 3-5.

Table 3-5: NCC production schedule

Physicals	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Total Waste (BCM)	10,806,256	11,412,494	13,441,744	13,110,109	13,064,173	10,865,795	11,020,649
Total ROM (t)	4,299,480	4,505,201	4,519,132	4,703,146	4,651,200	4,104,002	4,195,204
Saleable Production (t)	2,910,644	3,090,143	3,038,090	3,236,069	3,138,995	2,885,017	2,857,728
Eskom (t)	1,622,199	1,943,755	1,827,969	1,932,267	1,948,972	1,701,951	1,640,867
Phase 9 (t)	129,630	0	0	0	0	0	0
Export (t)	1,036,591	1,018,317	1,081,653	1,170,103	1,057,800	1,066,400	1,097,601
Filter Press (t)	122,224	128,072	128,468	133,699	132,222	116,667	119,259
Other Discard (t)	600,000	600,000	600,000	600,000	600,000	600,000	600,000
Yield (%)	67.7	68.6	67.2	68.8	67.5	70.3	68.1

Physicals	FY27	FY28	FY29	FY30	FY31	FY32
Total Waste (BCM)	11,185,869	9,628,599	9,739,408	8,999,963	8,893,149	604,381
Total ROM (t)	4,651,205	4,435,633	4,500,000	3,600,000	3,600,000	2,500,000
Saleable Production (t)	3,113,415	2,853,644	2,853,644	2,282,915	2,282,915	1,585,358
Eskom (t)	1,772,293	1,526,236	1,526,236	1220,989	1220,989	847,909
Phase 9 (t)	0	0	0	0	0	0
Export (t)	1,208,900	1,201,315	1,201,315	961,052	961,052	667,397
Filter Press (t)	132,222	126,094	126,094	100,875	100,875	70,052
Other Discard (t)	600,000	600,000	600,000	600,000	600,000	600,000
Yield (%)	66.9	64.3	63.4	63.4	63.4	63.4

Source: Company Management Information

Some capital costs are envisaged in the short term although this is considered under the mining contract. For the underground, upon commencement of mining at the 1A Seam, some capital will be required for development to create access to the seam, which should not be more than ZAR30 M.

Table 3-6 outlines the mine operating costs based on the volumes costed at the contracted rates and where necessary scaled to the actual sales product yields. Universal Coal's financial model continues to 2031, as per the volumes scheduled in Table 3-5.

Table 3-6: Mining costs for NCC based on life-of-mine plan (ZAR M)

Parameter	Units	2020
Mining Cost	ZAR/t ROM	214.58
CHPP	ZAR/t ROM (Feed)	52.91
Product haul & Train Loadout + port and rail	ZAR/t Export Product	240.50
Other	ZAR/t ROM (Av.)	55.08

Source: Company Management Information

These costs will have exposure to both the export and domestic market products and hence the high rail, vessel and road transport costs that are not refunded.

3.5 Processing

The process plant operation is based on a Build, Own, Operate, Transfer (BOOT) contract with Ingwenya Mineral Processing (Pty) Ltd. The coal is processed using:

- Crushed and screened raw in the WM18 plant and sent to Eskom slew stockpiles
- PCI plant, which is a DMS plant using a 3-product[1] cyclone, the first stage produces the API4 product which is sent to a plough stockpile. The middlings plant is sent to an Eskom slew stockpile to mix with raw coal.
- Module B is a single DMS cyclone that produces RB3 export product.
- All products are sampled using automatic samplers as they pass onto their stockpiles. Product quality is continually recorded and monitored, and quality adjustments are made as required.
- Each finished stockpile for Eskom product is pre-certified in accordance with an agreed Coal Quality Management procedure. This includes Eskom representatives on site, 'spotters' and analysis of samples at mine and Eskom laboratories, with procedures in place to handle disputes.

The production from April 2018 to March 2019 averaged 375,000 t/m and the yield averaged 55%. The planned production averages 70.6% yield and peaks at just over 400,000 t/m. The CHPP service agreement with Ingwenya Mineral Processing (Pty) Ltd is all-inclusive, except for the provision of additional mobile machinery, as required. At a feed of 70,000 t/m to WM18 and 260,000 t/m to DMS this equates to ZAR21.95/t feed.

3.6 Infrastructure and services

The NCC mine plant area is serviced with the normal power and water requirements for the plant area as it was historically an operating site. The infrastructure for surface water management and pollution control is all in place, as well as the discard management. The existing offices at the plant area are in good condition and, at the underground area, sufficient workshops and change houses etc. are provided by the mine. At the opencast areas, the offices and workshops are provided by the contractor.

The other key underground infrastructure such as fans, mine shafts and conveyors are all provided.

Rail entitlement is required for the export coal product and is provided by the marketing agent. The export product is trucked to a rail siding at VanDyks drift and loaded into the train with FELs in batches of 8,500 t per train. This translates to approximately 2 trains per week.

Entitlement to RBCT is provided by the marketing agent and the costs recovered accordingly. The agent is a member of the coal terminal so has the ability to move large volumes. The Quattro facility is also available at RBCT for use but is more expensive than the marketing agent's facilities. The Quattro entitlement is approximately 250,000 t/a, which is not sufficient.

[1] The coal products at NCC are a combination of potential products dependent upon what the export coal prices are and the requirements of the agent who is selling the coal. The first major target is the supply of the Eskom grade coal which is derived from a selection of the seams in the opencast pits with selective beneficiation to mix back with unbeneficiated coal to target the power station quality required in the supply contract. The potential export coal is a target from the underground operation and is beneficiated into either the API4 specification (6,000 Kcal) and a secondary wash on the discard for coal that can be added back to the Eskom product. The alternative is to process the coal at RB3 specification (5,400 Kcal), which has a higher yield (and lower price) but has no ability for a secondary discard wash. An arbitrage exists dependent upon the price as to which export product is produced. There is a third possibility and that is the production of the 4,800 Kcal product, but this is in direct competition to the Eskom coal being supplied, so is not often produced. As most of the marketing is via an agent, they also may express preferences on the export grade to be produced as they may be blending it with coals from other sources. In summary, the current targets are two products, Eskom and API4 exports as that yield the best revenue but other combinations are possible.

3.7 Permitting and environment

Environmental aspects of NCC (including the mines, associated coal processing facility and support infrastructure) are administered primarily under an EMP (dated August 2016) and authorised on 23 March 2017 by DMR. The document is a consolidation of previous EMPs and extension of the existing Roodekop mining area and aligns with the consolidation of Mining Rights on 31 March 2017. The mine has also obtained the following approvals:

- Integrated Water Use Licence (IWUL), originally granted to mine on 1 October 2010 and amended on 7 March 2017
- Integrated Water Use Licence (IWUL) for Roodekop, granted on 26 September 2014, which approves mining activities within 100 m of the Steenkoolspruit watercourse
- Land re-zoning application approved by the Emalahleni Local Municipality on 22 March 2017.

A formal presentation by the operation indicates that Roodekop mining activities have been awarded a waste management licence.

Other approvals

Mining and related operations at the NCC operation are regulated under a range of other environmental (and related) legislation, including (but not limited to):

- *Section 46 of the MPRDA* requiring an SLP.

Management system

Environmental aspects regulated under the environmental authorisations and other statutory approvals are generally managed under the auspices of the company's SHE management system that is being implemented. NCC plan to have its management system formally certified in terms of ISO 14001 and 45001 standards. The SHE management system is implemented by dedicated safety and environmental managers who report to the Mine General Manager.

The Environmental Manager oversees regular environmental monitoring, reporting and internal auditing. Where necessary, suitably qualified consultants will be appointed to undertake tasks to ensure that the operation's legal commitments are met. The mine has reportedly established monitoring and reporting systems covering key environmental aspects; however, this documentation was not made available for review.

Compliance status

Based on a review of the findings of the most recent external environmental audit report of the approved EMP, conducted in February 2019, it is evident that the mine was generally compliant with its environmental conditions. Non-compliances highlighted issues related to the management of water and waste. The maintenance of PCDs to avoid spillages, as well as demolition of redundant structures as per the rehabilitation plan, were noted.

Based on a review of the findings of an external audit of the water use licence conditions conducted in November 2018, it is evident that the mine achieved a relatively high level of compliance with the 154 licence conditions, considering that 79 of these conditions were deemed to be non-applicable to the current mining operation. The operation was calculated to be 84% compliant. Key areas of non-compliance related to incident reporting, maintenance of equipment and measuring water quantity at areas specified in the licence. The auditor however recommended that the WUL be amended to change conditions to reflect changes on the ground.

Overall, the external audits were indicative of an adequate level of environmental control, with no conspicuous evidence to suggest that the operation is having significant adverse impacts on the environment. Given this is largely a management issue, as opposed to a critical flaw, this risk does not need to be reflected in the financial model at this stage.

Social Licence to Operate

In terms of Section 46 of the MPRDA, a mining operation is required to submit an SLP as part of the mining right application. An SLP contains a 5-year plan detailing how the mine will encourage, amongst other commitments, local procurement, local recruitment, employee skills development and local economic development projects. A mandatory yearly SLP report must be submitted to DMR to track progress of commitments and a new SLP has to be submitted every 5 years to DMR for approval. The operation has a consolidated SLP for the period 2016 to 2021 covering two mining right areas and submits annual SLP reports to DMR. The total financial provision for the 5-year SLP is ZAR7,700,000.

According to mine personnel, there is ongoing stakeholder engagement and grievance management at the NCC and RC operations. This is used to proactively identify and address any social issues that can escalate into labour or community unrest and potentially impact the sustainability of the operation.

The 2019 update to the closure cost assessment (Digby Wells, June 2019) is done in accordance with the requirements of the MPRDA and NEMA as amended, which provides that the holder of a mining right must make full financial provision for rehabilitation of negative environmental impacts. The report and its associated costing have been based upon the DMR guidelines set out by the 2005 'Guideline Document for the Evaluation of the Quantum of Closure-Related Financial Provision Provided by a Mine'. The guidelines outline the methods for infrastructure removal and rehabilitation required for closure.

The total cost for rehabilitation and closure of the NCC and RC operation is estimated at ZAR141,207,615 (incl. VAT), an increase of ZAR 31,711,869 (or 29%) since the previous estimate in 2018. The increase in the size of the Roodekop open pits, soft and hard dumps, the establishment of a new pit (Andru`s pit) and the reopening of the underground access at NCC have contributed 43% of the cost increase. The other increases in costs can be attributed to additional plant infrastructure and general rehabilitation, which includes cleaning up of disturbed areas. The financial provision is allocated as follows: NCC – ZAR56,693,836; Roodekop – ZAR60,316,465; and Diepspruit – ZAR24,197,314.

A contingency of 10% on all infrastructure costs has been allowed. A 6% allowance has been included for project management fees. These fees account for the costs required to manage the closure and rehabilitation phase as well as provide personnel to monitor and maintain the rehabilitated areas after closure. It should also be noted that the DMR methodology includes VAT at 15%. A GuardRisk Financial Guarantee was lodged on 27 April 2017 for ZAR149,397,987.16.

The rehabilitation estimate appears to satisfy current requirements and the sums nominated for rehabilitation and closure activities are generally consistent with the magnitude of costs that would be expected for the type of disturbance observed at NCC operations and the proposed rehabilitation land uses. The estimate could however be lower than the actual liability for the existing operations, particularly when there are likely post-closure water management requirements.

The mine has established itself as a domestic producer with some export potential and should continue for the next 15 years comfortably. The mine also has a large resource base compared to the reserves and needs to find ways to get these resources to account within the next 15 years.

The NCC operations hold valid environmental permits for its current mining activities and appears to substantially comply with permit conditions.

The current estimate of financial provisioning required for mine rehabilitation and closure appears generally adequate but should be reviewed in the relatively short term to take account of imminent changes to South African policy and the regulatory framework around mine rehabilitation.

3.8 Risk and opportunity

The mine life is limited by the existing Eskom contract of 7 years. This coal resource is central to many power stations that will require this coal until 2032 so the risk is relatively low. The Eskom coal is unlikely to make an export product and be profitable, so the risk of competing sources is high. The colliery has established itself as a consistent and quality supplier to Eskom so it should receive repeat business. Obviously, the mine having a plant and underground mining consumes a fair degree of electricity and the projections of the future tariffs exceed inflation. Thus rising working costs could affect the overall profitability but the risk of it causing a closure of the mine is low.

3.9 Preferred valuation scenario

SRK has considered various production scenarios to determine the most appropriate for use in Deloitte's valuation under the income approach. The preferred production scenario is based on the currently stated Coal Resources as reported in accordance with JORC Code (2012). Due to the time constraints associated with this evaluation, mine physicals were derived through a combination of an Excel exercise and the LOMP physicals developed previously by third-party consultancy. In the future, SRK recommends mine scheduling is conducted using appropriate mine planning software. In conjunction with selection of the nominated pits, high-level first-pass pit values were calculated to define the sequencing of pits. The underground plan is also a schedule from the 2016 competent person's report on the equipment parameters and productivities, which SRK considered achievable.

SRK's preferred scenario for valuation purposes includes a LOMP of 4 Mt/a, mining a total of 54 Mt over a life of 15 years. In SRK's opinion, this mine plan is practically achievable pertaining to sufficient working room and equipment selection.

The mine has finished the discard dump and this has been replaced by the Middeldrift open pit, which provides additional capacity of around 4 Mt/a ROM on average. As noted, the sales yield has historically been around 65%.

SRK's preferred operating costs are set out in Table 3-6 above.

For SRK's adopted Preferred Case scenarios, the rehabilitation and closure cost for NCC is estimated to be ZAR 24 M.

4 North Block Complex

Universal Coal's North Block Complex (NBC) is located near Eskom's Arnot power station approximately 215 km east of Johannesburg, 90 km east of Emalahleni and 5 km west of Belfast.

NBC is an operational opencast mining and coal processing operation consisting of the Glisa and Eerstelingsforntein mines (with related infrastructure) and the undeveloped Paardeplaats Prospecting Right (adjacent to the Glisa operating mine) which is now secured under a Mining Right. The primary operation is the Glisa mine, a multi-seam opencast mining operation, centred on two pits (Blesbok and Block A) and historical underground mining areas. There is a single pit at Eerstelingsfontein and an onsite crush and screen plant, producing thermal coal. The Paardeplaats Project is located adjacent to the NBC Colliery.

Prior to its acquisition by Universal Coal in 2018, NBC had been averaging run-of-mine production of approximately 3.5 Mt/a ROM with sales of approximately 2.7 Mt/a. Historically, the majority of mined coal was sold to Eskom for power generation with small volumes of higher valued sized product sold to domestic traders. Mined coal is partially beneficiated, with final products being a blend of both washed product and crushed raw coal.

The NBC coal processing infrastructure consists of a DMS coal beneficiation plant and four crushing and screening plants, a water treatment facility and a rail siding offering linkages to RBCT and Maputo. A reverse osmosis water treatment plant is also in operation. Electricity is supply via 11 kV overhead powerlines from Middelburg.

Upon acquisition of NBC, Universal Coal announced its intention to convert to a multi-product operation with the gradual inclusion of the adjacent Paardeplaats section, thus increasing exposure to higher margin export markets.

4.1 Ownership and tenure

NBC comprises three granted Mining Rights covering a combined area of 2,742.8147 ha, as outlined in Appendix C.

Universal Coal's interests in NBC are held through its wholly owned subsidiary, Universal Coal and Energy Holdings South Africa (Pty) Ltd, which in turn holds a 49% interest in North Block Complex (Pty) Ltd (NBCPL). The residual 51.0% interest in NBCPL is held by Ndalamo Resources (Pty) Ltd, a South African registered B-BBEE company. NBCPL is the registered holder of the NBC Mining Rights. NBC has a short-term offtake agreement (January to April 2020) with Glencore International AG for the supply of 164,000 t of export quality thermal coal (5,850 net as received (nar) min, 15% ash max).

In addition, NBC has a CSA with Eskom for the supply of 0.78 Mt/a of thermal coal at an expected CV of 20.7 MJ/kg on an As-Received basis, which is due to expire in 2020 as the Eerstelingsfontein reserves are depleted. Universal Coal is currently in negotiations with Eskom relating to the Paardeplaats resource area.

NBC has the following material contracts in place:

- Mining services agreement with Andru Mining (Pty) Ltd at the NBC open pits and with Legare Mining Services (Pty) Ltd at Eerstelingsfontein
- Processing agreements with Fraser Alexander (Pty) Ltd and B & E International (Pty) Ltd for crushing, screening and materials handling at Main plant and Arnot plant respectively
- Coal transportation agreements with two local logistics companies.

4.2 Local geology

NBC is located proximal to the eastern edge of the Witbank Coalfield. All five seams of the Witbank Coalfields are present, although the 5 and 1 seams are only sporadically developed. NBC extracts the 4U, 4L, 3, 2U, 2L and 1 seams. In the Paardeplaats section, the 2L Seam is split into an upper and lower portion, while only the 2 Seam is developed in the Eerstelingsfontein section.

4.3 History

According to Exxaro (2015), NBC has a long exploration history with available records suggesting mining commenced at NBC in the early 1900s to supply coal to Paul Kruger's railways. The mine has been owned and operated by various entities over the intervening period, of which Gencor, Savage, Lovermore, Trans-Natal and BHP Billiton are known, with the most recent owners being Exxaro and Eyesizwe Coal (Pty) Ltd, respectively.

Until 2006, the colliery was an underground operation, focussed on exploiting a 'select' portion of 2 Seam. Opencast mining commenced in 2006, extracting the full complement of Witbank Coalfield seams and reclaiming seam 2 select that remained in the underground pillars. In 2013, Exxaro started the conversion process for the Mining Right and completed drilling programs on the NBC.

Eerstelingsfontein was in the development stage until October 2014, when the integrated water use licence (IWUL) was reinstated. Mining activities commenced, with first production in March 2015 and continued to February 2018, when production was ceased. Production recommenced in March 2019.

The current NBC geological model is based on 111 diamond drill holes completed between 2009 and 2019. Eerstelingsfontein's geological model is based on exploration drilling of 76 diamond holes completed in 2007 whilst Paardeplaats is based on 115 diamond holes. A pre-feasibility study was completed for Paardeplaats in late 2016.

In March 2018, Universal Coal's subsidiary company entered into a sale and purchase agreement with Exxaro for the acquisition of the assets comprising NBC. In August 2018, the South African Department of Mineral Resources granted ministerial approval in terms of Section 11 of the *Mineral and Petroleum Resources Development Act* for the ownership transfer of Glisa and Eerstelingsfontein Mining Rights to Universal Coal, with full incorporation into Universal Coal effective on 1 November 2018. Since November 2018, NBC has produced approximately 2Mt ROM and 1.78 Mt domestic saleable coal.

For the half year ended 31 December 2019, NBC produced 2,302,883 t ROM, 2,013,028 t plant feed and 1,512,076 t saleable thermal domestic coal and 1,308,517 t saleable thermal export coal.

4.4 Coal Resources and Reserves

Table 4-1 presents the NBC Coal Resources and Coal Reserves as at 30 June 2019.

Table 4-1: Summary of NCC Coal Resources as at 30 June 2019

Project	Reserves (Mt)		Resources (Mt)				
	Proved	Probable	Measured	Indicated	Inferred	Total	Attributable
NBC	48.50	6.46	65.66	17.67	25.38	108.71	53.27

The following cut-off parameters were applied to define the main Coal Resource area:

- Seam thickness >0.5 m.

No coal quality cut-offs were applicable. A discount factor of 55% has been applied to previously mined areas where the remaining pillars are extracted.

The declared Coal Reserves for the existing mines at NBC are low and will be exhausted in 2020; thereafter the focus of ongoing operations will be directed towards establishment of a new opencast operation at Paardeplaats. The Coal Reserves at Paardeplaats have been derived from a Competent Persons Report (CPR) prepared by M. Vertue of Mindset. The schedule used to generate the mine plan was based on the available land ownership (to 2035).

The schedule used to generate the mine plan was based on the available land ownership (to 2035). Subsequently, additional land has been purchased and the additional resources associated with this new area will be valued as remanent resources outside of the mine plan.

SRK considers that there is good potential for the discovery of additional Coal Resources within the southern portion of the Paardeplaats section, where additional drilling is required.

Coal qualities for the Eerstelingsfontein and Paardeplaats sections are summarised in Table 4-2. No raw coal qualities are available for Glisa. Coal product quality information is given in Table 4-4.

Table 4-2: Summary of raw seam qualities in the Eerstelingsfontein Colliery (air dried)

Seam	IM (%)	Ash (%)	RD	VM (%)	CV (MJ/kg)E	TS (%)
2	4.49	14.60	-	23.77	24.6	0.87

Source: Universal NBC Presentation

Table 4-3: Summary of raw seam qualities in the Paardeplaats area (air dried)

Seam	IM (%)	Ash (%)	RD	VM (%)	CV (MJ/kg)E	TS (%)
4U	3.3	38.0	-	19.8	16.9	1.0
4L	3.5	30.8	-	22.3	19.5	1.2
2U	3.2	38.3	-	19.6	16.2	0.6
2L	3.6	24.1	-	22.1	22.0	1.0
1	2.9	31.4	-	26.4	20.5	0.6

Source: Universal NBC Presentation

The main coal quality constraint at NCB is CV but the biggest challenge is the change in the mine's approach to the product mix. To date, the mine has concentrated on producing coal in mining blocks that are mined as cleanly as possible. A small proportion of the coal should be washed, but generally the tonnages of coal washed was higher than originally budgeted due to the lower ROM quality.

Table 4-4: Product quality by type

Air Dried Basis	Thermal	Export
Inherent Moisture (%)	3.67	4.05
Ash (% ad)	24.09	15.00
Volatiles (% ad)	23,80	23.80
Sulphur (% ad)	0.67	0.31
Calorific Value (MJ/kg) GAR	22.14	25.49
Phosphorous (% ad)		

Source: Glisa and Paardeplaats XPAC schedule

4.5 Mining

A simple terrace mine has been designed to expose the 4U and the 2L seams (and where possible the other seams), with the waste being placed in the mined-out strip behind the operation. The pit is laid out from the boundary of the Mining Right up to a 100 m buffer around an existing wetland for the boxcut and the pit advances in a linear fashion forward. There is some dozer pushover in the bottom bench and the balance of the material is carried to the waste dumps by truck (65 t) and excavator (80 t).

The mining is planned to be carried out by a contractor, that will also be responsible for the drilling and blasting, and the coal removal. The coal is moved to the ROM area located in front of the plant area, where the coal is processed into the respective products. The remaining portions in the Glisa and Eerstelingsfontein pits are currently being extracted. No geotechnical risks exist as the highwalls are not steep and the pits are dry of groundwater.

The mine access is through a combination of a highwall ramp and an endwall ramp, which is possible due to the shallow overburden depth. The pit length and shallow overburden allows rapid exposure of the coal and the mine is designed to extract 4 Mt/a of coal at a strip ratio of approximately 2.5 bank cubic metres (BCM)/tonne. This rate at present is matched to the plant capacity, which is currently the bottleneck. This will produce approximately 2.2 Mt/a of Eskom domestic sales and 0.6 Mt/a of the RB3-grade export sales.

The current mining capital costs were associated with the opening of the Paardeplaats boxcut and the establishment of ramps and haul roads, which has now been completed. All remaining capital is planned for the plant, which is directed towards upgrading the washing facility and the need to refurbish the Glisa rail siding to facilitate the exports.

As noted, mining costs are the responsibility of the contractor. These are costed on the unit rates of material moved and its distance, as well as fixed costs. A typical cost structure at a strip ratio of 2.5 is given in Table 4-5.

Table 4-5: Operating cost estimate

Element	ZAR/tonne
Mining costs ZAR/t ROM Feed (inc diesel)	148.53
Plant cost ZAR/t feed	41.3
Product distribution ZAR/t (Eskom and Export)*	169.65
Other Costs (Mgmt fees + staff + SLP)	90.61

Note: *Truck costs for Eskom are recovered from mine gate to power station

4.6 Processing

Under Exxaro, the NBC plant was operated by Fraser Alexander, which installed the existing Parnaby drum, cyclone and spirals plant. The filter press was installed and is operated by Filtaquip.

Seams 4U, 4L and 2U will be assigned to a single-stage wash for Eskom product and Seams 1 and 2L will be washed in a double-stage washing plant to produce a primary export product, with a middlings product for Eskom.

The new process plant operation is based on a BOOT contract with Ingwenya Mineral Processing (Pty) Ltd. The processing facility has two plants.

New stockpiles are being built ahead of the wash plants to accommodate Paardeplats coal. The control of the coal being fed is critical. After the plant new slew stockpiles are being built so that the final qualities are known and comply with the required product qualities, particularly pre-certification of coal for Eskom.

The historical coal production and plant efficiencies have very little bearing on the future. However, the new plant sizing has been examined using a simple model and it has sufficient capacity for the planned mining schedule. Fraser Alexander has undertaken regular efficiency tests across all the plants.

4.7 Infrastructure and services

The mine is an open pit mine serviced by a beneficiation plant, so the typical power service is supplied, together with a limited water supply from the municipality, and the balance of the mine water requirement is from reuse of existing water and extraction from groundwater and surface water. The provincial road passes the mine entrance and the railway siding at Belfast is approximately 6 km away. The current circumstance is that the exports are sharing a siding at the Wonderwater siding, but this will be replaced by the siding at Belfast. The mine offices etc. are of a prefabricated nature on solid foundations and are fit for purpose. The mine has the necessary communications and telephone services. The infrastructure for discard management and control of the truck dispatching for Eskom is all in place.

The rail facility is currently the shared siding due to be replaced by the Belfast siding. This is an FEL siding, which can easily accommodate 16,000 t (2 trains). The mine will be able to load trains both for dispatch to the RBCT terminal and also for dispatch to the Maputo terminal, which is closer. This will be depending upon the relative arbitrage between the options. As for the port, two options are available, namely RBCT and Maputo. Maputo has advantages in distance but is limited to loading Panamax vessels. The marketing agent will ultimately decide on port choice depending if the export coal is blended or sold as a clear RB3-specified product.

4.8 Permitting and environment

The South African legislation requires that extractive operations to obtain mining rights are supported by environmental authorisations and licences. Presently, the main legislation governing environmental and social management include: the NEMA, the MPRDA; the NWA, the NEM:WA and the NEM:AQA.

Environmental aspects of the NBC operation (including the mine, associated coal processing facility and support infrastructure) are administered under separate EMPs for Eerstelingsfontein (approved 12 June 2008), Glisa (approved 6 November 2011) and Paardeplaats (approved 11 December 2018). Environmental authorisations for the expansion of the Glisa operation and construction of a water treatment plant were granted in July 2013 and October 2014 respectively. The mine operations have also obtained IWULs granted on 28 January 2010 (Eerstelingsfontein), 04 October 2015 and amended on 15 August 2016 (Glisa), and 22 February 2019 (Paardeplaats).

A number of environmental authorisation applications and approval and planning processes are still in progress:

- Mining Right and EMP consolidation for Paardeplaats and Glisa
- Authorisation of additional infrastructure at Glisa and Paardeplaats such as pollution control dams, haul road expansion, overland conveyors and clean and dirty water pipelines
- Permitting from South African Heritage Resource Agency (SAHRA) for grave relocation on Portion 30 of Paardeplaats

- Resettlement planning for relocation of farm residents currently living in areas where new infrastructure will be established.

Other approvals

Mining and related operations at the NBC operation are regulated under a range of other environmental (and related) legislation, including (but not limited to):

- *Section 46 of the MPRDA* requiring an SLP.

SLPs have been prepared for the various operations covering the period 2018–2022.

Management system

Environmental aspects regulated under the environmental authorisations and other statutory approvals are generally managed under the auspices of the company's SHE management system. The SHE management system is implemented by a dedicated safety manager and an environmental officer, who report to the Mine General Manager. The company is in the process of obtaining ISO 14001 and 45001 certification, which will commit NBC to continual improvement of their environmental performance.

The environmental officer oversees regular environmental monitoring, reporting and internal auditing. Where necessary, suitably qualified consultants will be appointed to undertake tasks to ensure that the operation's legal commitments are met. The mine has an established monitoring and reporting system implemented by independent consultants, covering key environmental aspects; however, this documentation was not made available for review.

Compliance status

Based on a review of the findings of the most recent mandatory external environmental audit report of the approved EMP, conducted by EOH Legal Services in November 2017, it is evident that the mine is largely compliant (99%) with its environmental conditions, although some environmental performance indicators were only partially complied with and three commitments were found to be non-compliant. In particular, soil management and chemical waste management were found to need attention.

A mandatory external audit in terms of IWUL compliance was conducted by EOH Legal Services on 18 September 2018. It is evident that the mine is mostly compliant (87%) with its IWUL commitments although some performance indicators were only partially complied with and 11 were found to be non-compliant. In particular, water accounting, approved detailed design drawings of water management systems, and approved competent persons, erosion and leak management controls were found to be lacking.

Overall, the external audits made available to SRK were indicative of an adequate level of environmental control, with no conspicuous evidence to suggest that the NBC operation is having significant adverse impacts on the environment. It should however be noted that no information about Waste Management Licenses was made available for review. As the above compliance matters are largely management related, as opposed to critical flaws, this risk does not need to be reflected in the financial model at this stage.

Social Licence to Operate

In terms of Section 46 of the MPRDA, a mining operation is required to submit an SLP as part of the Mining Right application. An SLP contains a 5-year plan detailing how the mine will encourage, amongst other commitments, local procurement, local recruitment, employee skills development and local economic development projects. A mandatory yearly SLP report must be submitted to DMR to track progress of commitments and a new SLP has to be submitted every 5 years to DMR for approval. The 2018–2022 SLP financial commitment for NBC operations is estimated at ZAR26,186,148.

A detailed, approved SLP document for 2018–2022 is available for Glisa operations, and has a total financial provision of ZAR14,896,510. As Eerstelingsfontein is in decommissioning phase and Paardeplaats in development phase, an interim SLP document for 2018–2022 is available for Eerstelingsfontein, with a total financial provision of ZAR2,500,000. The Eerstelingsfontein staff contingent will eventually be employed by the new Paardeplaats operations, which has a total SLP financial provision of ZAR8,789,638 for the period 2018–2022.

According to mine personnel, there is ongoing stakeholder engagement and grievance management at the Glisa, Eerstelingsfontein or Paardeplaats operations. This is used to proactively identify and address any social issues that can escalate into labour or community unrest and potentially impact the sustainability of the operation. Stakeholder relations will need to be carefully managed on the Paardeplaats development project to avoid the risk of community action and demonstrations once the mine is operational.

In July 2019, Digby Wells prepared an updated 2019 Closure Cost Assessment Report for the Glisa Colliery and a separate Closure Cost Assessment Reports for Eerstelingsfontein and Paardeplaats Collieries respectively. The assessments complied with the regulatory requirements encapsulated in the MPRDA. The NCC 2019 closure liability totals ZAR152,800,481. This figure is revised in the Universal Coal 2020 Guarantee Schedule. These reports contain detailed cost estimates and recommendations for the eventual closure of all three operations. In addition, financial guarantees for closure costs have been obtained from GuardRisk for Eerstelingsfontein, Glisa and Paardeplaats Collieries. The proposed post-mining land uses is described as being mainly cattle grazing and native bushland.

Eerstelingsfontein

The 2019 update of the closure planning assessment for Eerstelingsfontein Colliery notes that the area disturbed by surface infrastructure totals 304 ha. As far as could be established from the available documents, concurrent rehabilitation has been implemented at Eerstelingsfontein Colliery. SRK has not independently verified the estimated spatial extents of ground disturbance nor any concurrent rehabilitation that might be in progress.

The cost for rehabilitation and closure of Eerstelingsfontein Colliery according to the DMR methodology and rates is R 26,355,664 (incl. VAT). A contingency of 10% on all infrastructure costs has been allowed for. A 12% allowance has been included for project management fees. These fees account for the costs required to manage the closure and rehabilitation phase as well as provide personnel to monitor and maintain the rehabilitated areas after closure. It should also be noted that the DMR methodology includes VAT at 15%.

A GuardRisk Financial Guarantee for Eerstelingsfontein was lodged on 13 November 2018 for ZAR20,762,185.24. The Universal Coal 2020 Guarantee Schedule notes a shortfall of ZAR13,954,692.

Glisa

The cost for rehabilitation and closure of Glisa Colliery according to the DMR methodology and rates is ZAR92,751,616 (incl. VAT). The 2019 update of the closure planning assessment for Glisa Colliery notes that the area disturbed by surface infrastructure totals 1,013 ha. A contingency of 10% on all infrastructure costs has been allowed for. A 12% allowance has been included for project management fees. These fees account for the costs required to manage the closure and rehabilitation phase as well as provide personnel to monitor and maintain the rehabilitated areas after closure. It should also be noted that the DMR methodology includes VAT at 15%.

A GuardRisk Financial Guarantee for Glisa Colliery was lodged on 13 November 2018 for ZAR298,442,589.78. The Universal Coal 2020 Guarantee Schedule notes an excess of ZAR205,690,973 that will be addressed following a decision on a Section 102 EMP amendment application for Glisa and Paardeplaats.

Paardeplaats

The 2019 update of the closure planning assessment for Paardeplaats development notes that the area disturbed by surface infrastructure totals 123,82 ha. SRK has not independently verified the estimated spatial extents of ground disturbance or any concurrent rehabilitation that might be in progress.

The cost for rehabilitation and closure of Paardeplaats development after one year of development, according to the DMR methodology and rates, is ZAR13,693,201 (incl. VAT). A contingency of 10% on all infrastructure costs has been allowed for. A 12% allowance has been included for project management fees. These fees account for the costs required to manage the closure and rehabilitation phase as well as provide personnel to monitor and maintain the rehabilitated areas after closure. It should also be noted that the DMR methodology includes VAT at 15%.

A Lombard Insurance Financial Guarantee for Paardeplaats development was lodged on 26 October 2018 for ZAR53,276,461.48 compared to the current estimated closure liability after one year of development of ZAR13,693,201. A Section 102 EMP amendment process is presently underway.

The rehabilitation estimate appears to satisfy current requirements and the sums nominated for rehabilitation and closure activities are generally consistent with the magnitude of costs that would be expected for the type of disturbance observed at NBC operations and the proposed rehabilitated land uses. The estimate could however be lower than the actual liability for the existing operations, particularly when there are likely post-closure water management requirements.

NBC mine is just starting the Paardeplaats pit with the basis being an Eskom-based contract coal for two thirds of the sales and the balance being a RB3 grade export coal. The mine has a distance advantage to Maputo that can be exploited.

Similarly, the resource quality is such that the Eskom grade coal could be substituted as the RB3 grade exports should the offtake not be completed. This opens options to increase the export side of the business.

The NBC operation holds valid environmental permits for its current mining activities and appears to substantially comply with permit conditions, with the possible exception of waste management licences. A number of authorisation processes related to grave relocation and resettlement are pending for the Paardeplaats Colliery, which could have implications for capital costs. Studies, documentation and stakeholder engagement required for these and other environmental and social authorisation processes can be very complex and completion of the assessment and permitting process could easily take several years, not including any time associated with third party legal appeals, should they arise.

The current estimate of financial provisioning required for mine rehabilitation and closure appears generally adequate but should be reviewed in the relatively short term to take account of imminent changes to South African policy and the regulatory framework around mine rehabilitation. The rehabilitation provision for the Paardeplaats development in particular should be reviewed depending on development progress.

4.9 Risk and opportunity

The main risk is that Eskom does not maintain the contractual offtake over the next 20 years. The risk on the first 10 years is low but the risk increases as the nearest power stations will reach the end of their lives. The advantage is that the coal may be shifted to the export market, which keeps the overall risk low.

The cost estimates and social implications of the proposed grave relocation and household resettlement processes at the Paardeplaats project should be clearly understood. It is conservatively estimated that the collective cost of these processes can amount to approximately ZAR40 M.

4.10 Preferred valuation scenario

SRK has considered various production scenarios to determine the most appropriate for use in Deloitte's valuation under the income approach. The preferred production scenario is based on the currently stated Coal Resources as reported in accordance with JORC Code (2012). Due to the time constraints associated with this evaluation, mine physicals were derived through a combination of an Excel exercise and the LOMP physicals developed previously by Mindset. In the future, SRK recommends mine scheduling is conducted using appropriate mine planning software. In conjunction with selection of the nominated pits, high-level first-pass pit values were calculated to define the sequencing of pits.

The Preferred Scenario considered by SRK for evaluation purposes, includes a LOMP of 4.0 Mt/a mining a total of 64 Mt over a life of 15 years. The projected sales for the plan are 2.2 Mt/a to Eskom at a 22 MJ/kg target and 0.6 Mt to exports at the RB3 or 25 MJ/kg target. In SRK's opinion, this mine plan is practically achievable pertaining to sufficient working room and equipment selection. The capital required for the upgrade of the plant is ZAR25 M. This includes the refurbishment of the Belfast station.

Table 4-6 presents SRK's recommended operating cost inputs for the Preferred Production Case. These are taken from the original forecast cost in the plan and scaled for the impact of the yield. All estimates were derived from the current contractual rates and the volumes as illustrated above.

Table 4-6: Operating costs – SRK's Preferred Case scenario

Parameter	Units	Rate
Mining costs at strip ratio of 2.5	ZAR/t ROM	148.53
CHPP	ZAR/t ROM (Feed)	41.3
Product haul to Belfast siding	ZAR/t export Product	46.65
Rail	ZAR/t Product export	153.27
Port	ZAR/t export Product	58.2
Overhead	ZAR/t ROM (Av.)	90.61

Source: SRK analysis

The rehabilitation of the property is being carried out concurrently with mining by backfilling the void and the final rehabilitation cost at closure is currently managed using an insurance product for the compliance to the local regulations regarding closure. For SRK's adopted Preferred Case scenarios, the rehabilitation and closure cost for NBC is estimated to be ZAR 1.2 M as outlined in Table 4-6.

5 Ubuntu Colliery

The Ubuntu Colliery (formerly known as Brakfontein) is located 80 km east of Johannesburg, 20 km east-southeast of Delmas, 18 km north of Leslie and some 25 km south of Kangala, providing the option for sharing of processing infrastructure. The colliery is in close proximity to the operating coal mines at Leeuwpan and Stuart Coal, as well as the Kriel, Matla, Kendal and Kusile power stations.

The area is well serviced by roads (including the national highway and R50 provincial road) and rail lines. Delmas is the nearest large population centre with approximately 7,500 people. Delmas is an important railway junction on the Springs to Witbank rail line, a line that connects to the Port of Richards Bay and the RBCT.

The Ubuntu Colliery only recently entered production and therefore consists of a largely undeveloped coal deposit with favourable stripping ratios for open pit mining. The project is fully permitted, and the surface rights have been acquired. The mine plan is based on a contract opencast mining operation supported by crush and screen onsite coal beneficiation. It is proposed that a portion of the ROM coal will be road hauled to the existing CHPP at the Kangala Colliery, which has the capacity to process the low volatile Ubuntu ROM coal, in addition to the Kangala mined coal.

It is expected that the remaining products from Ubuntu will target local power station coals (Kusile power station).

5.1 Ownership and tenure

The Ubuntu Project comprises a single granted Mining Right covering 879 ha, as outlined in Appendix C. Universal Coal Development III (Pty) Ltd (UCDIII) is the registered holder of the Ubuntu Mining Right. Universal Coal holds a 48.9% interest in UCDIII, with the remaining 51.1% interest held by Ndalamo. JCI Mining (Pty) Ltd provide mining services and local contractors provide processing services (crushing and screening). In August 2019, the Company announced that it had entered into a 3-year CSA with Eskom for the annual supply of 1.2 Mt of domestic thermal coal from Ubuntu. The target power station is Kusile at 20.0 MJ/kg specification. This will be achieved by preparing pre-qualified stockpiles from a mix of the 4 and 2 Seam coals at the mine, which are crushed and screened and are then delivered to the power station.

5.2 Local geology

All five Witbank seams are present on the property. The area is underlain by undulating Pre-Karoo palaeotopography including a prominent northwest–southeast ridge of basement rocks and Dwyka Group tillites in the middle of the area. The ridge and uneven palaeotopography has precluded the deposition of the 1, 2 and 4 seams in places and has divided the coal resource. The distribution of the 5 Seam is limited due to present day erosion levels. The best developed seams are the 2 and 4 Seams, with the 4 Seam being split into an upper and lower portion. The lowermost 1 Seam distribution is limited due to the influence of the undulating palaeofloor.

Dolerite sills and dykes are common throughout the area. The sills cause significant displacement of the seams and in places, completely remove the seam, while in others the coal qualities and geotechnical conditions are negatively impacted. Dykes are also common and possible faulting may be associated with these doleritic intrusions. Previous mining in the eastern part of the area indicates numerous dolerite intrusions, and similar conditions are to be expected in the remainder of the area (Denner, 2018).

In general, the seam distribution is patchy, resulting in a number of separate, isolated resource blocks.

5.3 History

Historically, the Ubuntu area was explored by several mining companies including Brakfontein Navigation Steam Collieries, Ingwe Coal Corporation and African Collieries Ltd. In total, these companies completed 93 diamond drill holes over the Ubuntu area (Universal Coal ASX Announcement, dated 09 December 2010).

Between 2009 and 2011, Universal Coal completed 72 diamond drill holes for 3,813.77 m, with a further 39 holes for 1,667.28 m completed in 2012 aimed at delineating high-quality open-pit areas towards the northern and southeastern extents of the area. In December 2011, Universal Coal announced an updated Mineral Resource estimate for Brakfontein and lodged a Mining Right application.

In February 2013, Universal Coal submitted an Environmental Impact Assessment report, which was granted on 16 October 2013, and an application for an Integrated Water use Licence.

In August 2014, the Mining Right for the Brakfontein project was awarded. A pre-feasibility study, initiated in 2013, was the subject of ongoing optimisation and revision prior to completion in December 2014. As a result, the Company announced its maiden open pit Coal Reserve at Brakfontein.

In September 2016, Universal Coal received all licenses required for development, following the granting of a water use licence at Brakfontein.

As at September 2017, the Brakfontein mine was fully compliant and was in the process of negotiating off-take arrangements with prospective users. Development of the mine was expected to begin as soon as a feasible off-take agreement has been concluded.

Following the acquisition of surface rights in April 2019, Universal Coal commenced development of the Ubuntu Colliery. In August 2019, Universal entered into a coal supply agreement with Eskom for the annual supply of 1.2 Mt of domestic thermal coal.

Mining operations commenced in August 2019. During the December quarter, the boxcut was excavated and coal extraction commenced. For the half year ended 31 December 2019, Ubuntu produced 20,356 t ROM.

5.4 Coal Resources and Reserves

Cut-off parameters used for resource estimation are:

- Seam thickness ≥0.5 m for opencast resources and >1.50 m for underground resources
- Depth below surface >30 m for underground areas
- No coal quality cut-offs were applied
- Previously mined areas and areas excluded due to this mining have been excluded from the resource estimates.

The failure to apply any raw coal quality cut-offs has resulted in some seams in some resource blocks falling outside the accepted definitions of coal; i.e. the ash content is greater than 50% (Table 5-3). The location of this coal is not known as raw coal quality plots are not included in the CPR. Thus, it cannot be determined whether these areas are small, isolated pockets that will be mined through in order to extract the coal where the ash content is less than 50%, or whether they are contiguous areas that sensibly would be excluded from mining.

The Company has reported total in situ coal in the project area of 75.8 Mt. However, due to the impact of the dolerite intrusions, associated faulting and sporadic seam development, only small resource blocks can be defined – seven opencast and four underground blocks. SRK is of the opinion that coal outside of these blocks has an extremely low probability of eventual economic extraction and should not be included in the resource estimates for valuation purposes. Table 5-1 reflects SRK's modified resource estimate.

Table 5-1: SRK-modified Ubuntu Coal Resources as at 30 June 2019

Seams	Coal Resource (Mt), on a 100% basis				Attributable to Universal (Mt), 49% basis			
	Measured	Indicated	Inferred	Total	Measured	Indicated	Inferred	Total
5	0.00	1.16	0.00	1.16	0	0.57	0.00	0.57
4U	4.34	1.4	2.9	8.64	2.13	0.69	1.42	4.23
4L	5.24	4.9	0	1.14	2.57	2.40	0.00	4.97
2	8.56	15.8	0.01	24.37	4.19	7.74	0.00	11.94
1	0.51	0.02	0.02	0.55	0.25	0.01	0.01	0.27
Total	**18.65**	**23.28**	**2.93**	**44.86**	**9.14**	**11.41**	**1.44**	**21.98**

Source: modified after Denner (2019)

In total, three pits have been identified at a strip ratio of 3:1. These form the basis of the mine plan and are used to estimate the reserves. Based on its review of the currently reported Coal Resources and Reserves and the associated modifying factors, SRK has modified the publicly reported tonnages for valuation purposes. SRK does not consider there to be any further potential for additional mineable coal within the project area.

The Coal Resources have been separated on a dry ash free volatile (DAFV) cut-off of 23%, to distinguish the heat-affected coal. The DAFV ranges as shown in Table 5-2 indicate that all seams in all areas contain some heat-affected coal. Note that the resource estimates in this report have not been separated on the DAFV cut-off ranges for the raw coal qualities for the Ubuntu resource areas as summarised in Table 5-2.

Table 5-2: Range of raw seam qualities in Ubuntu Coal Resource areas (air dried)

	Seam	IM (%)	Ash (%)	RD	VM (%)	CV (MJ/kg)	TS (%)	DAFV (%)
Open Pit	5	3.7	21.5	1.48	25.3	23.9	0.71	33.8
	4U	2.7 4.0	40.5 – 51.0	1.71 – 1.88	11.0 – 18.0	11.6 – 16.1	0.43 – 1.87	20.2 -37.0
	4L	3.2 – 5.2	24.3 – 30.5	1.50 -1.60	12.6 – 23.7	20.0 – 24.0	0.78 -1.98	19.8 – 31.7
	2	3.8 – 6.6	24.3 – 57.4	1.48 – 1.95	10.5 – 23.7	2.9 -22.9	0.47 – 1.83	17.6 – 35.1
	1	3.2 – 3.7	39.6 – 54.0	1.72 – 1.90	9.4 – 18.9	11.8 -17.2	0.37 -1.27	21.8 – 34.6
Under Ground	5	3.6 – 4.1	23.4 – 50.0	1.50 – 1.79	11.0 – 16.7	12.6 -23.2	0.69 – 0.96	22.8 – 24.9
	4U	3.0 – 5.5	50.7 -52.9	1.83 -2.05	5.9 -15.2	4.1 – 11.7	0.21 – 0.73	20.9 – 32.9
	4L	4.4 – 4.8	26.6 – 43.9	1.56 – 1.81	7.5 -21.2	14.4 – 21.8	0.8 – 1.15	14.8 – 31.0
	2	3.9 -6.1	20.0 – 38.1	1.44 -1.72	10.4 -22.8	17.1 – 23.6	0.65 -1.15	15.7 – 31.5

Source: Denner (2019)

The Eskom contract qualities (Table 5-3) are easily achieved by blending the two main coal seams. The target power station is the Kusile station which can handle the lower volatile material.

Table 5-3: Product quality by type

Air Dried Basis	Thermal domestic
Inherent Moisture (%)	4.0
Ash (% ad)	30.0
Volatiles (% ad)	20.0
Sulphur (% ad)	1.0
Calorific Value (MJ/kg) AD	20.0
Phosphorous (% ad)	

Source: Eskom CSA

5.5 Mining

The three opencast pits have been identified where the strip ratio is below 3:1. These pits are exposed in a terrace mining method to expose the two main seams simultaneously. The material movement and the subsequent crushing and screening is done by a contractor.

The first pit exploited has a shared boundary with the adjacent Vangatfontein colliery and agreements have been struck for Ubuntu to mine out the pillar and share costs. Similarly, the initial boxcut spoils have been placed in the Vangatfontein property by agreement to minimise costs. The overburden in the opencast pits is a little deeper than other collieries and the material is less competent, so precautions need to be taken when operating near highwalls, both from above and below. There is limited water in the ground so there is no risk anticipated from that source. The current mining capital expenditure is still ongoing for completion of the boxcut and the site security. Other than that, the only capital required will be for the road linking pit 3 to the crushing and screening plant later in the life.

Table 5-4 summarises the operating costs at Ubuntu.

Table 5-4: Operating cost estimate

Item	ZAR/Unit
Mining cost (ZAR/t ROM at strip ratio 2.5	193.21
Crush Screen and product stockpile (ZAR/t RoM)	22.17
Road transport (ZAR/t Product)	44.87

5.6 Infrastructure and services

The mine has adequate road infrastructure adjacent to the mine and the power required for the crushing and screening is supplied from a small line, as the consumption is low. The water facilities are using groundwater boreholes and the surface water pollution dams are reused where possible. Potable water and onsite sewage are managed by small modular plants.

5.7 Permitting and environment

The South African legislation requires that extractive operations are to obtain Mining Rights supported by environmental authorisations and licences. Presently, the main legislation governing environmental and social management include: the NEMA, the MPRDA, the NWA, the NEM:WA and the NEM:AQA.

Environmental aspects of the Ubuntu operation (including the mine, associated coal processing facility and support infrastructure) are mainly administered under an EMP approved on 22 February 2017. The mine has also obtained an IWUL, which was granted on 31 August 2016. A waste management licence has not been obtained.

Other approvals

Mining and related operations at the Ubuntu operation are regulated under a range of other environmental (and related) legislation, including (but not limited to):

- *Section 46 of the MPRDA* requiring an SLP.

The SLP is reportedly in the process of being updated.

Management system

Environmental aspects regulated under the environmental authorisations and other statutory approvals are generally managed under the auspices of the company's SHE management system. The SHE management system is implemented by a dedicated safety manager and an environmental officer, who report to the Mine General Manager. ISO 14001 and 45001 ISO certification implementation is in progress and commits the company to continual improvement of its environmental performance.

The environmental officer oversees regular environmental monitoring, reporting and internal auditing. Where necessary, suitably qualified consultants will be appointed to undertake tasks to ensure that the operation's legal commitments are met. The mine has established a monitoring and reporting system covering key environmental aspects; however, this documentation was not made available for review.

Compliance status

Based on a review of the findings of the first external environmental audit report of the approved EMP, conducted by Khalima Consulting and Projects in October 2019, it is evident that the mine is largely compliant with its environmental conditions. Areas found to be non-compliant related to soil management, separation of clean and dirty water and management of hydrocarbons.

A mandatory external audit in terms of IWUL compliance was conducted by Khalima Consulting and Projects in October 2019. It is evident that the mine is mostly compliant (87%) with its IWUL commitments (19 of the 218 commitments were found to be non-compliant). Some performance indicators were found to be inappropriate for the type of activities at the operation and required amendment and revision with the authorities. Key areas of non-compliance related to the development and implementation of a stormwater plan and analysis of samples from monitoring boreholes.

Overall, the external audits made available to SRK were indicative of an adequate level of environmental control, with no conspicuous evidence to suggest that the operation is having significant adverse impacts on the environment. It should however be noted that no information about waste management licences was made available for review. As the above compliance matters are largely management related, as opposed to being critical flaws, this risk does not need to be reflected in the financial model at this stage

Social Licence to Operate

In terms of Section 46 of the MPRDA, a mining operation is required to submit an SLP as part of its Mining Right application. An SLP contains a 5-year plan detailing how the mine will encourage, amongst other commitments, local procurement, local recruitment, employee skills development and local economic development projects. A mandatory yearly SLP report must be submitted to DMR to track progress of commitments and a new SLP has to be submitted every 5 years to DMR for approval.

A detailed, final draft SLP document 201 –2016 is available for Ubuntu operations and it is assumed that this SLP was approved as part of the first Mining Right application. The subsequent SLP (2017–2021) and the SLP external audit reports were not available for review. It is reported that a new SLP is being prepared.

According to mine personnel, there is ongoing stakeholder engagement and grievance management at the Ubuntu operation. This is used to proactively identify and address any social issues that can escalate into labour or community unrest and potentially impact the sustainability of the operation.

Digby Wells Environmental (Pty) Ltd prepared an update closure cost assessment report in June 2019 in accordance with the requirements of the MPRDA and NEMA as amended, which provides that the holder of a Mining Right must make full financial provision for rehabilitation of negative environmental impacts. The report and its associated costing have been based upon the DMR guidelines set out by the 2005 'Guideline Document for the Evaluation of the Quantum of Closure-Related Financial Provision Provided by a Mine'. The guidelines outline the methods for infrastructure removal and rehabilitation required for closure.

The proposed post-mining land uses at Ubuntu are cattle grazing; native bushland; and pit lakes. The 2019 closure assessment update notes that the area disturbed by surface infrastructure totals 1,065 ha. SRK has not independently verified the estimated spatial extents of ground disturbance or any concurrent rehabilitation that might be in progress.

The cost for rehabilitation and closure of Ubuntu Colliery, according to the DMR methodology and rates, is ZAR 26,159,262 (incl. VAT). A contingency of 10% on all infrastructure costs has been allowed for. A 12% allowance has been included for project management fees. These fees account for the costs required to manage the closure and rehabilitation phase as well as provide personnel to monitor and maintain the rehabilitated areas after closure. It should also be noted that the DMR methodology includes VAT at 15%.

The rehabilitation estimate appears to satisfy current requirements and the sums nominated for rehabilitation and closure activities are generally consistent with the magnitude of costs that would be expected for the type of disturbance at the Ubuntu operation and the proposed rehabilitated land uses. The estimate could however be lower than the actual liability for the existing operations, particularly when there are likely post-closure water management requirements.

The Ubuntu operation has just established itself to fulfil the Eskom CSA and a possible extension of this agreement. It has started to manage its cost base by fully recovering coal, where possible, but it needs to complete the evaluation of the coal remaining in the property to be able to potentially expand its supply volume due to the proximity of the mine to Kusile power station.

The Ubuntu Colliery holds valid environmental permits for its current mining activities and appears to comply with permit conditions, with the possible exception of waste management licences.

The current estimate of financial provisioning required for mine rehabilitation and closure appears generally adequate but should be reviewed in the relatively short term to take account of imminent changes to South African policy and the regulatory framework around mine rehabilitation.

5.8 Risk and opportunity

The main risk is the extended CSA contract beyond the current period, but this risk is low due to the location of the colliery.

It is important to maintain all permits and adhere to authorisation and licence conditions to avoid the operation receiving notices from authorities, which could lead to fines or loss of legal licence to operate.

Ongoing grievance management is essential to maintain stakeholder relations thus minimising the risk of losing the mine's social licence to operate.

5.9 Preferred valuation scenario

SRK has considered various production scenarios to determine the most appropriate for use in Deloitte's valuation under the income approach. The preferred production scenario is based on the currently stated Coal Resources as reported in accordance with JORC Code (2012). Due to the time constraints associated with this evaluation, mine physicals were derived through a combination of an Excel exercise and the LOMP physicals developed previously. In the future, SRK recommends mine scheduling is conducted using appropriate mine planning software. In conjunction with selection of the nominated pits, this needs to be done to properly declare reserves on the property.

The Preferred Scenario considered by SRK for evaluation purposes, includes a LOMP of 1.7 Mt/a mining a total of 12.8 Mt over a life of 7 years. The yield on this coal is 100%. This is extracted from three opencast pits. In SRK's opinion, this mine plan is practically achievable pertaining to sufficient working room and equipment selection.

Table 5-5 presents SRK's preferred operating cost estimate.

Table 5-5: Operating cost estimate

Item	ZAR/Unit
Mining cost (ZAR/t ROM at strip ratio 2.5)	193.21
Crush Screen and product stockpile (ZAR/t RoM)	22.17
Road transport (ZAR/t Product)	44.87
Kangala Transport (ZAR/t)	50.00
Other Costs (ZAR/t ROM)	29.00

The rehabilitation is managed with an insurance product to ensure compliance for SRK's adopted Preferred Case scenarios. The rehabilitation and closure cost for Ubuntu is estimated to be ZAR26.12 M.

6 Eloff Project

To date, no commercial mining has taken place at Eloff, with the project being considered as both an opencast mining operation using a truck and shovel configuration and an underground mining operation using a standard modified room and pillar coal mining. Located adjacent to the western boundary of the Kangala pit, the Eloff Project has the potential to offer low-cost expansion of the mine life at Kangala, as well as the potential for additional standalone extensions within the broader project area.

The project is located approximately 65 km east of Johannesburg. The closest population centre to the project is the town of Delmas, located 5 km to the northeast. The town of Springs lies 20 km to the west. The area is accessible through the tarred R555 road that links the towns of Delmas and Eloff. The N12 highway from Johannesburg to Emalahleni passes 15 km north of the area. The project is located proximal to several coal-fired power stations and benefits from excellent road, rail, rail siding and power infrastructure. Eloff is situated adjacent to Exxaro's Leeuwpan Colliery. Delmas is an important railway junction on the Springs to Witbank rail line, a line that connects to the RBCT.

6.1 Ownership

The Eloff Project comprises a single granted Mining Right covering 8,168 ha, as outlined in Appendix C. UDCIV is the registered holder of the Eloff Project. The Company holds a 49.0% equity interest in UCDIV, with the remaining 51% interest held by Ndalamo Resources (Pty) Ltd, a South African B-BBEE registered company. A lease agreement dated September 2019 in respect of agricultural land between Eloff Agriculture and Mining Company (Pty) Ltd and Eloff Farming Enterprises (Pty) Ltd extends to July 2029. The surface rights are owned by Eloff Mining Company (Pty) Ltd (EMC) and they provide some income but also means there is no constraints to potential opencast mining.

6.2 Local geology

The project is located in the western section of the Witbank Coalfield, with similar seams to those found in Kangala; namely, the Top and Mid Seams (interpreted to be correlates of the traditional 5 Seam and the combined 4 and 3 Seams, respectively) and the Bottom Seam (interpreted as the equivalent of a combined 2 and 1 Seams).

The development of the various seam splits is highly complex and varies across the property.

At least two dolerite sills have been intersected during drilling, as well as numerous dolerite dykes, which have negatively impacted parts of the coal resource, either through displacement and/or destruction of the seams or through reduction of the coal qualities.

Environmental constraints due to wetlands and watercourses further complicate the potential resource areas.

6.3 History

According to Exxaro (2015), EMC acquired the Prospecting Rights to the Eloff area from Southern Sphere Holdings Limited in 1984, along with drilling information from 1977 to 1984 consisting of 344 drill holes. In 1988, 54 drill holes were purchased from Coronade. Up to 1999, Broken Hill Proprietary Company Limited (BHP) and Anglovaal Limited (Anglovaal) held a respective 70% and 30% ownership in EMC. In 1999, Anglovaal sold all of its coal rights (including its stake in EMC) to Total Coal South Africa (Pty) Ltd (TCSA). In 2004, BHP Billiton sold shares in EMC to TCSA and Siyanda Resources resulting in a 51%, 29% and 20% shareholding for TCSA, Siyanda and BHP respectively. Between 2007 and 2015, EMC drilled 376 drill holes and acquired 36 drill hole logs from Universal Coal in 2009 from the Kangala area, adjacent to Eloff. In September 2008, Siyanda Resources sold its 29% interest in EMC to Canyon Springs. In May 2015, BHP Billiton sold its 20% interest in EMC to South 32 Limited (South32). In July 2014, Exxaro announced that it had entered into an agreement to purchase TCSA, including the Eloff coal project. In December 2015, Exxaro reported its maiden Coal Reserve and Coal Resource at Eloff. A Mining Right application was compiled for Eloff and submitted in the first quarter of 2017.

In the June 2017 quarter, the Company acquired a 29% stake in EMC from Canyon Springs Investments 80 (Pty) Ltd.

In November 2017, the Company acquired an additional 51% interest in the Eloff Project from Exxaro through the purchase of Manyeka Coal Mines Proprietary Limited.

During the September quarter 2018, the Company acquired the residual 20% interest in EMC from South32.

In December 2018, the Company was granted mining rights and environmental authorisation over Eloff while the final approval of the Integrated Water Use License was awaited, which will be followed by commencement of development activities.

During the year ended June 2019, the Company reported that it was undertaking technical and economic studies to assess the potential for Eloff to extend Kangala's life-of-mine schedule and/or to upscale the operation. While there have been several previous studies to evaluate the potential of the resource as it differed in deposition characteristics to the remainder of the Witbank field, to date no clear commercial case has emerged.

6.4 Coal Resources

In 2011, Gemecs performed geological coal resource modelling of the Eloff Portion immediately adjacent to the Kangala coal mine. The total coal seams were modelling including the middle seams and Bottom Seam, comprising four plies (BA, BB, BC1 and BC2).

In 2016, a Coal Resource estimate was prepared by Exxaro for the entire Eloff property and in November 2018, a Coal Resource estimate was prepared by GEMECs on the Eloff portion that extends into the Kangala Colliery (>0.5 m seam thickness cut-off).

The Coal Resources have not been reported on a per seam basis, but only according to resource categories.

Table 6-1: Summary of Eloff Coal Resources as at 30 June 2019

Category	Coal Resource (Mt), on a 100% basis				Attributable to Universal (Mt), 49% basis			
	Measured	Indicated	Inferred	Total	Measured	Indicated	Inferred	Total
All seams	11.76	265.96	250.57	528.29	5.76	130.32	122.78	258.86
Total	**11.76**	**265.96**	**250.57**	**528.29**	**5.76**	**130.32**	**122.78**	**258.86**

Source: Universal Coal Kangala CPR (2019)

Note: Rounding (conforming to JORC Code) may cause computational discrepancies

In the various reports on Eloff there are no declared Coal Reserves and the best approach is to derive the potential from examining the resources statements and the environmental submission documents to establish a likely tonnage in the Eloff block that is the Kangala extension. This is termed the phase 3 pit in the submission. The estimated resource for the proposed pit is over 90 Mt and the coal seams, in terms of deposition, are similar to the Kangala deposit, which is well known. From this basis, a potential schedule has been developed for the pit 3 coal as an extension to Kangala. Approximately 48 Mt has been scheduled up to 2035, which is well within the resource estimates.

The defined Coal Resources in the entire Eloff area are large and the balance beyond the pit 3 schedule are valued outside of the plan. Based on its review of the currently reported Coal Resources and Reserves and the associated modifying factors, SRK considers the stated global tonnages to be appropriate for valuation purposes.

Additional work is required on the portion of the Eloff Project that is not earmarked for the Kangala Expansion. The exact configuration of the various seam splits, together with their physical and quality characteristics, needs to be fully understood before plans for further exploitation can be developed.

In particular, there is extensive dolerite activity in the area which has affected the coal and more work is required to understand this issue.

Gamba (2019) does not clarify whether the raw coal qualities pertain to the gross tonnes in situ (GTIS) resource estimates or to the mineable coal only. Coal qualities for the total Eloff Resource area, as per Gamba (2019) are summarised in Table 6-2; coal qualities for the resources intended as an extension to the Kangala Colliery are shown in Table 6-3.

Table 6-2: Summary of raw seam qualities in Eloff Coal Resource areas (air dried)

Category	IM (%)	Ash (%)	RD	VM (%)	CV (MJ/kg)	TS (%)
Measured	-	31.26	1.61	21.57	19.58	1.18
Indicated	-	30.52	1.64	20.53	19.31	0.91
Inferred	-	31.19	1.63	19.78	19.1	0.88

Source: Gamba (2019)

Table 6-3: Summary of raw seam qualities in Kangala Expansion area

Category	IM (%)	Ash (%)	RD	VM (%)	CV (MJ/kg)	TS (%)
Measured	3.79	37.73	1.69	17.55	17.17	0.96
Indicated	3.51	39.49	1.68	17.39	16.56	0.99

Source: Gamba (2019)

Table 6-4: Product quality by type

Air Dried Basis	Domestic Thermal
Inherent Moisture (%)	4.0
Ash (% ad)	32.5
Volatiles (% ad)	20.0
Sulphur (% ad)	1.0
Calorific Value (MJ/kcal) GAR	19.5
Phosphorous (% ad)	

Source: Eskom CSA modification 2

6.5 Mining

The mine design for pit 3 is a terrace mining method opening up two strips in the boxcut 40 m wide and then exploiting the seams selectively as is done in the Kangala operation. The initial boxcut is designed in the northern portion of the pit such that it avoids the wetland area and then progresses southwards.

As per the Kangala infrastructure limit, pit 3 is designed to expose approximately 3.0 Mt/a at a strip ratio of 2 BCM/t until 2035. The yields assumed for the coal will be the same as for Kangala.

There will be no constraints in the waste dumping as the boxcuts spoils are a small volume and will be placed in the Kangala mining area. It is expected there will be a seamless exposure between the two operations. Mine access will be from highwall ramps and then, when possible, from the low wall side. Due to low mining heights, there will be limited highwall risk and as waste dumps will be placed in old mined-out areas.

The Eloff block will be washed using the existing Kangala CHPP facility. Based on historical production at the Kangala CHPP section, the existing plant and associated infrastructure should be able to handle the mined tonnages planned.

6.6 Infrastructure and services

All the infrastructure as applied to Kangala applies to pit 3 in Eloff. The key advantage is that all the surface land rights for the area belong to Eloff, so there are no constraints to development. Rail has not been used in pit 3 but in the Eloff block the rail is close to the western portion so, should Eskom require coal on rail, it may be possible for the remainder of the Eloff resource.

6.7 Permitting and environment

The South African legislation requires that extractive operations are to obtain Mining Rights supported by environmental authorisations and licences. Presently, the main legislation governing environmental and social management include: the National Environmental Management Act (NEMA), Act 107 of 1998; the Mineral and Petroleum Development Act (MPRDA), Act 28 of 2002; the National Water Act (NWA), Act 36 of 1998; and National Environmental Management: Waste Act (NEM:WA), Act 59 of 2009; and National Environmental Management: Air Quality Act (NEM:AQA), Act 39 of 2004.

Environmental aspects of the proposed Eloff project, which is situated adjacent to Universal Coal's Kangala Colliery, is administered primarily under an Environmental Management Program (EMP) (dated August 2018) and authorised on 25 April 2019 by DMR. The environmental authorisation was amended on 7 November 2019 following an appeal.

The EMP documentation lists the following six conditions to which the mine development team shall comply:

- Condition 1: The applicant is to undertake an agronomic assessment to inform agricultural potential and options for farming on areas not affected by the mine and related infrastructure.
- Condition 2: The applicant is to conduct a skills survey among the farm workers who may lose their jobs as a result of the mining development.
- Condition 3: The applicant is to create local employment opportunities in the Eloff mining development for those who have suitable skills, and this is to be included in an updated SLP.
- Condition 4: The applicant is to assist with skills training, both ABET as well as SMME business development related to the mining sector, and this is to be included in an updated SLP.
- Condition 5: The applicant is to establish a farm workers trust/company for those affected farm workers who could not be absorbed by the mine to ensure continuation of employment opportunities, and this is to be included in an updated SLP.
- Condition 6: The applicant is to ensure that all applicable NEM:WA listed activities and NWA water uses are applied for separately to the relevant department, and that the relevant licence/ authorisation is granted prior to any activities that trigger these Acts are undertaken.

It is assumed that the applications for a Waste Management Licence and Integrated Water Use Licence are underway as these were not available for review.

Other approvals

Mining and related operations at the Eloff project are regulated under a range of other environmental (and related) legislation, including (but not limited to):

- *Section 46 of the MPRDA* requiring an SLP.

Management system

Environmental aspects regulated under the environmental authorisations and other statutory approvals are generally managed under the auspices of the company's SHE management system. The SHE management system will be implemented by a dedicated safety manager and an environmental officer, who will report to the Mine General Manager. Universal Coal is in the process of obtaining ISO 14001 and 45001 certifications at all its operations, which commits Eloff to continual improvement of its environmental performance.

Compliance

As the Eloff project is in the start-up phase, there was no information pertaining to operational compliance. The mine will establish a monitoring and reporting system implemented by independent consultants, covering key environmental aspects. External audits will be conducted (usually every two years) in fulfilment of the requirements set out in the EMP and conditions of the environmental authorisation.

Overall, the reach of the commitments with the addition of six special conditions are indicative of the mine's intention to exercise an adequate level of environmental control and mitigation measures to minimise the impact on agricultural activities. It is, however, necessary that the cost of implementing the conditions (estimated at ZAR22 M) be included in financial model.

Social Licence to Operate

In terms of Section 46 of the MPRDA, a mining operation is required to submit a Social and Labour Plan (SLP) as part of its mining right application. An SLP contains a 5-year plan detailing how the mine will encourage, amongst other commitments, local procurement, local recruitment, employee skills development and local economic development projects. A mandatory yearly SLP report must be submitted to DMR to track progress of commitments and a new SLP has to be submitted every 5 years to DMR for approval.

A detailed, approved SLP document for 2019–2023 is available for the Eloff development but has not yet been implemented, as the project is still under development. The commitments made in the SLP will need to correspond with the special conditions stipulated in the EMP.

The development of the Eloff Mine has reportedly been resisted by local farmers who will be most affected by the development. Sentiments during the public participation process indicated that affected people are sceptical about the long-term sustainability of coal mining in the area. Stakeholder relations will need to be carefully managed to avoid the risk of community action once the mine is operational.

GCS Water and Environmental Consultants completed a detailed Eloff Mine Closure Liability Report in July 2018 in fulfilment of the regulatory requirements encapsulated in the MPRDA 2002 (Act No. 28 of 2002). The report indicates that the proposed post-mining land uses of the Eloff Mine are likely to include agricultural land, grazing and native bushland. It also notes that the area disturbed by surface infrastructure totals 8,168 ha.

The Universal Coal Guarantee Schedule dated January 2020 indicates a closure cost estimate of ZAR33,262,171.56. There was, however, no further information available relating to the breakdown of these costs, nor whether this figure includes a 10% contingency and 12% allowance for project management fees. These fees account for the costs required to manage the closure and rehabilitation phase as well as provide personnel to monitor and maintain the rehabilitated areas after closure. It should also be noted that the DMR methodology includes VAT at 15%.

A GuardRisk Financial Guarantee for the proposed Eloff Mine was lodged on 17 January 2019 for ZAR 33,262,171.56.

The rehabilitation estimate appears to satisfy current requirements, although a recent 2019 update of the closure cost assessment was not available for review. The estimate is generally consistent with the magnitude of costs that would be expected for the type of disturbance anticipated at the proposed Eloff Mine and the proposed rehabilitation land uses. The estimate could however be lower than the actual liability for the existing operation, particularly when there are likely post-closure water management requirements.

The Eloff resource is large and the current extension to Kangala through pit 3 is only a small part of the potential of this resource. However, some work needs to be completed to fully understand all the issues relating to the deposit.

The Eloff Project holds valid environmental permits for its current mining activities and appears to substantially comply with permit conditions, with the possible exception of a Waste Management Licence and an Integrated Water Use Licence. A number of additional authorisation processes will be required for the full development of the Eloff Project, which could have implications for capital costs. It is estimated that approximately ZAR22 M will be required to address the conditions presented in the EMP report. The studies and stakeholder engagement required for these processes can take several years to complete, not including any time associated with third party legal appeals, should they arise.

The current estimate of financial provisioning required for mine rehabilitation and closure appears generally adequate, provided that provision was made for the special conditions in the EMP or any potential economic displacement and resettlement of farming residents. It should be reviewed in the relatively short term to take account of imminent changes to South African policy and the regulatory framework around mine rehabilitation.

6.8 Risk and opportunity

The cost estimates and social implications of studies and engagement processes presented in the approved EMP for the Eloff operation should be clearly understood. It is estimated that the collective cost of these processes can amount to approximately ZAR22 M.

Future increasing supply for Eskom – there is a large resource base at Eloff which is located in close proximity to the Kusile power station (as well as other surround stations) that require a coal supply. Universal Coal's previous operating history at Kangala, in addition to a large coal source at Eloff, means Universal Coal are well placed as a continued supplier to support any future increased demand from Kusile, as it nears the completion of construction.

The environmental management systems and expertise from nearby Universal Coal (e.g. Kangala) can be utilised at Eloff to minimise costs.

Stakeholder forums set up for nearby existing Universal Coal operations (e.g. Kangala) can be utilised to build good social relations on ongoing permitting processes at the Eloff Project and hence ensure social licence to operate.

6.9 Preferred valuation scenario

SRK has considered various production scenarios to determine the most appropriate for use in Deloitte's valuation under the income approach. The preferred production scenario is based on the currently stated Coal Resources as reported in accordance with JORC Code (2012). Due to the time constraints associated with this evaluation, mine physicals were derived through a combination of an Excel exercise and the LOMP physicals developed previously. In the future, SRK recommends mine scheduling is conducted using appropriate mine planning software to declared Coal Reserves.

The Preferred Scenario considered by SRK for evaluation purposes, includes a LOMP of 3.5 Mt/a mining a total of 48 Mt over a life of 15 years. In SRK's opinion, this mine plan is practically achievable pertaining to sufficient working room and equipment selection.

The main capital costs at Eloff will be establishment of the boxcut and the highwall ramps and the necessary environmental requirements to protect the wetland areas. The haul road to connect into the existing Kangala infrastructure also needs to be constructed.

Table 6-5 presents SRK's preferred operating cost estimate.

Table 6-5: Operating costs – SRK's preferred case scenario

Element	ZAR/t ROM
Mining Costs	108.63
Washing and plant	32.39
Other costs	46.91

The rehabilitation costs are managed through an insurance product to ensure compliance. For SRK's adopted Preferred Case scenarios, the rehabilitation and closure cost for Eloff is estimated to be ZAR33.2 M.

7 Arnot South Project

Universal Coal's Arnot South Project is situated some 50 km east of Universal Coal's NCC Project, 10 km east of the town of Hendrina, 25 km west of Carolina and 40 km southeast of Middelburg in Mpumalanga Province. It is connected by rail line to RBCT via the towns of Hendrina, Carolina and Breyten. Hendrina is the nearest large population centre with approximately 2,400 people.

Two Eskom coal-fired power stations (Hendrina and Arnot) lie within 30 km of the project.

The Project was acquired by Universal Coal from Exxaro on 29 March 2012. The reported coal resources are based on a geological model by Gemecs in 2012 on behalf of Universal Coal.

7.1 Ownership

The Arnot South Project comprises a single granted Prospecting Right (which is pending renewal) covering 15.532 ha, as outlined in Appendix C.

Exxaro is the registered owner of this project, where Eyesizwe Coal (Pty) Ltd was granted the Prospecting Licence in 2006.

In 2012, Universal Coal agreed to acquire a 50% interest in the Arnot South Prospecting Right through its subsidiary company, Universal Coal Development VII (Pty) Ltd (UCDVII), subject to regulatory approvals.

Exxaro owns certain surface rights totalling 1617.168 ha, which were included in Universal Coal's 2012 acquisition. These surface rights are leased to various farmers who use the area for crop farming and grazing. No access agreements exist within the remaining surface owners.

7.2 Local geology

Arnot South is located on the eastern margin of the Witbank Coalfield and is mainly underlain by the coal-bearing Vryheid Formation. The distribution of the coal seams at Arnot South is largely controlled by a central north-northeast to south-southwest trending palaeo-low channel, within the 'Arnot Valley'.

In general, the 5, 4, 3 and 2 seams are present. The No. 2 seam is the main economic seam constituting more than 90% of the in situ coal resource.

The depth to the top of the 2 Seam is determined by the basement low and local surface topography and reaches an average depth of 50 to 60 m within the palaeo-low and a maximum depth of 110 m towards the south of the farm.

Incision by the Vaalwater Spruit and associated tributaries has eroded significant areas of the original extent of the upper coal seams along the edges of the palaeo-low and, in general, the 2 Seam sub-outcrops along incised valleys along drainages, particularly towards the east. The depth to the top of coal in the sub-outcrop areas is typically 10 to 20 m.

The 2 Seam comprises hard, dull to lustrous coal with several bright coal bands and occasional stone partings. The average raw coal calorific value of the 2L Seam varies between 22 MJ/kg and 26 MJ/kg (dry contaminated).

Little is known about the dolerite intrusions in the area. Typically, dykes in this area lack any magnetic signature and are not responsive to magnetic geophysical methods of detection.

A well-developed dolerite sill is present some 15 to 20 m above the 2L Seam in topographically elevated areas to the north and in the central part of the project area. This sill is typically 5 to 40 m thick and has resulted in devolatilisation and minor coal loss where volatiles are <18% (as received). Feeder dykes are expected to occur in the vicinity of the sill.

No information in known about faults, but exploration towards the north (Arnot Mine) indicated that faults with displacement in excess of 2.5 m are rare.

7.3 History

The rights to certain portions of the Arnot South Project were historically held by Goldfields of South Africa. Goldfields conducted extensive exploration drilling in the Arnot South area (then known as the Helpmekaar Project) between 1975 and 1998, with approximately 161 drill holes completed.

In the late 1990s, Goldfields ceded its rights to Eyesizwe (Pty) Ltd, which was subsequently merged with Iscor to form Exxaro. Eyesizwe inherited most of the drilling data and subsequently completed a report based on these results in 1998. Based on this review, Eyesizwe considered only the No. 2 seam was economically viable and offered only very limited opencast potential (stripping ratio less than 5:1).

In 2008, Exxaro drilled 33 boreholes on a 1 km by 1 km grid on the farms, Helpmekaar 168 IS, Weltevreden 174 IS and Vlakfontein166 IS within the central portion of the current Arnot South Project.

Following completion of Universal's purchase, Gemecs was commissioned to develop a geological model and resource estimate based on both the Goldfields and Exxaro data sets.

In 2018, Universal Coal reported that it had completed a feasibility study and submitted a Mining Right application for the Arnot South Project.

7.4 Coal Resources

The full project area is not covered by the geological model, as little to no drilling has been completed in the southern part of the area. The stated resources, therefore, only cover the northern 15 km of the project (approximately 28 km from north to south in total).

Although all five Witbank Coalfield seams are encountered in the project area, only resources for the 4U, 4L, 3 and 2 seams are reported. Due to the reported seam depths, extraction would be by underground methods. The target seam would be the 2 seam.

The cut-off parameters used in estimated the resources are:

- Seam thickness >0.5 m
- No coal quality cut-offs were applied.

Table 7-1: Summary of Arnot South Coal Resources as at 30 June 2019

Seams	Coal Resource (Mt), on a 100% basis				Attributable to Universal (Mt), 50% basis			
	Measured	Indicated	Inferred	Total	Measured	Indicated	Inferred	Total
S4U	0.00	0.00	0.13	0.13	0.00	0.00	0.07	0.07
S4L	0.00	0.42	0.55	0.97	0.00	0.21	0.28	0.49
S3	0.00	6.16	8.00	14.16	0.00	3.08	4.00	7.08
S2	2.28	58.73	130.31	191.32	1.14	29.37	65.16	95.67
Total	**2.28**	**65.30**	**139.00**	**206.58**	**1.14**	**32.66**	**69.51**	**103.31**

Source: Denner (2016)

Note: Rounding (conforming to JORC Code) may cause computational discrepancies

Further drilling in the southern portion of the area is expected to substantially increase the currently defined Coal Resources.

Average raw coal qualities for the Arnot South Resource areas are summarised in Table 7-2. Based upon the in situ quality of the resources, it is likely an export product at the RB3 specification may be extracted.

Table 7-2: Summary of raw seam qualities in Arnot South Coal Resource areas (air dried)

Seam	IM (%)	Ash (%)	RD	VM (%)	CV (MJ/kg)	TS (%)
4U	2.9	18.8	1.48	28.6	26.0	1.15
4L	3.2	15.5	1.45	28.0	26.5	1.10
3	2.9	27.8	1.59	22.8	22.2	0.86
2	3.3	24.9	1.57	22.6	22.8	0.95

Source: Denner (2016)

7.5 Mining and processing, infrastructure and services

No mine or processing design has been undertaken and no infrastructure studies have been undertaken.

7.6 Permitting and environment

The Arnot South project is administered under an Environmental Management Plan that was approved in July 2005. This plan sets out the potential impacts arising from prospecting activities and the measures that will be implemented to avoid, mitigate or manage identified impacts. As part of the Mining Right application, it will be necessary for Universal Coal to apply for environmental authorisation for the mine as well as obtain the relevant licences, e.g. water use license and waste management licence.

The level of compliance with the measures stated in the EMP could not be determined from the available documentation.

There are several land claims registered on a number of the properties that form part of the Arnot South Prospecting Right area. These claims are reportedly still being investigated. While the claims are being resolved, it will be necessary to carefully manage relations with stakeholders in the area.

Exxaro conducted an assessment of the financial provision based on the 2005 EMP in April 2011. This document makes provision for land disturbed by prospecting in terms of Section 54 of the MPRDA. An amount of ZAR40,000 was set aside for rehabilitation. A bank guarantee was issued by ABSA in 2006 for ZAR20,000. It is unclear whether there have been changes to the prospecting activities that warrant an increase in the financial provision.

Arnot South is a moderately sized coal resource that may come to account pending successful outcomes from future evaluation activities to determine the best exploitation plan.

The Arnot South Project holds a valid EMP for its prospecting activities and appears to substantially comply with permit conditions. It is unclear what activities have been conducted since the EMP was approved and whether the rehabilitation of disturbed land has taken place. In the event that rehabilitation has yet to take place, the financial provision will need to be reviewed.

7.7 Risk and opportunity

There are a number of land claims pending on properties that form part of the Arnot South Project. It can take considerable time to resolve these claims, which could delay future plans to mine the area. Proceeding with environmental authorisation processes in a context of unresolved claims may lead to tension and distrust.

8 Berenice/ Cygnus project

Universal Coal's Berenice/ Cygnus Project is located in the Mopane Coalfield, approximately 90 km southwest of Musina and 120 km north of Polokwane in the Limpopo Province of South Africa. The Project area is approximately 50 km by road from the town of Alldays and approximately 30 km by road from Waterpoort. The nearest town is Makhado (formerly known as Louis Trichard) located 50 km to the southeast with a population of approximately 25,400.

Access is via an all-weather gravel road which branches off from the sealed R854 road at Alldays. The nearest accessible railway siding is at Waterpoort. The railway line links the project to the port of Maputo, 680 km away in Mozambique.

The site is generally flat and is situated in the Brak River Valley on the northern flank of the Soutpansberg mountain range.

The region experiences a hot, semi-arid climate and is located in the Lowveld. Summers are hot while winters are characterised by mild afternoons and cool evenings. Temperatures range from in excess of 37°C in summer to 15°C in winter. The area consists of arid bushveld with sporadic summer rainfall (October to March); mean annual rainfall is approximately 490 mm. The nearby Soutpansberg mountains are forested with abundant fauna and flora.

The coal resources at the Berenice/ Cygnus Project were re-evaluated in light of infill drilling results conducted by Universal Coal in 2012. These drill results improved the overall resource confidence and classification of the project and provided data to more accurately quantify the expected coking coal product yields and qualities. A concept study was completed in April 2012 investigating the viability of the project under a contract mining scenario using opencast mining methods (truck and shovel). It was envisaged that the operation was capable of producing a high volatile soft coking coal, as well as a thermal coal product.

8.1 Ownership

The Berenice/ Cygnus Project comprises two granted Prospecting Rights (one in renewal) and a Mining Right application covering a combined area of 18.894 ha in the Limpopo Province of South Africa (refer Appendix C).

Universal Coal holds a 50% interest in the Berenice Project through its subsidiary company Universal Coal Development II (Pty) Ltd (UCDII) with the residual interest held by Bono Lithihi Invts Group Pty Ltd, a South African B-BBEE company.

Universal Coal holds a 50% interest in the Cygnus Project through its subsidiary company Universal Coal Development V (Pty) Ltd (UCDV) with the residual interest held by Solar Spectrum 365 (Pty) Ltd, a South African B-BBEE company.

8.2 Regional geology

The Limpopo Province hosts a number of coalfields, including the Mopane, Tshipise, Pafuri and Tuli Coalfields (formerly known as the Soutpansberg Coalfield) along the northeastern edge of the Kaapvaal Craton.

These coalfields are characterised by intensive faulting and steep dips in places. This has greatly impacted coal distribution dividing the coalfield into numerous irregular sized blocks. In addition, faulting has increased the variability in coal thicknesses and quality due to varying depositional environments.

The coalfields are known to host hard and semi-soft coking coal, but little other quality information is available. Tshikondeni Colliery in the eastern Pafuri Coalfield mined hard coking coal until its closure in 2014. MC Mining's Vele Colliery in the Tuli Coalfield produced a soft coking coal but is currently closed on care and maintenance.

The full Karoo Supergroup is present in the Berenice/ Cygnus area consisting of tillites and diamictites of the Tshidzi Formation (Dwyka Group), which are overlain by the coal-rich Madzaringwe and Mikambeni Formations and the sandstone package of the Fripp Formation, all of which belong to the Ecca Group.

The thickest coal zone in this region is to be found east of Waterpoort, comprising up to nine composite seams separated by carbonaceous mudstone over a stratigraphic interval of about 40 m. A progressive rank increase eastward across the coalfield is evident.

8.3 Local geology

The Bernice/ Cygnus Project is located northwest of Waterpoort in the Mopane Coalfield.

The coal-bearing strata dip shallowly (1.5 to 6 degrees) northwards and are interpreted to have been deposited in a half-graben within the basement (Limpopo Mobile Belt) bedrock, fault-bounded toward the northwest and sub-outcropping towards the southeast. The strata represent Karoo-aged sediments deposited within sub-basins of the main Karoo Basin.

The coal deposits typically consist of bright coal and carbonaceous mudstone associations (plies) forming a series of composite coal zones. Three coal zones are evident and have potential for producing a metallurgical coal from the low-density fraction with a steam coal middlings product.

The Upper Coal Zone lies approximately 12–15 m above the Middle Coal Zone, which in turn is separated from the Lower Coal Zone by close to 35 m of mainly shales and mudstones. The average thickness of the coal plies is 3.4 m for the S02 ply, 1.3 m for the S04 ply, 4.1 m for the S06 ply, 3.5 m for the S08 ply, 2.6 m for the S09 ply, 1.9 m for the S11 ply, 1.7 m for the S12 ply, 2.9 m for the S14 ply, 1.9 m for the S15 ply and 4.7 m for the S18 ply, with a combined thickness of approximately 27 m. Thicknesses are laterally variable, showing a pinching and swelling modality. The bright, vitrinite-rich coal content of the plies increases downwards, with the S06 and S08 plies being the main target horizons for a primary coking product.

8.4 Project history

In 1974, five boreholes were completed on the farm Cygnus 549MS as part of the evaluation of coal deposits by Trans-Natal Coal Corporation, a subsidiary of General Mining & Finance Corporation. No details are available as drilling or assay results. In 1977, Goldfields of South Africa completed two boreholes on the farm Celine 547MS, but limited information concerning this work is available. From 2003 to 2005, Rio Tinto Mining and Exploration carried out work over the area as part of the 'Brak River Block'. At least four boreholes were completed at this stage.

In 2008, Venmyn Rand Consulting conducted an assessment of the project for Pioneer Coal and outlined a gross in situ tonnage of some 127 Mt for three coal zones (A, B and C) on the farm Cygnus 549MS. In 2010, Gemecs reviewed the project on behalf of Universal Coal. Based on limited historical borehole data, a potential coal resource of 122 Mt (gross tonnes in situ) was determined for the coal portions within the farms Berenice 548MS, Celine 547MS and Doorvaardt 355MS. In January 2011, Gemecs updated its estimate to incorporate the farm Cygnus 549MS, outlining a potential indicated resources of 95.5 Mt (gross tonnes in situ) for the coal component from the sub-areas.

In 2012, the Company completed an 80-hole exploration drilling program, which confirmed the present of a 35 to 40 m-thick coal zone in the southern open pit area and resulted in an updated resource estimate of 1.35 billion tonnes (Bt). DRA completed a concept study on the project on behalf of Universal. This study suggested that the project was viable and able to support a sustainable 10 Mt/a (run-of-mine) operation with a life-of-mine (opencast) well in excess of 25 years, producing both primary soft coking and secondary thermal coal products.

In 2016, the Company lodged a Mining Right application and commenced work on the Environmental Management Plan, as well as conducting activities designed to gain the necessary regulatory approvals. The Mining Right was approved in 2018 and an Environmental Impact Assessment commissioned in 2019.

8.5 Coal Resources

Resource areas have been subdivided by interpreted fault boundaries. The cut-off parameters used in estimated the resources are:

- A stripping ratio of ≤3:1 BCM of waste material per tonne of coal was used to demarcate the opencast and underground resource areas.
- No quality cut-offs have been applied.

Denner (2016) reports coal resources for all plies in the Middle and Lower Zone coal; SRK believes the potential for economic extraction of ply S18 is negligible due to its depth below the Middle Coal Zone (± 35 m) and that including the tonnages attributable to this zone is misleading. The estimates below therefore represent the Middle Coal Zone only. Note that volumes of the interleaved mudstone partings are not included in the estimates, which represent coal only.

Note also that the feasibility of extracting these finely interbedded yet thick coal measures in an underground mine while successfully supporting the roof strata is currently technically unproven.

Table 8-1: Summary of Berenice/ Cygnus Coal Resources as at 30 June 2019

Resource Area	Coal Resource (Mt), on a 100% basis				Attributable to Universal (Mt), 50% basis			
	Measured	Indicated	Inferred	Total	Measured	Indicated	Inferred	Total
OC1	277.65	106.85	13.34	397.84	138.83	53.43	6.67	198.93
OC2	9.19	135.53	26.77	171.49	4.60	67.77	13.39	85.75
OC3	0.00	20.40	0.72	21.12	0.00	10.20	0.36	10.56
OC4	50.44	20.13	0.15	70.72	25.22	10.07	0.08	35.36
UG1	66.80	201.31	33.04	301.15	33.40	100.66	16.52	150.58
UG2	2.71	179.54	15.06	197.31	1.36	89.77	7.53	98.66
UG3	0.00	89.55	7.40	96.95	0.00	44.78	3.70	48.48
Total	**406.79**	**753.31**	**96.48**	**1,256.58**	**203.40**	**376.66**	**48.24**	**628.29**

Source: Denner (2016)

Notes:

Rounding (conforming to JORC Code) may cause computational discrepancies.

Zone 18 not considered as part of resource estimation by SRK for valuation purposes as in SRK's view it is unlikely to meet the RPEEE requirements of the JORC Code.

8.6 Mining, processing and infrastructure

A concept study on the project suggested that the project may be viable and can support a sustainable 10 Mt/a (run-of-mine) operation, with a life-of-mine in excess of 25 years, producing both primary soft coking and secondary thermal coal products (Universal ASX Announcement, 30 April 2012).

Any future development will require suitable infrastructure to be established. Rail is within reasonable distance but is not a typical heavy haul line so may have capacity constraints. This would be important in getting material to the domestic power station. In terms of a likely port for export, this could be either RBCT or Maputo, with the issue being the ability to run the RBCT wagons on this non-heavy haul line.

8.7 Permitting and environment

Prospecting Rights were obtained for the Berenice/ Cygnus Project and were reportedly renewed for Berenice in June 2019. A Mining Right application for Berenice was submitted in March 2017. This application comprised an EIA and EMP report.

An environmental authorisation application for Cygnus was lodged with DMR on 29 March 2019. A draft scoping report, which is a key deliverable in the authorisation process, was submitted in March 2019 and aims to also fulfil the requirements for a waste management licence. A water use licence will be applied for following the completion of the environmental authorisation process.

In fulfilment of Section 46 of the MPDRA, an SLP has been prepared for Berenice for the period 2017–2021.

As the Berenice/ Cygnus projects are still in the development phase there are no reports on management and compliance. It is, however, important to note that the sites are located outside environmentally sensitive areas such as the Mapungupwe World Heritage Site and the proposed buffer zone.

In terms of Section 46 of the MPRDA, a mining operation is required to submit a Social and Labour Plan (SLP) as part of its Mining Right application. An SLP contains a 5-year plan detailing how the mine will encourage, amongst other commitments, local procurement, local recruitment, employee skills development and local economic development projects. A mandatory yearly SLP report must be submitted to DMR to track progress of commitments and a new SLP has to be submitted every 5 years to DMR for approval.

An SLP document for the period 2017–2021 is available for the Berenice Project. The total budget for the SLP is ZAR3,750,000. An SLP will be prepared for the Cygnus Project.

The Berenice 2017 EMP report contained a closure provision of ZAR16,049,881 (incl. VAT) for the decommissioning and rehabilitation of the mining area but the breakdown of costs was not available for review. It is understood that the closure cost estimate will include removal of structures, backfilling of the open pit with overburden material, shaping and compaction of surface areas to ensure that it is free-draining, placement of topsoil over backfilled void and monitoring and maintenance. The financial provision and closure cost must be updated on an annual basis and submitted to DMR as well as the requisite bank guarantee. A bank guarantee for rehabilitation of prospecting activities dated November 2011 was accepted by the authorities.

There is at present no closure provision for the Cygnus project, as the environmental authorisation process is still underway.

The Berenice/ Cygnus operation has many challenges to creating a successful business plan, from the mining method and design to the split of the coal products produced. It will also be in a challenging environment permit regime. The only other party (MC Mining) attempting to get a project going in the same area is having many of the same problems.

The Berenice and Cygnus projects hold valid rights and approvals for current prospecting activities and mining rights applications are underway.

The current estimate of financial provisioning for the Berenice project required for mine rehabilitation and closure appears generally adequate but should be reviewed annually to take account of changes to the mine plan and changes to South African policy and the regulatory framework around mine rehabilitation.

8.8 Risk and opportunity

The studies and documentation required for environmental authorisation processes can be very complex and completion of the assessment and permitting process could easily take several years, not including any time associated with third party legal appeals, should they arise.

There are plans to establish a Greater Mapungubwe Transfrontier Conservation Area that will encompass national parks and private and publicly owned property in Botswana, South Africa and Zimbabwe. This is likely to result in greater scrutiny of feasibility of mining development applications in the area.

9 Valuation of residual Coal Resources

9.1 Previous valuations

The VALMIN Code (2015) requires that an Independent Valuation Report should refer to other recent valuations or Independent Expert Reports undertaken on the mineral properties being assessed.

In October 2015[2], the MSA Group (MSA) prepared an Independent Technical Assessment and Valuation Report for KPMG Financial Advisory Services (Australia) Pty Ltd, who were the Independent Experts evaluating an offer by Ichor Coal NV for Universal Coal. MSA adopted both Income and Market approaches for its valuation of Kangala, NCC, and Brakfontein (Ubuntu) and a market and cost approach for Arnot South and a market approach only for Berenice/ Cygnus. SRK notes that MSA's values for Kangala, NCC and Brakfontein are not directly comparable to the values derived by SRK,

[2] Universal Coal ASX Announcement dated 20 October 2015

as they consider the collective value associated with the LOM schedule in addition to the stated Coal Resources outside of the schedule. In this current valuation exercise, Deloitte has valued the coals within the LOM schedule independently of SRK, using a discounted cash flow method (an Income-based approach), whereas SRK has only valued the Coal Resources outside of the LOM schedule using comparable transactions (a Market approach). For Berenice/ Cygnus and Arnot South, the values derived by SRK are broadly aligned with the MSA 2015 values (albeit slightly higher in the case of Arnot South), which it considers to be reasonable given the lack of material exploration during the intervening period and the reliance of both parties on a similar transaction dataset. SRK is not aware of any other publicly reported valuations relating to the Projects.

9.2 Residual Coal Resources estimates

The gross in situ residual (remnant) resource estimates are presented in Table 9-1.

Table 9-1: Gross in situ residual Coal Resources (100% basis)

Coal Asset	Status		Inferred	Indicated	Measured	Total
Kangala	Operation	In situ	32.33	15.03	51.33	98.69
		LOMP		0.00	6.34	6.34
		Remnant	**32.33**	**15.03**	**44.99**	**92.35**
NCC	Operation	In situ	6.05	41.82	88.74	136.61
		LOMP		16.65	38.56	55.21
		Remnant	**6.05**	**25.17**	**50.18**	**81.40**
Ubuntu	Development	In situ	2.91	23.28	18.65	44.84
		LOMP		0.39	12.63	13.02
		Remnant	**2.91**	**22.89**	**6.02**	**31.82**
Eloff	Pre-development	In situ	250.57	227.8	49.92	528.29
		LOMP		47.58	49.92	97.50
		Remnant	**250.57**	**180.22**	**0.00**	**430.79**
NBC	Operation	In situ	25.38	17.67	65.67	108.72
		LOMP		13.28	51.01	64.29
		Remnant	**25.38**	**4.39**	**14.66**	**44.43**
Arnot South	Advanced exploration	In situ	138.99	65.31	2.28	206.58
		Remnant	**138.99**	**65.31**	**2.28**	**206.58**
Berenice Cygnus	Advanced exploration	In situ	96.49	753.31	406.79	1,256.58
		Remnant	**96.49**	**753.31**	**406.79**	**1,256.58**
Total Remnant Resources			**552.72**	**1066.32**	**524.91**	**2,143.95**

Source: SRK analysis of Universal Coal's stated resources based on the supplied Company CPRs.

Coal Resources that lie outside the mine plan and are classified as residual (remnant) coal in this valuation exercise total 2,143.95 Mt, which accounts for 90% of the total gross in situ Coal Resource of 2380.31 Mt.

9.3 Comparable market transactions

As the primary valuation method to provide a market value of the residual resources, SRK carried out a search for publicly available information on market transactions involving similar projects (excluding those with associated mine infrastructure) and has considered 30 market transactions within South Africa that occurred since 2007 leading up to the Effective Date of this valuation (Table 9-2). The transaction values (ZAR/t gross in situ resource) were then normalised using the Richards Bay export coal price as a proxy index to reflect the values in the current South African coal market. Each transaction was then indexed according to increasing confidence of coal mineralisation.

Table 9-2: South African coal transactions

Announcement Date	Target	Buyer	Seller
7/11/2007	Isicebi Carbon Mining Pty Ltd	Comdek Limited	Lukale Mining Company (Pty) Ltd (“Lukale”) and Umnotho We Sizwe Group (Pty) Ltd (“Umnotho
7/05/2008	Holfontein coal project	Lachlan Star Ltd	Coal of Africa Ltd
6/08/2008	Vlakplaats Coal Project	Universal Coal PLC	Universal Pulse Trading 132 Pty Ltd
14/07/2009	Vele Project	Coal of Africa Ltd	Limpopo Coal Co Proprietary Ltd
11/09/2009	Waterberg Coal Projects	Firestone Energy Ltd	Sekoko Resources Pty Ltd
1/04/2010	Rietkuil	Sable Mining Africa Ltd	Unknown Company or Entity - 30.0%
23/04/2010	Rietkuil	Sable Mining Africa Ltd	London Mining plc - 27.5%
29/11/2010	Vlakplaats Coal Project	Korea Resources Corp	Continental Coal Ltd
29/11/2010	Chapudi Coal Project	Coal of Africa Ltd	Rio Tinto PLC, Kwezi Mining Pty Ltd
27/01/2011	Cygnus property	Universal Coal PLC	Private
27/03/2012	Grootegeluk West Coal Project	Resource Generation Limited	Exxaro Resources Limited
11/07/2012	Moabsvelden Coal Project	Thebe Investment Corporation	Xceed Resources Ltd
12/12/2012	Firestone Energy Ltd	Ariona Co SA	Sekoko Resources Pty Ltd
3/02/2014	New Clydesdale	Universal Coal PLC	Exxaro Resources Limited
27/06/2014	Leeuw Mining and Exploration Proprietary Limited	Keaton Energy Holdings Limited	JPI Leeuw and Associates Proprietary Limited
28/07/2014	Total Coal South Africa Ltd.	Exxaro Resources Limited	Total S.A.
9/01/2015	Continental Coal Limited (South Africa)	Investors group	Continental Coal Limited
8/06/2015	Penumbra Coal Mine	ICHOR Coal NV	Continental Coal Limited
20/10/2015	South Arnot project	Universal Coal PLC	Exxaro Resources Limited
15/02/2016	Leeuw Mining & Exploration Pty Ltd. / Amalahle Exploration Pty Ltd.	Bayete Energy Resources (Pty) Ltd	Keaton Energy Holdings Limited
12/09/2016	South African Coal Mining Holdings Limited	JSW Energy Limited	Shareholders of South African Coal Mining Holdings Ltd.
2/02/2017	Keaton Energy Holdings Limited	Wescoal Holdings Limited	Keaton Energy Holdings Limited
30/06/2017	Eloff Mining Company (Pty) Ltd.	Universal Coal PLC	Canyon Springs Investments 80 (Pty) Ltd
27/11/2017	Eloff Mining Company (Pty) Ltd.	Universal Coal PLC	Manyeka Coal Mines (Pty) Ltd

Announcement Date	Target	Buyer	Seller
1/08/2018	New Largo project	Seriti Resources Proprietary Limited	Anglo American
1/09/2018	Eloff Mining Company (Pty) Ltd.	Universal Coal PLC	South32 Limited
12/11/2018	North Block Complex	Universal Coal PLC	Exxaro Resources Limited
12/12/2018	Tegeta Exploration and Resources Proprietary Limited	Project Halo	Oakbay Investments Proprietary Limited
22/08/2019	South32 SA Coal Holdings Proprietary Limited	Seriti Resources Proprietary Limited	South32 Limited
2/10/2019	Mbuyelo Coal operations	Investors group	ICHOR Coal NV

Source: Transaction data from S&P Global and public company announcements

The statistics of the population of market transaction are summarised in Table 9-3.

Table 9-3: Comparable Market Transaction Statistics

Statistics	Confidence in Coal Resource		
	Low	**Medium**	**High**
Count	9	7	14
Min (ZAR/t)	0.04	0.40	0.84
Max (ZAR/t)	3.69	2.87	34.85
Average (ZAR/t)	1.03	1.24	7.14
Median (ZAR/t)	0.60	1.66	5.15

Importantly, while transaction multiples are widely used in valuation, they rely on the assumption that the reported Coal Resources or Coal Reserves have been appropriately reported and can be taken at face value. As such, the method assumes that differences in reporting regimes, between different Competent Persons, resource classification, coal recovery and adopted cut-off grades (which may change between assets and/ or companies) do not materially influence the implied multiple. The method implicitly assumes total recoverability of all coal tonnes, as reliable and accurate data is generally not disclosed or available around the time of most transactions or for all companies. Importantly, SRK's implied value calculations are for the purposes of our valuation and do not attempt to estimate or reflect the coal likely to be recovered as required under the JORC Code (2012).

SRK's analysis of the implied resource value multiples is based on the reported Coal Resources involving mainly South African thermal products but also includes a few transactions of metallurgical coal assets. SRK also recognises that the reasonable prospect of eventual economic extraction based on depth of coal seams, likely stripping ratios, and structural complexity impact the implied transaction multiples. Therefore, informing our opinion of the remnant coal resource of the Universal Coal assets, SRK has considered coal confidence, coal resource estimation differences, coal type and reasonable prospect of eventual economic extraction. SRK also notes that several of the transactions considered included Coal Reserves (supported by a LOM schedule).

Kangala

The Kangala open pit truck and shovel mining operation produces a thermal coal for domestic power use at Eskom. The CHPP has more than 4.2 Mt/a ROM capacity. Product is hauled by truck to Eskom. The current LOM plan ends in 2020 and it is currently proposed that the operation will be extended into the adjacent Eloff Project area, leaving some 92 Mt of remnant Coal Resource within the Kangala Mining Right that includes 49% as Measured Resources.

SRK has adopted an implied value range from ZAR0.25/t to ZAR2.10/t for the remnant Coal Resource at Kangala.

NCC

NCC is both an underground and opencast mine that produces a thermal coal product with a relatively high calorific value of 22 MJ/kg to 24 MJ/kg, 21% to 23% volatile matter and ash between 19% and 28% for the export and domestic markets. ROM feed is processed at the onsite processing plant with an approximate average yield of 86%. On this basis, SRK has adopted an implied value range from ZAR0.50/t to ZAR2.40/t for the remnant Coal Resources of 81 Mt, of which 61% resides in the Measured Resource category.

Ubuntu

The Ubuntu operation is an opencast mine that produces only a domestic thermal coal. The stripping ratio is 3:1 and the ROM material is hauled by truck approximately 20 km to the Kangala processing plant. On this basis, SRK has adopted an implied value range from ZAR0.20/t to ZAR2.00/t for the remnant Coal Resources of 32 Mt, with 72% in the Indicated Resource category.

Eloff

Eloff hosts a thermal coal with low energy value (19.2 MJ/kg) and high ash content of 31%, on a raw coal basis. The Project provides an extension to the life of the Kangala open pit mine. The ROM production will require a stripping ratio of approximately 2:1 compared to Kangala of less than 2:1. The ROM feed will be washed at the Kangala processing plant with an average yield of 79% to supply 2.4 Mt/a to the local Eskom power station with no export thermal coal product. On this basis, SRK has adopted an implied value range from ZAR0.30/t to ZAR2.20/t for the 431 Mt remnant Resource that has 58% in the Inferred Resource category.

NBC

NBC is an open pit mine that produces thermal coal for the local thermal power stations. The raw coal has a low energy value (19.5 MJ/kg), high ash content of around 31% and Volatile Matter of 20.5%. On this basis, SRK has adopted an implied value range from ZAR0.30/t to ZAR2.20/t for the 44 Mt remnant Resource that has 57% in the Inferred Resource category.

Arnot South

The No.2 seam at the Arnot South Project is considered as the only seam with economic potential and is largely extractable by underground methods. The No. 2 seam is a medium quality thermal coal with a raw quality calorific value of 22.8 MJ/kg, of 24.9% ash and volatile matter of 22.6% on an air dried basis. However, 67% of the Coal Resources is at an Inferred level of confidence. SRK considers that this Resource is most likely to be developed as an underground mine. On this basis, SRK has adopted an implied value range from ZAR0.25/t to ZAR2.10/t.

Berenice/ Cygnus

The Coal Resource comprises almost 60% Indicated material that is a semi-soft coking coal. Mining is expected to be both open pit and underground. ROM coal will require washing, producing a metallurgical coal from a low yield and a possible middlings thermal coal. On this basis, SRK has adopted an implied value range from ZAR0.02/t to ZAR0.50/t.

Table 9-4: Comparable Market Transaction Valuation

Coal Asset	% Owned	Total Remnant Resource	Range	Implied Value Inferred (ZAR/t)	Implied Value Indicated (ZAR/t)	Implied Value Measured (ZAR/t)	Total Value (ZAR M)	Attributable Value (ZAR M)
Kangala	70.5	92.35	Low	0.25	0.65	1.05	65.09	45.89
			High	1.00	1.95	2.10	156.12	110.06
			Mid	**0.63**	**1.30**	**1.58**	**110.60**	**77.98**
NCC - OC	49.0	9.71	Low	0.50	0.90	1.30	10.59	5.19
			High	2.00	2.70	2.60	24.40	11.96
			Mid	**1.25**	**1.80**	**1.95**	**17.50**	**8.57**
NCC - UG	49.0	71.69	Low	0.40	0.80	1.20	73.15	35.84
			High	1.60	2.40	2.40	168.57	82.60
			Mid	**1.00**	**1.60**	**1.80**	**120.86**	**59.22**
Ubuntu	49.0	31.82	Low	0.20	0.60	1.00	20.33	9.96
			High	0.80	1.80	2.00	55.57	27.23
			Mid	**0.50**	**1.20**	**1.50**	**37.95**	**18.60**
Eloff	49.0	430.79	Low	0.30	0.70	1.10	201.33	98.65
			High	1.20	2.10	2.20	679.15	332.78
			Mid	**0.75**	**1.40**	**1.65**	**440.24**	**215.72**
NBC	49.0	44.43	Low	0.30	0.70	1.10	26.81	13.14
			High	1.20	2.10	2.20	71.93	35.24
			Mid	**0.75**	**1.40**	**1.65**	**49.37**	**24.19**
Arnot South	50.0	206.58	Low	0.25	0.65	1.05	79.59	39.80
			High	1.00	1.95	2.10	271.13	135.57
			Mid	**0.63**	**1.30**	**1.58**	**175.36**	**87.68**
Berenice Cygnus – OC	50.0	661.17	Low	0.02	0.14	0.26	128.12	64.06
			High	0.08	0.42	0.52	297.48	148.74
			Mid	**0.05**	**0.28**	**0.39**	**212.80**	**106.40**
Berenice Cygnus - UG	50.0	595.41	Low	0.01	0.13	0.25	79.08	39.54
			High	0.04	0.39	0.50	220.43	110.22
			Mid	**0.03**	**0.26**	**0.38**	**149.76**	**74.88**
Total Attribt. (ZAR M)		2,143.95	Low				684.10	352.07
			High				1,944.77	994.40
			Mid				**1,314.44**	**673.23**

9.4 Actual transactions of Universal Coal's assets

SRK has also considered actual transactions involving the coal assets of Universal Coal in forming its overall opinion of the likely current market value of the Universal Coal assets.

Cygnus

In January 2011, Universal Coal entered into a farm-in agreement earning up to 50% interest in the Cygnus Project through a staged exploration program. The cash consideration of the program was ZAR2.0 M for a 20% interest in the project that had a defined Inferred Resource of 59.5 Mt at the time of the transaction. On a normalised basis the implied value of this transaction is ZAR0.15/t.

Based on an implied value of ZAR 0.15/t, the value of the current Berenice Cygnus remnant Coal Resource of 1,256.6 Mt, the attributable value to Universal Coal is ZAR94.2 M.

NCC

In September 2014, Universal Coal announced the acquisition of a 100% interest in NCC from Exxaro for a total consideration of ZAR170 M. At the time of the transaction, NCC had a Coal Resource of 54.5 Mt, which implied a value of ZAR3.12/t. However, the coal price was at a low of ZAR853/t compared to the valuation date coal price of ZAR1,250/t. On a normalised basis, the implied value is ZAR4.57/t.

Based on an implied value of ZAR4.57/t, the value of the current remnant Coal Resource at NCC of 81.4 Mt, attributable to Universal Coal is ZAR182.3M.

Arnot South

In October 2015, Universal Coal entered into an agreement to acquire a 100% interest in Arnot South for a total consideration of ZAR90 M. At the time of the transaction the Project had a JORC Code compliant in situ Coal Resource total of 97.7 Mt, which implies a value of ZAR0.92/t. However, the coal price was at a low of ZAR677/t compared to the valuation date coal price of ZAR1,250/t. As such, the current normalised transaction multiple is ZAR1.70/t.

Based on an implied value of ZAR1.70/t, the value of the current remnant Coal Resource of 206.6 Mt attributable to Universal Coal is ZAR175.6M.

Eloff Project

In June 2017, Ndalamo and UCDIV acquired a 29% interest in EMC from Canyon Springs Investments 80. EMC was the 100% owner of the Eloff Project. The total consideration was ZAR43.5 M. At the time of the transaction, the Project hosted a total Coal Resource 424 Mt compliant to both the SAMREC and JORC 2012 codes. On this basis, the implied value was ZAR0.35/t. However, the coal price was at a high of ZAR1,022/t compared to valuation date coal price of ZAR1,250/t. As such, the current normalised transaction multiple is ZAR0.43/t.

In November 2017, UCDIV acquired an effective 51% interest in the Eloff Project for a consideration of ZAR90 M. On this basis, the implied value was ZAR0.42/t. However, the coal price was at a high of ZAR1,285/t compared to the valuation date coal price ZAR1,250/t. As such, the current normalised transaction multiple is ZAR0.40/t.

Based on an implied value of ZAR0.42/t, the value of the current remnant Coal Resource of 430.8 Mt attributable to Universal Coal is ZAR88.7 M.

NBC

In November 2018, Universal Coal completed the purchase of a 100% interest in NBC from Exxaro for a total consideration of ZAR93 M with a total Coal Resource of 106.7 Mt which implies a value of ZAR0.87/t at a period when the coal price was around ZAR1,294/t. On a normalised basis, the implied value at the valuation date coal price of around ZAR1,250/t, is ZAR0.84/t.

Based on an implied value of ZAR0.84/t, the value of the current remnant Coal Resource of 44.4 Mt attributable to Universal Coal is ZAR12.8 M.

9.5 Yardstick valuation method

To support the comparable market transaction valuation of the remnant resources, SRK has used the yardstick method as a guide. Using the yardstick method of valuation, specified percentages of the coal price are applied to the defined Coal Resources (Table 9-5).

Table 9-5: Yardstick valuation coal prices range

Resource	Percentage of coal price
Measured	0.20% to 0.50%
Indicated	0.10% to 0.20%
Inferred	0.05% to 0.1%
Target	<0.05%

The Richards Bay thermal benchmark coal price average for December 2019 was ZAR1,100/t and in February the price increased above ZAR1,200/t. SRK has adopted a base price as at the date of the valuation of ZAR1,250/t (Table 9-6).

Table 9-6: Yardstick valuation of remnant resources

Coal Asset	% Owned	Total Remnant Resource	Range	Implied Value Inferred (ZAR/t)	Implied Value Indicated (ZAR/t)	Implied Value Measured (ZAR/t)	Total Value (ZAR M)	Attributable Value (ZAR M)
Kangala	70.5	92.35	Low	0.63	1.25	2.50	151.47	106.79
			High	1.25	2.50	6.25	359.18	253.22
			Mid	**0.94**	**1.88**	**4.38**	**255.32**	**180.00**
NCC	49.0	81.40	Low	0.63	1.25	2.50	160.69	78.74
			High	1.25	2.50	6.25	384.11	188.22
			Mid	**0.94**	**1.88**	**4.38**	**272.40**	**133.48**
Ubantu	49.0	31.82	Low	0.63	1.25	2.50	45.48	22.28
			High	1.25	2.50	6.25	98.48	48.26
			Mid	**0.94**	**1.88**	**4.38**	**71.98**	**35.27**
Eloff	49.0	430.79	Low	0.63	1.25	2.50	381.88	187.12
			High	1.25	2.50	6.25	763.76	374.24
			Mid	**0.94**	**1.88**	**4.38**	**572.82**	**280.68**
NBC	49.0	44.43	Low	0.63	1.25	2.50	58.00	28.42
			High	1.25	2.50	6.25	134.33	65.82
			Mid	**0.94**	**1.88**	**4.38**	**96.16**	**47.12**
Arnot South	50.0	206.58	Low	0.63	1.25	2.50	174.21	87.10
			High	1.25	2.50	6.25	351.26	175.63
			Mid	**0.94**	**1.88**	**4.38**	**262.73**	**131.37**
Berenice Cygnus	50.0	1,256.58	Low	0.63	1.25	2.50	2,018.90	1,009.45
			High	1.25	2.50	6.25	4,546.28	2,273.14
			Mid	**0.94**	**1.88**	**4.38**	**3,282.59**	**1,641.30**
Total Attributed (ZAR M)		**2,143.95**	Low				2,990.63	1,519.91
			High				6,637.40	3,378.53
			Mid				**4,814.02**	**2,449.22**

SRK considers the values implied by the yardstick approach are not reasonable as the method does not take into account the quality of coal or ‘reasonable prospect of eventual economic extraction’. As such, SRK considers the yardstick method only as a guide towards the likely upper end of the valuation range.

9.6 Summary of valuation of the remnant Coal Resource

In forming its overall opinion regarding the market value for each of the coal assets, SRK has considered both the market valuation approach (third party and actual transactions) while using the yardstick approach as a secondary guide. Table 9-7 summarises SRK's opinion regarding the current market value of the portfolio of the residual (remnant) Coal Resources of the Company.

In the case of Eloff and NBC, SRK considers the market is likely to pay above Universal Coal's transaction multiple at the time of these transactions, as these assets now benefit from infrastructure and larger Coal Resources through merging with adjoining Universal Coal assets.

SRK considerers that Eloff as a combined entity with Kangala, has an enhanced market value due to the ability to share infrastructure and immediate access from the current Kangala open pit operation.

With the purchase of Cygnus, SRK considers that, when it is combined with Berenice, the market is likely to pay marginally more than the original purchase price to reflect the synergies associated with the larger Coal Resource.

In the case of NCC, SRK notes that its adopted multiple is well below the implied multiple paid by Universal Coal. SRK considers that this reflects the strategic importance of NCC at that time. In particular, it diversified the Company, provided infrastructure for Universal Coal's adjacent Roodekop Project, more than doubled the prevailing Coal Resource, and enabled a potential to supply the export market for the first time. The implied multiple paid by Universal Coal also reflects a significant Coal Reserve.

On this basis, SRK considers the market is likely to pay between ZAR352 M and ZAR994 M, with a mid range value of ZAR673 M for the attributable residual Coal Resources held by Universal Coal (Table 9-7). In considering its overall value positioning, SRK is cognisant that certain market participants may place greater weighting towards the following factors, resulting in a positioning towards the lower end of SRK's valuation range:

- Universal Coal's residual resources are unlikely to be mined for some 10 to 15+ years at current mining rates, given Universal Coal's existing Coal Reserve position
- the implied multiples associated with several previous actual transactions and other third-party transactions may include a value component attributable to either Coal Reserves and/or scheduled LOM tonnages, which when removed may result in a lower overall multiple than evident in SRK's analysis
- the current market sentiment towards thermal coal projects globally
- the thermal coal divestment thematic being adopted by several major mining houses.

SRK's average implied value for the remnant Coal Resource is ZAR0.62/t, which is 26%, 50% and 24% Inferred, Indicated and Measured, respectively. This implied value is close to the median of the 'low' Coal Resource confidence (Inferred) range, as suggested from the market transaction data statistics listed in Table 9-3. This is consistent with the fact that 76% of the remanent resource is classified as either Inferred and/or Indicated Resources.

In adopting its overall values, SRK considers that any value associated with any exploration potential of the surrounding tenures has been captured in the value attributed to the remnant resources, which were valued using comparable market transactions involving coal projects with both defined resources and exploration upside.

Table 9-7: Valuation summary of residual resources

Coal Asset	% Owned	Total Remnant Resource	Range	Total Low (ZAR M)	Total High (ZAR M)	Total Value (ZAR M)	Attributable Low (ZAR M)	Attributable High (ZAR M)	Attributable Mid (ZAR M)
Kangala	70.5	92.35	Previous Value						
			Market	65.09	156.12	110.60	45.89	110.06	77.98
			Yardstick	151.47	359.18	255.32	106.79	253.22	180.00
			Adopted	**65.09**	**156.12**	**110.60**	**45.89**	**110.06**	**77.98**
NCC	49.0	81.40	Previous Value			372.00			182.28
			Market	83.74	192.97	138.36	41.03	94.56	67.79
			Yardstick	160.69	384.11	272.40	78.74	188.22	133.48
			Adopted	**83.74**	**192.97**	**138.36**	**41.03**	**94.56**	**67.79**
Ubuntu	49.0	31.82	Previous Value						
			Market	20.33	55.57	37.95	9.96	27.23	18.60
			Yardstick	45.48	98.48	71.98	22.28	48.26	35.27
			Adopted	**20.33**	**55.57**	**37.95**	**9.96**	**27.23**	**18.60**
Eloff	49.0	430.79	Previous Value			180.93			88.66
			Market	201.33	679.15	440.24	98.65	332.78	215.72
			Yardstick	381.88	763.76	572.82	187.12	374.24	280.68
			Adopted	**201.33**	**679.15**	**440.24**	**98.65**	**332.78**	**215.72**
NBC	49.0	44.43	Previous Value			37.32			18.29
			Market	26.81	71.93	49.37	13.14	35.24	24.19
			Yardstick	58.00	134.33	96.16	28.42	65.82	47.12
			Adopted	**26.81**	**71.93**	**49.37**	**13.14**	**35.24**	**24.19**
Arnot South	50.0	206.58	Previous Value			351.19			175.59
			Market	79.59	271.13	175.36	39.80	135.57	87.68
			Yardstick	174.21	351.26	262.73	87.10	175.63	131.37
			Adopted	**79.59**	**271.13**	**175.36**	**39.80**	**135.57**	**87.68**

Coal Asset	% Owned	Total Remnant Resource	Range	Total Low (ZAR M)	Total High (ZAR M)	Total Value (ZAR M)	Attributable Low (ZAR M)	Attributable High (ZAR M)	Attributable Mid (ZAR M)
Berenice Cygnus	50.0	1,256.58	Previous Value			188.49			94.24
			Market	207.20	517.91	362.56	103.60	258.96	181.28
			Yardstick	2,018.90	4,546.28	3,282.59	1,009.45	2,273.14	1,641.30
			Adopted	**207.20**	**517.91**	**362.56**	**103.60**	**258.96**	**181.28**
Total (ZAR M)		**2,331.65**	**Total**	**684.10**	**1,944.77**	**1,314.44**	**352.07**	**994.40**	**673.23**

Yours faithfully

SRK Consulting (Australasia) Pty Ltd

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Shaun Barry
Principal Consultant – Project Evaluation

Jeames McKibben
Principal Consultant – Project Evaluation

Appendix A: CVs of SRK's team

Norman (Noddy) McGeorge
Principal Mining Engineer

Profession	Mining Engineer
Education	MSc, Mining, University of Witwatersrand, 1990 BSc, Mining, University of Witwatersrand, 1986
Registrations/ Affiliations	Pr.Eng (South Africa), 20080141 Member, SAIMM Mine Managers Ticket Coal

Specialisation

Mining engineering; coal; open pit/open cast/underground; truck shovel / dragline operations and mine optimisation; cost analysis; mine management; resources/reserve estimation; mine scheduling; contract negotiation; tender valuation; rock mechanics; financial valuation; strategic analysis; due diligence investigations; feasibility studies; mine closure planning; project management.

Expertise

Noddy McGeorge has been involved in the field of Coal Mining for the past 34 years. His expertise includes:

- production experience at numerous BHP Billiton collieries in South Africa;
- mine planning and optimisation for the BHP Billiton operations at both the mine and corporate level;
- project development in South Africa, Colombia and Australia as well as working on coal projects in Indonesia, USA, Europe and Africa;
- extensive participation in acquisition and divestment of mines including the Cerejon mine in Colombia and the Eyesizwe project in South Africa and the sale of Koornfontein, Optimum, Zululand Anthracite, Welgedacht and Delmas collieries for BHP Billiton;
- project work around mine closure and water treatment for closed mines as well as evaluation of new technologies;
- project development work in other commodities for BHP Billiton including bauxite, manganese and iron ore;
- consulting for SRK at numerous collieries in mine planning, engineering design, competent persons reporting, mine valuation and feasibility studies. Review of manganese mines for funding requirements.

Employment

2014 – present	SRK Consulting (Pty) Ltd, Principle Mining Engineer, Johannesburg
1981 – 2014	BHP Billiton and its prior companies, Mining Engineer

Languages

English – read, write, speak (Excellent)
Afrikaans – read, write, speak (Fair)
Fanagalo – read, write, speak (Fair)
Spanish – read, write, speak (Fair)
German – read, write, speak (Fair)

Darryll Alex Kilian

Partner / Principal Consultant

Profession	Environmental Management
Education	MA, Environmental and Geographical Science, University of Cape Town, 1994 BA (Hons), Environmental and Geographical Science, University of Cape Town, 1990 Higher Diploma of Education, Secondary Schools, University of Cape Town,1989 BA, Environmental and Geographical Science, University of Cape Town, 1987
Registrations/ Affiliations	Registered Environmental Assessment Practitioner in South Africa (CEAPSA) Member, Southern African Institute of Ecologists and Environmental Scientists (SAIE&ES)

Specialisation

Integrated environmental management, monitoring and evaluation

Expertise

Darryll Kilian has been involved in the field of environmental management, consulting and research work in Africa for the past 25 years. His expertise includes:

- environmental and social impact assessment;
- due diligence reviews;
- project performance monitoring and review;
- environmental reporting;
- strategy and policy development;
- environmental and social research; and
- stakeholder engagement.

Employment

2010 – present	SRK Consulting (Pty) Ltd, Partner, Johannesburg
2005 – 2009	SRK Consulting (Pty) Ltd, Principal Environmental Consultant, Johannesburg
2003 – 2005	DANIDA, Royal Danish Embassy, Environmental Programme Coordinator, Pretoria
2001 – 2003	DANCED Southern African Office, Environmental Projects Officer, Pretoria
1996 – 2001	Environmental Evaluation Unit, Senior Environmental Manager, University of Cape Town
1995 – 1996	Environmental Evaluation Unit, Environmental Consultant, University of Cape Town

Publications

Darryll Kilian has contributed to a number of national and international publications on social, environmental and sustainability issues

Languages

English – read, write, speak

Afrikaans – read, write, speak

Lesley Sharon Jeffrey

Principal Geologist - Coal

Profession	Coal Geologist
Education	MSc, Mining Engineering - Coal Science, University of the Witwatersrand, 2002 BSc, Geology, University of Cape Town, 1984
Registrations/ Affiliations	Pr. Sci. Nat, SACNASP (South Africa), 400115/01 Competent Person (Coal) Member, Geological Society of South Africa; Fossil Fuel Foundation of Africa Subcommittee Member, Geology & Geophysics Steering Committee, COALTECH; SAMREC Coal Commodity Specific Subcommittee, SANS 10320

Specialisation

All aspects of geology related to coal exploration, from greenfield studies to initiation of mining

Expertise

Lesley Jeffrey has been involved in the field of coal geology for over 30 years. Her expertise includes:

- design, implementation and management of coal exploration programmes;
- geological assessment of coal deposits;
- computer modelling of tabular ore bodies, particularly coal;
- coal quality assessments;
- coal resource/reserve estimation;
- coal feasibility and due diligence studies and competent person reports;
- coal model and resource estimation audits;
- geological assessments.

Employment

June 2013 – present	SRK Consulting (Pty) Ltd, Principal Geologist, Johannesburg
2011 – 2013	Rio Tinto Management Services (Pty) Ltd, Principal Advisor (Geology), Johannesburg
2011	Namane Energy (Pty) Ltd, Group Geologist, Pretoria
2010	MSA Geoservices (Pty) Ltd, Contract Coal Consultant, Johannesburg
2007 – 2010	CIC Energy (SA) (Pty) Ltd, Group Geologist, Johannesburg
2005 – 2007	SRK Consulting Engineers, Principal Geologist, Johannesburg
2005	Barlow Jonker Pty. Ltd. Manager Research & Analysis, Johannesburg
2003 – 2005	CSIR Mining Technology. Principal Research Scientist, Pretoria
1999 – 2003	CSIR Mining Technology. Geologist to Research Programme Manager, Johannesburg
1996 – 1999	Gemcom (Pty) Ltd. Geologist, Johannesburg
1994 – 1995	Progressive Systems College (Pty) Ltd. Senior Student Advisor, Johannesburg
1989 – 1992	Gemcom (Pty) Ltd. Geologist, Johannesburg
1984 – 1989	Gold Fields of South Africa (Pty) Ltd. Geologist, Ermelo, Lephalale, Krugersdorp

Publications

Various publications, presentations and lectures on coal resources and exploration in southern Africa.

Languages

English – read, write, speak (Excellent)

Afrikaans – read, write, speak (Good)

isandla
Coal Consulting cc | Minerals (Pty) Limited

BIOGRAPHICAL RECORD

Name:	Peter Eugene Hand	***Nationality:***	British
Profession:	Minerals Processing Engineer		
Date of Birth:	11th March 1959		
Present Position:	Member, Isandla Coal Consulting cc		

Education and Professional:

University College, Cardiff – B.Sc. (Hons) Mineral Processing (1978-81)
Stellenbosch Business School – Senior Management Programme (1991)
UNISA – Management Development Programme (1985)
Cardinal Vaughn Grammar School, London (9 O Levels, 3 A Levels) (1970-78)

Professional Memberships:

- Fellow, South African Coal Processing Society
- Fellow, South African Institute of Mining & Metallurgy

Career Summary:

Peter Hand is a minerals processing engineer, who has worked in the South African coal industry for 37 years. His first 15 years were spent with Anglo Coal and Ingwe (Randcoal), firstly as a metallurgical trainee and then through successively senior mine production levels, including Plant Superintendent of Rietspruit. In 1988, he was moved to Head Office as a consultant where he was involved with operations, as well as numerous projects.

As part of his duties with Ingwe, he was extensively involved with the technical marketing of coal as well as liaison with Eskom. One of his specialisations is the link between the mine, washing plant and the customer; another is the beneficiation (including dewatering) of fine and ultrafine coal and the use of novel technologies to enable projects to succeed, where conventional techniques may not be appropriate. He was a member of the Operations and Technical Committees for Richards Bay Coal Terminal and a director of the TCOA. Since 1997, he has been an independent consultant, working for most of the major South African coal companies as well many international projects e.g. London, India, Russia, Ukraine, Australia, Mozambique, Mongolia. He generally works in dense medium processes, i.e. coal, iron ore & diamonds, but has been extensively involved in related technologies including crushing, sorting within those areas. He has also worked in other minerals such as copper, cobalt, nickel.

He has the Sub Saharan African licence for the Stokes Hydrosizer / TBS, fine mineral separator device, which has been supplied to a number of mines. He imports a flowsheet simulation package from Australia, which is being used by various companies including Ingwe, Anglo Coal, De Beers, Iscor and Anglo Platinum amongst many others. The simulation and optimisation of mineral processing operations, particularly dense medium plants, using the Limn Flowsheet Processor is a particular specialisation.

Peter has written 43 papers on various aspects of plant simulation, dense medium processes and coal processing,

A full CV is available on request.   ***P E Hand***

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Jeames McKibben

Principal Consultant

Profession	Geoscientist
Education	MBA, Macquarie Graduate School of Management, 2003 BSc Hons (Geology, Geochemistry), University of Tasmania, 1993
Registrations/ Affiliations	Chartered Valuation Surveyor (MRICS) FAusIMM(CP), MAIG VALMIN Review Committee
Awards	Renison Scholarship for Economic Geology – CODES, University of Tasmania Tasmanian Government Scholarship for Geology – CODES, University of Tasmania

Specialisation

Geology; mineral asset valuation; mineral expert and independent technical reports; techno-economic studies (to feasibility level); mining related mergers and acquisitions; due diligence and advisory services

Expertise

Jeames McKibben is an experienced international mining professional having operated in a variety of roles including consultant, project manager, geologist and analyst over more than 27 years. He has a strong record in mineral asset valuation, project due diligence, independent technical review and deposit evaluation. As a consultant, he specialises in mineral asset valuations and Independent Technical Reports for equity transactions and in support of project finance. Jeames has been responsible for multi-disciplinary teams covering precious metals, base metals, bulk commodities (ferrous and energy) and other minerals in Australia, Asia, Africa, North and South America and Europe. He has assisted numerous mineral companies, financial, accounting and legal institutions and has been actively involved in arbitration and litigation proceedings. Jeames is a RICS Registered Valuer and Chartered Valuation Surveyor, as well as a member of the VALMIN Code Committee.

Employment

2016 – Present	SRK Consulting (Australasia), Principal Consultant, Brisbane
2015 – 2016	SLR Consulting, Technical Discipline Manager (Valuation & Property Services), Brisbane
2009 – 2015	Xstract Mining Consultants, General Manager – Corporate Advisory, Brisbane
2004 – 2009	Snowden Mining Industry Consultants, Consultant, Senior Consultant, then Divisional Manager – Corporate Services, Brisbane
2000 – 2002	Ambase (Morocco) Limited, Project Manager, Morocco
1998 – 2000	Zamanglo Prospecting, Project Geologist, then Project Manager, Zambia
1997 – 1998	Consolidated Gold Mines Limited, Project Geologist, Western Australia
1997	Johnsons Well Mining NL, Project Geologist, Western Australia
1995 – 1996	Mineral Resources Tasmania, Mineral Analyst, Tasmania
1994 – 1995	Normandy Exploration, Geologist, Kalgoorlie, Western Australia

Languages

English (fluent) and French (basic)

Shaun Barry

Principal Consultant

Profession	Geologist
Education	MSc Eng (Mineral Economics), University of the Witwatersrand, 1994
	BSc Hons (Geology), University of the Witwatersrand, 1987
	Diploma in Investment Management, University of Johannesburg, 2000
Registrations/ Affiliations	AusIMM(CP)
	RICS (Registered Valuer)

Specialisation

Valuation, financial modelling, sensitivity analyses, due diligence studies, independent expert reports, optimisation studies, risk analysis, business and marketing strategy development

Expertise

Shaun Barry has a commercial and geological background with more than 25 years of experience in mining, exploration and quarry valuations, mineral economics, minerals marketing and geology. In corporate advisory and business development roles, Shaun has provided independent expert reviews, valuations, due diligence and optimisation mine studies while working for InSitu Advisory, SLR Consulting, Xstract Mining Consultants and Anglo Coal. In his role of marketing, Shaun contracted sales of alumina, bauxite, copper, cobalt, chrome ore and other commodities while working for Rio Tinto and Anglo Platinum. He also negotiated logistics solutions for platinum group metals and calcined bauxite projects. Shaun worked as a mining equity analyst on the Johannesburg Securities Exchange, and as a mineral economist and mine geologist in South Africa.

Employment

2020 – Present	SRK Consulting (Australasia), Principal Consultant (Project Evaluation), Brisbane
2016 - 2019	InSitu Advisory, Consultant (Valuation), Brisbane
2015 – 2016	SLR Consulting, Consultant (Valuation), Brisbane
2010 – 2015	Xstract Mining Consultants, Senior Consultant (Corporate Advisory), Brisbane
2006 – 2009	Rio Tinto Alcan, Senior Marketing Specialist, Brisbane
2004 – 2005	Anglo Coal Australia, Senior Business Analyst, Brisbane
1999 – 2004	Anglo Platinum Corp., Marketing Manager, Johannesburg
1996 – 1998	Mathison & Hollidge, Mining Equity Analyst, Johannesburg
1994 – 1996	UBS Warburg, Mining Equity Analyst, Johannesburg
1992 – 1994	Dept of Minerals and Energy (Minerals Bureau), Mineral Economist, Johannesburg
1990 – 1991	Gold Fields of South Africa, Mine Geologist, Venterspost & Northam

Languages

English

Karen Lloyd

Associate Principal Consultant

Profession	Geologist and Mineral Economist
Education	MBA, Curtin University, Perth, 2008 BSc Hons (Geology), Manchester University, UK, 1995
Registrations/ Affiliations	FAusIMM
Awards	BHP Billiton Charter Award – awarded for consistently demonstrating an overriding commitment to Health, Safety, the Environment and Community

Specialisation

Project evaluation, mineral asset, valuation and independent advisory, mining expert reports, techno-economic studies, due diligence services

Expertise

Karen Lloyd has more than 20 years international resource industry experience gained with some of the major mining, consulting and investment houses globally. She specialises in independent reporting, mineral asset valuation, project due diligence, and corporate advisory services. Karen has worked in funds management and analysis for debt, mezzanine and equity financing and provides consulting and advisory in support of project finance. She has been responsible for multi-disciplinary teams covering precious metals, base metals, industrial minerals and bulk commodities in Australia, Asia, Africa, the Americas and Europe. Karen has experience in the valuation and evaluation of mineral projects worldwide.

Employment

2017 – Present	SRK Consulting (Australasia) Pty Ltd, Associate Principal Consultant, Perth
2013 – 2017	Jorvik Resources, Director and Principal, Perth
2012 – 2013	Coffey Mining, Principal Mining Consultant and Project Manager, Perth
2011 – 2012	CITIC Pacific Mining, Senior Investment Advisor, Perth
2009 – 2011	LinQ Capital Limited, Senior Investment Analyst, Perth
2006 – 2009	BHP Billiton, Senior Mine Planning Engineer, Perth
2005 – 2006	Sinclair Knight Merz, Senior Engineer – Mining and Geotechnical, Perth
2004	Golder Associates, Engineering Geologist, Perth
2000 – 2003	Barrick Gold, Plutonic Mine, Grade Control and Resource Geologist, Western Australia
1998 – 1999	BHP Billiton, Yandi Mine, Production Geologist, Western Australia
1997 – 1998	Homestake Gold, Ravensthorpe Project, Production Geologist, Western Australia
Jan 1997 – Jul 1997	Lone Star Minerals, Awak Mas Mine, Production Geologist, Sulawesi, Indonesia
1995 – 1996	Fairfield Minerals, Siwash Gold Mine, Production Geologist, British Columbia, Canada

Languages

English and Conversational French

Appendix B: SRK limitations, reliance on information, declaration and consent

Limitations

SRK's opinion contained herein is based on information provided to SRK by Universal Coal throughout the course of SRK's investigations as described in this Report, which in turn reflect various technical and economic conditions at the time of writing. Such technical information as provided by Universal was taken in good faith by SRK. SRK has not independently verified historical Coal Resources/ Reserve estimates by means of recalculation.

This Report includes technical information, which requires subsequent calculations to derive subtotals, totals, averages and weighted averages. Such calculations may involve a degree of rounding. Where such rounding occurs, SRK does not consider them to be material.

As far as SRK has been able to ascertain, the information provided by Universal Coal was complete and not incorrect, misleading or irrelevant in any material aspect.

Universal Coal has confirmed in writing to SRK that full disclosure has been made of all material information and that to the best of its knowledge and understanding, the information provided by Universal Coal was complete, accurate and true and not incorrect, misleading or irrelevant in any material aspect. SRK has no reason to believe that any material facts have been withheld.

Statement of SRK independence

Neither SRK, nor any of the authors of this Report, have any material present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with Universal Coal regarding the mineral assets that are the subject of this Report. Mr McKibben and Mr Barry have previously evaluated some of the mineral assets considered in this report whilst employed at Xstract Mining Consultants Pty Ltd in 2013, with no further involvement since that time. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

Indemnities

As recommended by the VALMIN Code (2015), Universal Coal has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- which results from SRK's reliance on information provided by either Deloitte and Universal Coal or these parties not providing material information; or
- which relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

Consent

SRK consents to this Report being included, in full, in Deloitte's IER in the form and context in which the technical assessment is provided, and not for any other purpose. SRK provides this consent on the basis that the technical assessments expressed in the Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report.

Practitioner Consent

The information in this report that relates to Technical Assessment of the Coal Resources is based on and fairly reflects information compiled and conclusions derived by Ms Lesley Jeffrey, who is a Competent Person and a registered professional scientist in South Africa.

The information in this report that relates to Technical Assessment of the Coal Reserves is based on and fairly reflects information compiled and conclusions derived by Mr Norman McGeorge, who is a Competent Person and member of the SAIMM and a registered professional engineer in South Africa.

The information in this report that relates to the Technical Assessment and the Valuation of all the Mineral Assets is based on, and fairly reflects information compiled and conclusions derived by Mr Shaun Barry, who is a Competent Person and Member of the AusIMM.

Ms Jeffrey, Mr McGeorge and Mr Barry are independent consultants and full-time employees of SRK.

Ms Jeffrey, Mr McGeorge and Mr Barry each have sufficient experience that is relevant to the Technical Assessment of the Mineral Assets under consideration, the style of mineralisation and the types of deposit under consideration and to the activity being undertaken to qualify as Practitioners as defined in the 2015 edition of the 'Australasian Code for the Public Reporting of Technical Assessments and Valuations of Mineral Assets', and as Competent Persons as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Mrs Jeffrey, Mr McGeorge and Mr Barry consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Consulting fees

SRK's estimated fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The fees are agreed based on the complexity of the assignment, SRK's knowledge of the assets and availability of data. The fee payable to SRK for this engagement is estimated at approximately A$115,000. The payment of this professional fee is not contingent upon the outcome of the Report.

Appendix C: Mineral Tenure

Subsidiary	Project/ operation	Location	Property	Size (ha)	Permit type and number	Expiry date	Comment	% Interest
Universal Coal Development 1 (Pty) Limited	Kangala Colliery	Delmas, Mpumalanga province, South Africa	Wolverfontein 244 IR: portion 1 and RE of portion 2	951	Mining Right: MP30/5/1/2/2/429MR	02/05/2032	Valid Mining Right	70.5
		Delmas, Mpumalanga province, South Africa	Middelbult 235 IR: portion 40 and 82	942	Prospecting Right: MP30/5/1/1/2/641PR	09/07/2017	Renewal of Prospecting Right granted in July 2014 and lapsed in July 2017	70.5
					Mining Right application lodged: MP30/5/1/1/2/10179MR		Awaiting the granting of Mining Right	
Universal Coal Development II (Pty) Limited	Berenice Project	Waterpoort, Limpopo province, South Africa	Berenice 548 MS, Celine 547 MS, Doomvaart 355 MS, Gezelschap 395 MS, Longford 354 MS, Matsuri 358 MS	6.595	Prospecting Right: LP30/5/1/1/2/376PR	19/03/2016	Mining Right application submitted and accepted in September 2016, granting of Mining Right pending	50
Universal Coal Development III	Ubuntu Colliery	Delmas, Mpumalanga province, South Africa	Brakfontein 264 IR: portions 6, 8, 9, 10, 20, 26, 30 and RE	879	Mining Right: MP30/5/1/2/2/10027MR	21/02/2027	Valid Mining Right, Mining Right granted and executed, registration of the Mining Right underway	48.9
Universal Coal Development IV	New Clydesdale Colliery	Kriel, Mpumalanga province, South Africa	Roodekop 63 IS, Middeldrift 42 IS (portion 4), Diepspruit 41 IS (RE: RE of portions 1, 2, 3, portions 7, 8, 9, 10), Rietfontein 43 IS (RE, RE of portion 1, portion 3, M/A 2, 3,4 of RE portion 1), Vaalkrans 29 IS (portions 4,6,8,9,11,12,13,14,15, RE of portion16, M/A 2 of portion 6), Clydesdale 483 IS, Lourens 472 IS, Enkelbosch 20 IS (M/A 4 and 5) and Haasfontein 28 IS (portion 1, M/A 6 and 7 of portion 7)	4960	Mining Right: MP30/5/1/2/2/429MR	05/02/2034	Mining Rights 429MR and 148MR consolidated through Section 102 of MPRDA, consolidated Mining Right executed on 1 November 2017 and awaiting registration in deeds office	49
	Eloff Project	Delmas, Mpumalanga province, South Africa	Droogfontein 242 IR, Stydpan 243 IR, Stomplestontein 273 IR	8.168	Mining Right: MP30/5/1/2/2/10169MR	05/12/2038	Mining Right granted and executed, registration of Mining Ri9ght underway	49

Subsidiary	Project/ operation	Location	Property	Size (ha)	Permit type and number	Expiry date	Comment	% Interest
North Block Complex (Pty) Limited	North Block Complex Colliery	Belfast Mpumalanga province, South Africa	Glisa Portion 1,2,3,4 and 5 of farm Paardeplaats 380 JT	1 013.76	Mining Right: MP30/5/1/2/1/326MR	05/12/2039	Valid Mining Right	43
			Eerstelingsfontein: RE of portion 2 and portions 3,4,5,6,7,8 and 9 of farm Eerstelingsfontein 406 JT	306.56	Mining Right: MP30/5/1/1/2/19MR	11/06/2013	Mining Right renewal granted, execution of Mining Right underway	49
			Paardeplaats: RE of portion 13, portions 28, 29, 30, 40 of farm Paardeplaats 380 JT and RE of portion 2 of farm Paardeplaats 425 JS	1 422.4947	Mining Right: MP30/5/14/2/2/10090MR	25/11/2038	Mining Right granted, executed and registered, Section 11 pending	49
Universal Coal Development V	Cygnus Project	All Days (Waterpoort), Limpopo province, South Africa	Cygnus 543 MS and adjacent farms	12.299	Prospecting Right: LP30/58/1/1/2/1276PR	28/06/2019	Prospecting Right renewal executed and registered	50
					Mining Right: LP30/5/1/1/2/10169MR		Mining Right application lodged and accepted, granting of the Mining Right underway	50
Universal Coal Development VII	Arnot South	Arnot, Mpumalanga province, South Africa	Vlakfontein 166 IS (RE: Ext portions 2, 5,8,9,10,13 and 14), Tweefontein 203 IS (RE Ext of portion 3, RE Ext of portion 5, RE Ext, of portion 9, RE Ext of portion 10 and portions 4,7,8,11,12,13,14,18,19,20,21,22,3=23,24,25) Op Goeden Hoop 205 IS (RE Ext of portion 2), Groblersrecht 175 IS – whole farm, Lilipfontein 495 IS (RE Ext of MA 11), Vaalwater 173 IS (portions 10, 12, 14, RE Ext of portion 2), Miiuokaats 165 IS (portions 4,11,12,13, 15 and 16), Helpmekaar 168 IS – whole farm, Schoonoord 164 IS (portion 19), Leeuwpan 494 JS (portions 7,8,9, RE Ext and RE Ext, of portion 4); Weltevreden 174 IS (portions 1,2 (M/A), 4 and RE Ext), Nooitgedacht 493 JS (portions 4 and 9)	15.532	Prospecting Right: MP30/5/1/1/2/360PR	Original application 30/10/2006 and 29/10/2011	Renewal of Prospecting Right pending and acquisition subject to successful approval of Prospecting Right transfer to Universal in accordance with Section 11 of MPRDA, 2002	50

Appendix D: References

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Appendix E: Glossary

Abbreviation	Definition
ad	air dried
Amsl	Above mean sea level
Analysis	Process of determining chemical properties of a coal sample
Anglovaal	Anglovaal Limited
Ash	Is a measure of the noncombustible material in coal expressed as a percentage
ar	as-received
ASX	Australian Securities Exchange
Av.	Average
B-BBEE	Broad-based Black Economic Empowerment
BCM	Bank Cubic Metre
BHP	Broken Hill Proprietary Company Limited
Bituminous coal	A medium quality coal mostly used in raising steam for the generation of electricity
BOOT	Build, Own, Operate, Transfer () contract
borehole	Core or chips extracted from a cylindrical hole during drilling
borehole log	A graphical representation of the information revealed by vertical diamond drilling
CHPP	Coal Handling and Preparation Plant
cm	centimetre
CP	Competent Person
CPR	Competent Person's Report
CV	Calorific Value being a measure of contained heat measured in MJ/kg
CSA	Coal Supply Agreement
CSV	Comma Separated Values, common for import and export format for spreadsheets and databases
DAF, DAFVM or Dry-ash-free volatiles	The volatiles expressed as percentage without the other proximate analyses (Ash and moisture)
DCF	Discounted Cash Flow
DEAT	Department of Environment and Tourism (South Africa)
Deloitte	Deloitte Corporate Finance Pty Limited
DM	Dense Medium
DMC	Dense Medium Cyclone
DME	the Department of Minerals and Energy
DMR	the Department of Mineral Resources
DMS	Dense Medium Separation
DTM	Digital terrain model
DWAF	the Department of Water Affairs and Forestry
EIA	Environmental Impact Assessment
EMC	Eloff Mining Company (Pty) Ltd
EMP	Environmental Management Plan
EMPR	Environmental Management Program Report
Eskom	Eskom Holdings SOC Ltd
Exxaro	Exxaro Coal (Pty) Ltd
g	grams
gar	gross as-received
GDP	Gross Domestic Product
Gemecs	Gemecs (Pty) Ltd
GIS	Geographical Information System

Abbreviation	Definition
GTIS	Gross Tonnes in situ with no modifying factors
GJ	Gigajoule
hectare (ha)	A measurement of area 100 metres by 100 metres
HQ	Diamond drill core size 63.5mm in diameter
in situ tonnage	Measure of mass of coal in the ground containing inherent moisture
ISO	International Standards Organisation
IWUL	Integrated Water Use Licence
JORC	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
JSE	Johannesburg Securities Exchange
kt	kilotonne
kt/a	kilotonne per annum
LOM	Life-of-Mine
LOMP	Life-of-Mine plan
m	metre
Mindset	Mindset Mining Consultants (Pty) Ltd
MJ	Megajoule
MJ/kg	Megajoule per kilogram
MPRDA	South African Minerals and Petroleum Resources Development Act of 2002 (Act No. 28 of 2002)
MRD	Mineral Resource Development (Pty) Ltd
Mt	Million tonnes
Mt/a	Million tonnes per annum
MTIS	mineable tonnes in situ
MW	Mega Watt
nar	net as-received
NBC	North Block Complex
NBCPL	North Block Complex (Pty) Ltd
NCC	New Clydesdale Colliery
NEMA	National Environmental Management Act, Act 107 of 1998
NWA	National Water Act, Act 36 of 1998
NEM:WA	National Environmental Management: Waste Act, Act 59 of 2009;
NEM: AQ	National Environmental Management: Air Quality Act, Act 39 of 2004
PCD	Pollution Control Dam
RBCT	Richards Bay Coal Terminal
RD	Relative Density
ROM	Run-of-Mine
SAHRA	South African Heritage Resource Agency
SAMREC	South African Code for Reporting Mineral Resources and Mineral Reserves
SANS	South African National Standard
SANAS	South African National Accreditation System
SHE	Safety, Health and Environment
SLP	Social and Labour Plan
South 32	South 32 Limited
SRK	SRK Consulting (Australasia) Pty Ltd

Abbreviation	Definition
Stripping Ratio or SR	Overburden that must be removed, expressed as cubic metres of overburden to tonnes of coal. A stripping ratio is commonly is used to express the maximum volume or weight of overburden that can be profitably removed to obtain a unit amount of coal.
t	tonnes
TCSA	Total Coal South Africa (Pty) Ltd
t/h	tonnes per hour
t/m	tonnes per month
Universal Coal	Universal Coal plc
UCDI	Universal Coal Development 1 Pty Ltd
UCDII	Universal Coal Development 2 Pty Ltd
UCDIII	Universal Coal Development 3 Pty Ltd
UCDIV	Universal Coal Development 4 Pty Ltd
VALMIN Code	The Australasian Code for the Public Reporting of Technical Assessments and Valuations of Mineral Assets, 2015 edition.
VAT	Value Added Tax

Appendix F: Valuation approaches

Valuation approaches

While the VALMIN Code (2015) states that the selection of the valuation approach and methodology is the responsibility of the Practitioner, where possible, SRK considers a number of methods.

The aim of this approach is to compare the results achieved using different methods in order to select a preferred value within a valuation range. This reflects the uncertainty in the data and interaction of the various assumptions inherent in the valuation.

The VALMIN Code (2015) outlines three generally accepted valuation approaches:

1. Income approach
2. Market approach
3. Cost approach.

The *Income approach* is based on the principle of anticipation of benefits and includes all methods that are based on the income or cash flow generation potential of the Mineral Property (CIMVAL, 2003). Valuation methods that follow this approach include Discounted Cash Flow (DCF) modelling, Monte Carlo Analysis, Option Pricing and Probabilistic methods.

The *Market approach* is based primarily on the principle of substitution and is also called the Sales Comparison Approach. The Mineral Property being valued is compared with the transaction value of similar Mineral Properties transacted in an open market (CIMVAL, 2003). Methods include Comparable Transactions, MTR and option or farm-in agreement terms analysis.

The *Cost approach* is based on the principle of contribution to value (CIMVAL, 2003). Methods include the Appraised Value method and Multiples of Exploration Expenditure, where expenditures are analysed for their contribution to the exploration potential of the Mineral Property.

The applicability of the various valuation approaches and methods vary depending on the stage of exploration or development of the property, and hence the amount and quality of the information available on the mineral potential of the property. Table F-1 presents the various valuation approaches for the valuation of mineral properties at the various stages of exploration and development.

Table F-1: Suggested valuation approaches according to Development status

Valuation Approach	Exploration Projects	Pre-development Projects	Development Projects	Production Projects
Market	Yes	Yes	Yes	Yes
Income	No	In some cases	Yes	Yes
Cost	Yes	In some cases	No	No

Source: VALMIN Code (2015).

The Market approach to valuation is generally accepted as the most suitable approach for valuation of an Exploration or a Pre-development project.

An income-based method, such as DCF modelling is commonly adopted for assessing the Value of Tenure containing a deposit where a Coal Reserve has been produced following an appropriate level of technical studies and to accepted technical guidelines such as the JORC Code (2012). However, an income-based method is not considered an appropriate method for deposits that are less advanced, i.e. where there is no declared Coal Reserve supported by mining and related technical studies.

The use of cost-based methods, such as considering suitable multiples of exploration expenditure is best suited to exploration properties, before Coal Resources are reliably estimated.

In general, these methods are accepted analytical valuation approaches that are in common use for determining Market Value (defined below) of mineral assets, using market-derived data.

The **"Market Value"** is defined in the VALMIN Code (2015) as, in respect of a mineral asset, the amount of money (or the cash equivalent of some other consideration) for which the Mineral Asset should change hands on the Valuation date between a willing buyer and a willing seller in an arm's length transaction after appropriate marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The term Market Value has the same intended meaning and context as the IVSC term of the same name. This has the same meaning as Fair Value in RG111. In the 2005 edition of the VALMIN Code this was known as Fair Market Value.

The **"Technical Value"** is defined in the VALMIN Code (2015) as an assessment of a Mineral Asset's future net economic benefit at the Valuation Date under a set of assumptions deemed most appropriate by a Practitioner, excluding any premium or discount to account for market considerations. The term Technical Value has an intended meaning that is similar to the IVSC term Investment Value.

Valuation methods are, in general, subsets of valuation approaches and for example the Cost approach comprises several methods. Furthermore, some methods can be considered primary methods for valuation, while others are secondary methods or rules of thumb considered suitable only for benchmarking valuations completed using primary methods.

Table F-2 presents the valuation basis used in this ISR.

Table F-2: Valuation basis of Universal Coal's Projects

Project	Development Stage	Valuation basis
Kangala	Production	Coal Reserve/ Coal Resource
NCC	Production	Coal Reserve/ Coal Resource
NBC	Production	Coal Reserve/ Coal Resource
Ubuntu	Development	Coal Resource
Eloff	Pre-development	Coal Resource
Arnot South	Advanced exploration	Coal Resource/ Exploration Potential
Berenice/ Cygnus	Advanced exploration	Coal Resource/ Exploration Potential

In estimating the value of the exploration potential associated with the Universal's tenements outside of those Coal Resources and Reserves considered in Deloitte's DCF analysis as at the valuation date, SRK has considered various valuation methods within the context of the VALMIN Code (2015).

When valuing an exploration project, the Practitioner is attempting to determine a value that reflects the potential of the project to yield an Ore Reserve from which a future income stream may ultimately be derived. At the same time, the valuator must also be cognisant of what the project is deemed to be worth by the market and actual transactions taking place, to ensure that the value estimates are realistic. Arriving at the value estimate is somewhat complex, as there is no single mineral asset valuation method appropriate for all circumstances.

The valuation method applied depends on the relative maturity of assessment for each asset, as well as the amount of available data supporting the project. In preparing its valuation of the Olary Project, SRK has considered the three main approaches (based on income, market, and cost, respectively), as well as the available methodologies under each approach.

SRK's approach has been to estimate the market value of the exploration potential primarily using transaction multiples, with support from the Geoscientific Rating method.

Appendix G: Letter of Instructions

Deloitte.

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Australia

Phone: +61 2 9322 7000
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Mr Jeames McKibben
Project Management, Exploration and Valuation
SRK Consulting (Australasia) Pty Ltd
Level 5, 200 Mary Street
Brisbane, Queensland 4000

5 February 2020

Dear Jeames

Re: Appointment to provide services in relation to Independent expert's report

On 3 February 2020, Universal Coal Plc (Universal Coal) received an intention to make a takeover offer (the Offer) from its significant shareholder TCIG Resources Pty Ltd, a wholly owned subsidiary of TerraCom Limited (TerraCom). Under the proposed terms of the Offer, TCIG Resources Pte Ltd would acquire the shares in Universal Coal for cash consideration of $0.10 and approximately 0.6026 TerraCom shares per Universal Coal share (the Proposed Transaction).

Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) has been engaged by Universal Coal to prepare an Independent Expert's Report (the IER) to the independent Directors providing our opinion as to whether the Offer is fair and reasonable to shareholders not associated with TerraCom (Non-Associated Shareholders) (depending on the nature of the offer).

The IER will be prepared as if it were required pursuant to Section 640 of the Corporations Act 2001 in order to assist the Independent Directors with their recommendation to non-associated shareholders to accept or reject the Offer. The IER is to accompany the Target's Statement to shareholders.

Given the nature of Universal Coal's operations, we will require a technical expert to assist us with the IER. We understand that you and your Representatives are professionals who are competent in technical resource valuations and have considerable experience in geological and coal mining consultancy.

Accordingly, we would like to engage SRK Consulting (Australasia) Pty Ltd (SRK) (you) to provide certain services to assist us to prepare the IER to assist us on certain specialist matters on which we are not an expert. This letter sets out the terms and conditions on which you will provide the services to us (the Agreement).

Background

Universal Coal has a portfolio of producing, development and exploration coal assets across South Africa, referred to collectively as the Projects, outlined as follows:

- **Kangala Colliery** (70.5% interest) is a 3.9 mtpa open pit truck and shovel thermal coal mine

- **New Clydesdale Colliery** (49% interest with operational control) is a 4 mtpa open pit, truck and shovel and underground thermal coal mine
- **North Block Complex** (49% interest with operational control) is a 4 mtpa open pit, truck and shovel thermal coal mine
- **Ubuntu Colliery** (49% interest) is a thermal coal mine that is currently in development. This asset has estimated resources of 75.8 Mt in accordance with JORD 2012 standards
- **Eloff** (49% interest) is a thermal coal project that has estimated resources of 528 Mt. A mining right and environmental authorisation has been granted.

Universal Coal also has the following exploration interests (the Exploration Assets):

- **Arnot South** (50% interest) is a thermal coal project that has estimated resources of 207 Mt. A feasibility study has been completed and a mining right application has been submitted
- **Berenice / Cygnus** (50% interest) is a coking coal project with estimated resources of 1.35 Bt. This project has a mining right application and the environment authorisation has been lodged. Universal Coal has a 50% interest in this asset.

The Services

We require you to provide the following services (the Services) to assist us to prepare the IER:

- input and advice on the appropriateness of the technical assumptions adopted in the financial models for the Projects, namely those relating to:
  - the level of reserves and resources
  - production profiles (including production profiles or potential expansion cases)
  - operating expenditure, including rehabilitation and abandonment costs
  - capital expenditure
  - any other assumptions you consider relevant.

  Accordingly, we understand the areas that you will consider for the Projects will include: geology and resources; reserves and mine engineering; geotechnical; environmental; tenure; CHPP and processing; and infrastructure (for which you will provide high level commentary).

  If you consider an assumption included in the financial models to be unreasonable, you need to advise us and assist us to make the appropriate changes to the financial model to reflect a reasonable projection.

- provide an opinion as to the fair market value of the exploration assets within the Universal Coal portfolio. This will include any exploration potential of the Projects not reflected in the financial models as well as the Exploration Assets, for which financial models have not been prepared by management
- assist with the assessment of the reasonableness of the assumptions for additional development scenarios for the Projects (and the Exploration Assets, as appropriate), in the event that more than one development scenario is considered by us
- prepare a short-form report (Report) summarising your findings, including your opinion as to the fair market value of the Exploration Assets within the portfolio, and your findings relating to the underlying assumptions for each financial model. Your report will form part of the IER prepared by Deloitte Corporate Finance and may be provided (in part or full) to Universal Coal and its shareholders. We will discuss the form and content of your Report with you over the coming week

The Services exclude any work in relation to:

- marketing, commodity price and exchange rate assumptions adopted in the financial models
- financial and/or corporate taxation analysis.

We may change or vary the Services at any time by notice to you.

You acknowledge and agree that:

- you are required to support Deloitte Corporate Finance in its role as independent expert in connection with the Offer and you confirm that you are competent in the areas covered by the Services
- the Services will be carried out in accordance with the relevant provisions of the Australian Securities and Investments Commission (ASIC) Regulatory Guides, in particular RG111.99 and RG112 (Section E)
- you are competent to act as a technical specialist within the meaning of the Valmin Code

Deloitte Corporate Finance is also obligated to undertake their work in accordance with statements, standards and guidelines issued by the Accounting Professional and Ethical Standards Board Limited, including APES 225 Valuation Services (APES 225) and the International Valuation Standards Council's International Valuation Standards 2017 (IVS 2017). To the extent necessary, we would expect that you also undertake your work in accordance with APES 225 and IVS 2017.

For the purpose of the IER, fair market value is defined as the amount at which assets or liabilities would change hands between a knowledgeable willing buyer and a knowledgeable, willing seller, neither being under a compulsion to buy or sell. Accordingly, the Services should be undertaken within the context of this definition.

Deloitte Corporate Finance will provide you with any information or documents which you will need to provide the Services. You agree to comply with the information flow processes and communication protocols as agreed with us.

You must provide the Services in accordance with this Agreement and with the degree of skill, care and diligence expected of a professional providing services of the same kind.

You agree to update us regularly on your progress on the Services and to inform us promptly about any issues or difficulties you face in providing the Services or meeting the timetable.

In providing the Services, you agree to:

- hold all authorisations and licences you need to provide the Services
- comply with all laws and all instructions or directions we give in relation to the Services including those regarding Independence or the requirements of the Regulatory Guides
- provide any advice or assistance related to the Services as we reasonably request
- maintain the Files and provide the Files promptly to us on our request
- attend any meetings as we may reasonably request and on reasonable notice from us
- allow us or Universal Coal reasonable access on reasonable notice to audit the Files
- implement any recommendations we make and comply with any audit findings that relate to your obligations under this Agreement
- not interfere with or impede our relationship with Universal Coal
- maintain appropriate insurance in relation to the Services and provide us with certificates of currency on request.

The Report

In addition to your opinion, the Report must include:

- a statement of your Independence, including details of any prior business or professional relationships and/or services provided by you and any of your Representatives to Universal Coal or any other Interested Parties, over the past two years (or longer if the relationships is a significant one) as contemplated by RG 112
- information about any financial or other interest that could reasonably be regarded as capable of affecting your ability to give an unbiased opinion on the matter being reported on
- any fee or benefit (whether direct or indirect) you will receive in connection with the Report
- the qualifications and experience of you and your Representatives
- any material assumptions on which your opinion is based and a sensitivity analysis which sets out the impact of any changes to those assumptions which may have a which have a material impact on the Report
- the methodology used to arrive at your opinion and the reasons for your opinion.

You will provide a draft Report on a date to be confirmed with you, though we anticipate at this stage, that the draft will be required within the next two to three weeks.

Given the required timeframes for this exercise, we will ask you to keep us informed of your findings throughout the engagement, so we can progress our work.

You acknowledge that Deloitte Corporate Finance will refer to you, the Report and the Services in the IER and the Report may be reproduced as an appendix to the IER. You consent to Deloitte Corporate Finance reproducing the Report and referring to you and the Services in the IER. We will ask for your consent in the form and context in which your work and the Report will be included before the IER is issued.

We will also provide you with a draft of the IER to confirm that we have accurately referred to the Report and that any statement or matters which relate to the Report or the matter in which it is referred to in the IER are accurately stated in all material respects in the IER before we issue the IER. You agree to tell us if there is any matter which is not accurate or has the potential to mislead a reader in relation to the matters covered by the Report.

Independence and conflict of interest

As an independent expert preparing the IER we must be Independent as contemplated by RG112 and be satisfied that you are Independent too. Based on our discussions with you we understand that you have considered the Independence Criteria in RG 112 and concluded that you are Independent. You represent and warrant that you are Independent and meet the Independence Criteria in relation to all Interested Parties.

You agree to:

- maintain your Independence while providing the Services
- avoid entering into any arrangements which may affect your Independence
- notify us immediately if:
- you are no longer Independent
- anything happens that could cause you to not be Independent
- any matter occurs that could give rise to an actual or potential conflict of interest in relation to the Services
- work with us in good faith to resolve any conflict or matter affecting your Independence.

Reliance and Information

We will rely on the Report and any Information you provide to us as being complete and accurate. We / Universal Coal and others will provide you with any Information you will need to provide the Services. We will not audit or verify any Information and we are not responsible for the accuracy or completeness of any Information you use to provide the Services. You agree not to make any claim against us for any loss, damages costs or expenses (Loss) you may suffer or incur as a result of relying on Information you use to provide the Services.

Responsibility and indemnity

We are not responsible to you for any Loss you may suffer or incur in connection with the Services or the Report. You agree that you will not make any claim or demand or bring any proceedings against us in connection with the Report or the Services.

You agree to indemnify us against any Loss we may suffer or incur as a result of the Report or the Services or relating to a negligent or wilful act or omission by you in providing the Services or a breach by you of this Agreement. This indemnity does not apply to any Loss that results from any wilful misconduct or fraudulent act or omission by us.

Confidentiality

Each of us agrees to protect and keep confidential any Confidential Information that is given to us by the other. You will only use or disclose any Confidential Information to provide the Services to us or to meet your obligations under this Agreement, or as we otherwise Consent.

You may disclose any Confidential Information which you are required by law to do so provided that you:

- first notify us that you intend to do so
- take all reasonable steps requested by us to protect any Confidential Information which is disclosed.

You agree to:

- comply with any reasonable direction provided by Deloitte Corporate Finance with respect to privacy and compliance with any privacy laws in providing the Services
- execute a confidentiality undertaking or agreement or any other documents reasonably required by Deloitte Corporate Finance or Universal Coal in relation to this Agreement.

You acknowledge that the Regulatory Guides prevent you from corresponding with any Interested Party in relation to the IER, the Report or the Services; accordingly we ask that you do not approach an Interested Party in relation to the Proposed Transaction without consulting us first.

You may disclose any Confidential Information to the extent that it is required to be disclosed by Law. However you must where practical and to the extent permitted by Law, notify us of the requirement to disclose and only disclose the minimum Confidential Information required to comply with the Law.

You agree to comply with any reasonable direction we give regarding compliance with any privacy laws in providing the Services and to execute any agreement reasonably required by us or Universal Coal in relation to this Agreement.

Fees

Universal Coal is responsible for all fees and expenses you incur in relation to the Services. We understand your fees and expenses to provide the Services to us are estimated in the range of $105,000 to $115,000 (exclusive of GST and excluding any travel costs). Please direct your invoices for the Fees to Deloitte, and we will facilitate billing them to Universal Coal.

Intellectual Property

You grant us a royalty-free, non-exclusive, perpetual, world-wide licence to use and reproduce the Report and any other any material that you create in relation the Services for the purposes of preparing the IER and any related incidental internal purposes. We retain copyright in all material we provide to you.

Term and Termination

This Agreement starts on the date you sign and return the Letter to us or when you first start work on the Services for us, whichever is first (the Term). Unless it is terminated earlier, this Agreement terminates when you have finished providing the Services to us.

We may terminate this Agreement immediately at Universal Coal’s request, where you breach the Agreement or where there is an Independence matter which cannot be resolved to our or our Universal Coal’s satisfaction. Either party may terminate this Agreement at any time by giving 5 business days written notice to the other.

If this Agreement is terminated:

- Universal Coal will reimburse your fees and expenses up to termination; you agree to provide any assistance that may be reasonably requested by us and to return any Information to us or Universal Coal, as appropriate
- you agree to provide any transition assistance that may be reasonably requested by us or Universal Coal on termination of this Agreement
- that does not affect any accrued rights of either of either party or any provision of this Agreement that continues to apply
- you will no longer be obliged to provide the Services and neither we nor Universal Coal will be obliged to pay the Fees and Expenses however, all other terms of this Agreement will remain in force

- the provisions of this Agreement that survive its termination include those relating to Confidentiality; Intellectual Property and Responsibility and indemnity.

Other terms of this Agreement

You cannot subcontract or assign your obligations under this Agreement without our Consent.

You agree to execute such documents and take such steps as are reasonably required by us to meet your obligations under this Agreement.

You acknowledge that we may commission other technical experts to assist us to prepare the IER.

Each party is an independent contractor and neither party is an agent or representative of the other or has the authority to bind the other. Neither party will act or represent itself, directly or by implication, as an agent of the other or in any manner assume or create any obligation on behalf of, or in the name of, the other. This Agreement is not intended and will not be taken to constitute a partnership, agency, employment, joint venture or fiduciary relationship between the parties.

This Agreement contains the entire agreement between the parties with respect to its subject matter. It supersedes all prior communications, negotiations, arrangements and agreements, either oral or written between the parties in relation to its subject matter. Any changes to this Agreement must be agreed to in writing by both parties.

If any of the terms of this Agreement are not legally enforceable then that term will be ignored, but in all other respects this Agreement has full effect.

This Agreement is governed by the Laws of New South Wales and each party irrevocably submits to the jurisdiction of the courts exercising jurisdiction in that State.

Reading this Agreement

In this Agreement:

- headings and any explanatory text are for convenience only and do not affect how this Agreement is interpreted
- the singular includes the plural and conversely
- if a word is defined its other grammatical forms have a corresponding meaning
- a reference to dollars or $ means Australian dollars
- the use of words such as includes to introduce a list does not limit what may be included in that list.

In this Agreement the following words have the meanings set out below:

Confidential Information means any information which is not publicly available relating to us or Universal Coal including:

- the terms of this Agreement and the details of or any services either party may provide in relation to the Proposed Transaction
- the Proposed Transaction and the identity of Universal Coal and TerraCom
- any information designated as confidential by us or Universal Coal including our intellectual property, methodologies and technologies
- any information acquired by you in providing the Services.

Consent means prior written consent which may be granted at the consenting party's discretion and which may be subject to reasonable conditions.

Fees means the fees incurred by you and approved by Deloitte Corporate Finance in respect of this Agreement.

Files means accurate and appropriate files and records of the Services.

Independent means that you are independent of all Interested Parties and that you do not have an actual or potential conflict of interest in relation to the Services or the Interested Parties.

Independence Criteria means the criteria set out in RG 112.

Information means any information, documents, materials, facts, instructions or Confidential Information exchanged with or by the parties including Universal Coal in relation to the Services.

Interested Party means the client as commission party, its associates (as that term is defined in the Corporations Act) and Taurus and its associates.

Law means any law, order of any court, tribunal, authority or regulatory body, rules of any stock exchange or any professional obligations or requirement.

Regulatory Guides means Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 *Content of expert reports* (RG111) and Regulatory Guide 112 *Independence of experts* (RG112) and any other relevant regulatory guide published by the Australian Securities and Investment Commission from time to time.

Representative means any officer, employee, consultant or agent who is involved in preparing the Report or the activities in relation to the Services and in the case of Deloitte Corporate Finance includes a director.

Services means the services described in this Agreement.

you and ***your*** means of the entity or individual to whom this letter is addressed and where applicable, as the context requires, includes your Representatives.

us means Deloitte Corporate Finance.

we and ***our*** means Deloitte Corporate Finance and, where applicable as the context requires, our Representatives.

Please confirm that you agree to this Agreement by signing, dating and returning the enclosed copy of this letter to us.

If you have any questions please contact Stephen Reid on (02) 9322 7654.

Yours faithfully

Stephen Reid
Authorised Representative
Deloitte Corporate Finance Pty Limited

SRK Consulting (Australasia) Pty Ltd agrees to the terms of this Agreement. Signed for and on behalf of SRK Consulting (Australasia) Pty Ltd by its duly authorised representative:

Signed: ……………………………………………………………………………

Name: ……………………………………………………………………………

For and on behalf of: SRK Consulting (Australasia) Pty Ltd
……………………………………………………………………………

Title: ……………………………………………………………………………

Date: ……………………………………………………………………………

Appendix 6: Context to the report

Individual circumstances

We have evaluated the Takeover Offer for Non-associated Shareholders as a whole and have not considered the effect of the Takeover Offer on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Takeover Offer from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Takeover Offer is fair and reasonable and therefore in the best interests. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

The report has been prepared at the request of the Bid Committee and is to be included in the Response Statement to be given to Non-associated Shareholders. Accordingly, it has been prepared only for the benefit of the Bid Committee and those persons entitled to receive the Response Statement in their assessment of the Takeover Offer outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-associated Shareholders and Universal Coal, in respect of this report, including any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Takeover Offer.

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Takeover Offer is fair and reasonable in relation to Section 640 as if it applied to the preparation of this report. Deloitte Corporate Finance consents to this report being included in the Response Statement.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by Universal Coal and its officers, employees, agents or advisors (as set out below in 'Sources of Information'). Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Universal Coal management for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by Universal Coal and its officers, employees, agents or advisors, Universal Coal has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which Universal Coal may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by Universal Coal and its officers, employees, agents or advisors or the failure by Universal Coal and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Takeover Offer.

In preparing our report we have had no access to the management of TerraCom. We may not have become aware of all information that may be relevant to our valuation of the Proposed Merged Entity. Accordingly the conclusions reached in our valuation report could differ to those reached had we had full access to the management of TerraCom.

Deloitte Corporate Finance also relied on the valuation reports prepared by SRK Consulting. Deloitte assessed the professional competence and objectivity of the SRK Consulting and believe the work performed is appropriate and reasonable. Deloitte has received consent for our reliance on and inclusion of their opinion in the preparation of this report.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte's consideration of this information consisted of enquiries of Universal Coal management, analytical procedures applied to the financial data and engaging SRK Consulting to review specific assumptions underpinning future cash flow projections. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the AUASB or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for Universal Coal included in this report has been prepared on a reasonable basis in accordance with ASIC Regulatory Guide 111. In relation to the prospective financial information, actual results may be different from the prospective financial information referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Stephen Reid, M App.Fin. Inv., B.Ec, CA; and Nicki Ivory, B.Com., CA, CFA. Stephen and Nicki have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 225 George Street, Sydney, NSW, 2000 acknowledges that:

- Universal Coal proposes to issue a Response Statement in respect of the Takeover Offer (being the Response Statement)
- the Response Statement will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Response Statement for review
- it is named in the Response Statement as the 'independent expert' and the Response Statement includes its independent expert's report in Appendix A of the Response Statement.

On the basis that the Response Statement is consistent in all material respects with the draft Response Statement received, Deloitte Corporate Finance Pty Limited consents to it being named in the Response Statement in the form and context in which it is so named, to the inclusion of its independent expert's report in Appendix A of the Response Statement and to all references to its independent expert's report in the form and context in which they are included, whether the Response Statement is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Response Statement and takes no responsibility for any part of the Response Statement, other than any references to its name and the independent expert's report as included in Appendix A.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- various transaction documents, including the Offer Document and the draft Response Statement
- audited financial statements for Universal Coal and TerraCom for the years ended 30 June 2018 and 30 June 2019
- reviewed financial information for Universal Coal for the half year ended 31 December 2019
- Universal Coal and TerraCom company websites
- various internal management information
- publicly available information on comparable companies and market transactions published by ASIC, S&P Capital IQ, Thomson Research, Thomson Reuters Financial markets, and Mergermarket
- IBIS World company and industry reports
- other publicly available information, media releases and brokers reports on Universal Coal and the coal industry / sectors.

In addition, we have had discussions and correspondence with certain directors and executives of Universal Coal in relation to the above information and to current operations and prospects, including Tony Weber – Chief Executive Officer and Executive Director, Celeste Van Tonder – Chief Financial Officer, Mark Eames – Interim Chairman and Paul Sanger – Non-Executive Board Member.