



**INDEPENDENT VALUER'S REPORT ON THE SAMVAL
VALUATION OF THE KUNENE MOUTH DIAMOND PROJECT ("MINING ASSET") ("INDEPENDENT
VALUER'S REPORT")**

24 April 2017

The Independent Board

Trustco Group Holdings Limited

2 Keller Street

Windhoek

Namibia

Dear Sirs

1. Introduction, scope and terms of reference

- 1.1 The transaction was first described in the Stock Exchange News Service ("**SENS**") announcements published on 2 February 2015, 22 June 2015 and 24 June 2015 in terms of which the Trustco Group Holdings Limited ("**Company**" and/or "**Trustco**") advised shareholders, *inter alia* of its intention to pursue opportunities in the resources sector and further that the Company has entered into an Option Agreement with Dr. Quinton van Rooyen (the "**Seller**") in terms of which the Company acquired an option to acquire the entire shareholding in Huso Investments (Pty) Ltd ("**Huso**"), of which the Seller is the sole shareholder, via its wholly-owned subsidiary, Trustco Resources ("**Huso Transaction**").
- 1.2 Further to the publication of the announcements referred to above, a SENS announcement published on the 15 July 2015 by the Company advised that it has exercised the aforesaid Option and has consequentially entered into a share purchase agreement with the Seller dated 14 July 2015 ("**Share Purchase Agreement**") for the Huso Transaction, of the entire issued share capital of Huso.
- 1.3 The circular on the Huso Transaction ("**Circular**") was submitted and approved by the Issuer Regulation Division of the JSE Limited ("**JSE**") and the Competent Persons Report on the Mining

Asset, dated 10 June 2015 (“**CPR**”) was submitted and approved by the Readers Panel of the JSE. The Circular was sent to shareholders on 11 September 2015 and subsequently, shareholders approved the Huso transaction on 5 October 2015, subject to the fulfillment of certain outstanding conditions to be fulfilled for purposes of closing of the Huso Transaction.

- 1.4 Huso is the holding company of Northern Namibia Development Company (Pty) Ltd (“**NNDC**”), a diamond mining and exploration entity in Namibia and Morse Investments (Pty) Ltd (“**Morse**”) a diamond processing and polishing factory in Namibia. The total purchase consideration payable by Trustco to the Seller in respect of the Huso Transaction will be settled by way of an issuance of new Trustco shares (“**Shares**”) by Trustco to the Seller.
- 1.5 Subsequently, the parties to the Huso Transaction, announced their intention to amend the terms of the Huso Transaction, as per the SENS announcements published on 15 November 2016 and 17 November 2016. In terms of the addendum to the Share Purchase Agreement (“**Addendum**”), the total purchase consideration remains as Namibian Dollars (“**NAD**”) 3 621 149 000, payable by way of an issue of 772.1 million Shares to the Seller, at an issue price of NAD 4.69 per share. The purchase consideration will still be settled by an initial payment of NAD 672 077 000, payable by way of an issue of 143.3 million Shares, as compensation for the transfer of Huso to Trustco. It will be payable within 30 days after the closing date of the Huso Transaction; and a fixed number of Shares will be payable to the Seller at any time during the payment term (being not later than nine years from the closing date of the Huso Transaction), upon the subsidiaries reaching Earnings Before Interest, Tax, Depreciation and Amortisations and After Stock Adjustments (“**EBITDAASA**”) targets rather than achieving minimum resource targets. The indemnities guarantee and rights to terminate are amended (“**Amendments to the Huso Transaction**”).
- 1.6 It should be noted that the terms of the Huso Transaction have not changed with the Addendum, however, as the Seller is a related party, any amendment to the Huso Transaction would require further shareholder approval.
- 1.7 In terms of paragraph 12.9 of the JSE Listings Requirements, the CPR must comply with the South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves (“**SAMREC**”) and the South African Code for the Reporting of Mineral Asset Valuation, 2016 Edition (“**SAMVAL Code**”) and in terms of 12.9(f) must contain a valuation section which must be

completed and signed off by a Competent Valuer in terms of and in compliance with the SAMVAL Code. The CPR, prepared by Geomine Consulting Namibia CC (“**Competent Person**”), incorporated by reference in Annexure 8, and previously approved by the JSE, had a valuation section in the report, however the Readers Panel waived the requirement and instructed the Competent Person to remove the valuation section in the CPR. Subsequently, and further to the Amendments to the Huso Transaction, the JSE requested the Company to include a SAMVAL Code-compliant valuation and the Company appointed Paul Austin trading as Effortless Corporate Finance (“**Competent Valuer**”) in terms of an engagement letter dated 7 March 2017 to complete this valuation

2. Qualifications and experience

- 2.1 I obtained a B Com LLB at the University of Stellenbosch and a CTA at the University of Cape Town. I have qualified as a Chartered Accountant and am a member of SAICA.
- 2.2 I have experience in the diamond mining industry working in Oranjemund for De Beers, and in providing auditing, accounting, tax and advisory services to three listed diamond mining companies.
- 2.3 I have performed fairness opinions which included valuations on mining transactions for eleven public mining companies and have completed three valuations of diamond mining assets.

3. Limiting conditions and market assessment

- 3.1 All the facts presented in the report are correct to the best of my knowledge.
- 3.2 The analyses and conclusions are limited only by the reported forecasts and conditions.
- 3.3 I am an independent Competent Valuer and independent of the entities forming part of the Huso Transaction, thus confirming that:
 - 3.3.1 I hold no shares or any financial interest in any of the entities;
 - 3.3.2 I am not an employee of any of the entities;
 - 3.3.3 I have no close family member owning shares in any of the entities; and
 - 3.3.4 that no close family member is an employee of any of the entities.

- 3.5 I have no present or prospective interest in Trustco or Huso and /or its subsidiaries or the mining assets that are subject to or parties in this transaction by way of any shareholdings, directorships or employment contract. There are no restrictions on the scope and special instructions followed by me.
- 3.6 My contractual relationship with the Trustco is not contingent on any aspect of this Independent Valuer's Report.
- 3.7 I have no bias with respect to the assets that are the subject of this Independent Valuer's Report, or to the parties involved with the assignment.
- 3.8 I visited and inspected the Mining Assets at the Kunene Mouth, in North Western Namibia, on the 1st and 2nd of March 2017.
- 3.9 The users of this Independent Valuer's Report are warned to exercise caution concerning all forward-looking or forecast statements. I suggest that shareholders should consult an independent advisor if they are in any doubt as to the effect of the valuation considering their personal circumstances.

4. SAMVAL code

- 4.1 This Independent Valuer's Report has been prepared in compliance with the SAMVAL Code and there are no variations with the code.

5. Sources of information

- 5.1 I have considered the following information that is relevant to the value of the Mining Assets in formulating my opinion:
- information on Trustco and the Huso Transaction, including the history, the nature of business, services, key customers, industry and competitors;
 - the audited annual financial statements of Huso and its subsidiaries, Morse and NNDC for the years ended 31 March 2016 and 2015 and the interim Financial statements for the period ended 30 September 2016;

- the CPR on the Mining Assets that are the subject of the Huso Transaction and consequently the amendments thereto, dated 10 June 2015;
- the update to the resources and reserves statement on the Mining Assets, for NNDC, (Resource Statement Review – SAMREC 2016 Guidelines) prepared by the Competent Person, dated 16 March 2017] (“**Updated Diamond Resources Statement**”);
- management budgets and forecasts relating to Huso;
- the details relating to the Huso Transaction and the amendment to the Huso transaction;
- discussions with directors of Trustco, including discussions regarding the rationale for and the perceived benefits to be obtained from the Amendment to the Huso Transaction; and
- operating costs and capital expenditure relating to Mining Assets.

6. Synopsis

6.1 Scope of work

I visited the mine on 1 and 2 March 2017. I reviewed the original CPR, as well as the Updated Diamond Resource Statement, and I obtained evidence of the following:

- the professional competence, in particular, membership of an appropriate professional body and experience and reputation in the field;
- the independence, including confirmation that there were no actual or apparent conflicts of interest that might impair, or be perceived to impair, their objectivity;
- that the scope of the work was adequate;
- the appropriateness of the work ensuring that the methodology is acceptable;
- I agree with the results in these reports.

6.1.2 I considered information made available by and from discussions held with the management and directors at the mine.

6.2 Valuation date

The valuation is as at 28 February 2017.

6.3 The mineral property

6.3.1 The mineral property is held by NNDC, a subsidiary of Huso, and is the owner of EPL2633, an exclusive prospecting licence.

6.3.2 The ownership of the land is held by the Namibian government. The assets include an airfield, a mining camp, buildings, engineering workshop, storage, earthmoving assets, mining equipment, and mining and sorting plant.

6.4 **Location**

The EPL covers approximately 20 000 hectares in size, is located around 660km north of Swakopmund, In the north-western corner of Namibia's Skeleton Coast Park on the Namibia / Angolan border with the Atlantic Ocean (to the west), the Kunene River Mouth (north-west), and the Kunene River border it (north).

6.5 **Ownership of the mining rights**

The exploration license is owned by NNDC and management believes the granting of a mining licence is imminent.

6.6 **Geology and Mineralisation, History of exploration and production their current status, Exploration work and the targets, the mineralization and production forecast, mineral resources and reserves**

These details are completely and adequately explained in the CPR.

6.7 **Valuation approaches and methods**

6.7.1 Firstly it is important to note that I am required to perform a SAMVAL valuation, whilst a SAMVAL valuation is relating only to the valuation of a mineral asset, which is defined as:

“any contractual or permanent right to explore for, or mine (or both) or otherwise extract minerals from the Earth, that has been granted or an entity holding such property or the securities of such an entity, including but not limited to all corporeal and incorporeal property, mineral rights, mining titles, mining leases, intellectual property, personal property (including plant equipment and infrastructure), mining and exploration tenure and titles or any other right held or acquired in connection with the finding and removing of minerals located in, on or near the earth's crust. Mineral Assets can be classified as Dormant Properties, Exploration Properties, Development Properties, Production or Defunct Properties.”

6.7.2 It is imperative to understand that while I am performing a SAMVAL valuation, I am only valuing a portion of the acquisition set out in the Huso Transaction (the Mineral Asset). The

acquisition relates to Huso and subsidiaries, of which the Mineral Assets only relate to NNDC, while the value creation and beneficiation is mostly in Morse (which falls outside the ambit of a SAMVAL valuation).

6.7.3 I applied the following valuation approaches to assess the value of the Mineral Asset:

- The Market Approach; and
- The Cost Approach to the valuation of the mineral asset.

6.7.4 In terms of the SAMVAL Code it is not considered acceptable to use the Income Approach, 'potential resources', 'hypothetical resources', or any other such categories that do not conform to the definitions of Mineral Resources and Mineral Reserves within SAMREC or the Committee for Mineral Reserves International Reporting Standards ("CRIRSCO") definitions.

7. Valuation

7.1 The *International Valuation Standards Committee* defines market value as follows:

The estimated amount for which a property / asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

The market value is an objective value in that the crucial value determinants are largely derived from the marketplace. Some of these value determinants are the hurdle rate (total required return), the forecast market-rental growth rate (not the same as the contractual escalation rate), and the capitalization rate.

Source: International Valuation Standards (IVS), Sixth edition 2003.

7.2 **The Market Approach** relies on the 'willing buyer, willing seller' principle and requires that the monetary value obtainable from the sale of the Mineral Asset is determined as if in an arm's-length transaction. After extensive market research I could not find a comparable outside transaction wherefrom the market value could be derived or compared to similar Mineral Assets. Alluvial diamond mines are unique in nature and I was unable to identify any other similar transactions.

- 7.3 In this instance these Mining Assets in NNDC, were part of the Huso Transaction, which is considered a very recent transaction and was subject to a fairness opinion dated 8 September 2015 that was included in a circular to shareholders of Trustco. The Huso Transaction was a related party, and in terms of the JSE Listings Requirements, on any such transaction, a related party must refrain from voting. When the shareholders approved the Huso Transaction, and the related party refrain from voting, the transaction became an arm's length transaction. It is, in my expert opinion, therefore reasonable to use the Huso Transaction and the purchase price derived from the transaction as a comparable transaction in terms of the Market Approach. The total consideration of NAD 3 621 149 000, payable by way of an issue of 772.1 million Shares to the Seller at an issue price of NAD 4.69 per share. The purchase price allocated for the portion of the Mineral Asset is the initial payment of NAD 672 077 000. I need to allocate this NAD 672 077 000 between the mining assets and the diamond cutting works and beneficiation plant, and allocate a percentage of the purchase price to mining assets. I used the cost of the assets as the basis for this allocation. On this basis 95.1% of the assets relate to the mining assets and the rest to the assets of the diamond cutting works and beneficiation plant, and in determining the value in terms of the Market Approach, use NAD 639 338 975 as the market value for the Mineral Asset.
- 7.4 The **Cost Approach** relies on historic and/or future amounts spent on the Mineral Asset, and is a valuation approach based on the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction.
- 7.5 In terms of paragraph 6.2.19 of the Huso Agreement, NNDC will have an installed capacity to produce at least 15,000 carats per year. On this basis NAD 181 950 460 has been spent on mining assets and the development of these assets.
- 7.6 These costs do not include finance charges, or anticipated future expenditure, the mining license, additional capacity, operational expenses, opportunity cost. The question on what would one be willing to pay for a mining license remains unanswered when using the Cost Approach. I am of the opinion that it surely must have an intrinsic value.
- 7.7 The Cost Approach does not take into consideration future earnings, which are subject to warranties.

8 Valuation summary and conclusion

The Market Approach indicates NAD 639 338 975.

The Cost approach indicates a value of NAD 181 950 460.

The valuation approaches indicate that a wide range of values and the assessment relating to this SAMVAL valuation is that there is a high level of risk in an inferred resource. All valuations are an opinion at a point in time and need to account for a series of risks. This is a diamond mining asset in a start-up phase is subject to a high level of risk and uncertainty. These conclusions are not qualified and are not subject to any restrictions imposed on me.

Yours faithfully



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