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3rd February 2017

ASX Announcement

TerraCom Receives Conditions for Indicative Approval – Blair Athol Mine

TerraCom Limited (**TerraCom or the Company**) (**ASX: TER**) is pleased to announce that its wholly owned and operated subsidiary, Orion Mining Pty Limited, has received advice from the Queensland Government Department of Natural Resources and Mines that it is "...minded to grant an indicative approval subject to conditions ..." for the transfer of the mining lease for the Blair Athol Coal Mine, Central Queensland.

TerraCom has advised the Queensland Government that it can meet the conditions, which the TerraCom Board does not believe are onerous. TerraCom is of an opinion that a final decision on the Indicative Approval will be made shortly by the Queensland Government.

Should approval be given, the combination of TerraCom's producing BNU HCC Mine and Blair Athol positions TerraCom well to capitalise on the strong coal coking and thermal coal markets. It builds on TerraCom's near term strategy of establishing 3 strong operating and revenue generating businesses. Each business acting as a regional hub for further growth into the seaborne traded markets. The 2017 production forecast from these 3 operating business should exceed an annualised rate of 4Mtpa, with a growth potential to lift this rate in the medium term to above 6Mtpa and in the longer term reaching 10Mtpa through organic growth.

Please see attached Annexure for further clarity on conditions for Indicative Approval.

ABOUT BLAIR ATHOL

Should approval be given, Blair Athol will be acquired for AUD\$1 and the Queensland Government will receive AUD\$79.6m from the BACJV to meet Blair Athol Coal Mine's rehabilitation (which will form part of TerraCom's financial assurance quantum of AUD\$93.1m). The acquisition includes the mining lease, related licenses, land, site infrastructure, active contracts and all mining plant & equipment, including a dragline, to deliver TerraCom's forecast production schedule and the progressive rehabilitation.

TerraCom will relocate its Corporate Office to Clermont utilising the excellent office facilities included as part of the acquisition.

If approved, the acquisition of the Blair Athol Coal Mine will be a significant milestone for TerraCom, bringing the following benefits:

- Progressive rehabilitation of one of Queensland's oldest coal mines;

- The resumption of coal mining and export sales from the Blair Athol Coal mine providing the local, state and federal economies with increased economic activity, employment, royalties and taxation; and
- Forecast positive cash flow through a low overhead structure and operational efficiencies.

TerraCom plans to commence over 50 hectares of site rehabilitation while bringing the mine back into production. The operation, under TerraCom management, is planned to deliver approx. 2Mtpa over 7 years and ongoing progressive rehabilitation with a target of operations recommencing in the 1st quarter of 2017.

Past ASX releases on Blair Athol include:

Date	Headline
7-11-2016	Blair Athol Mine Life Extension
14-10-2016	Blair Athol Mining Contract Executed
12-10-2016	Blair Athol 60Mw Solar Power Station Plans
6-10-2016	Another Milestone – FIRB Approval of Blair Athol Acquisition
29-09-2016	Funding Secured to Support Blair Athol Mine Commissioning
23-09-2016	TerraCom executes Sale and Purchase Agreement
4-07-2016	TerraCom to Acquire the Blair Athol Coal Mine

ABOUT TERRACOM – www.terra.comresources.com

TerraCom has fully commissioned the Baruun Noyon Uul (BNU) coking coal mine in the South Gobi Mongolia. The Company's goal is to become one of the largest and highest quality coking coal producers in Mongolia, providing exceptional value for its steel-producing customers.

TerraCom is also focused on developing two priority projects in Queensland, Australia: the large thermal coal Northern Galilee Project and the high energy prime thermal coal Springsure Project.

In order to support further growth and expansion, TerraCom continues to evaluate cash generative assets for potential acquisition. In this regard, the Company has announced that it has reached agreement to acquire the Blair Athol Coal Mine (BA) in Queensland, Australia from the Blair Athol Joint Venture, with production scheduled to recommence in early 2017. The approval for transfer of the BA mining lease is progressing through the Government of Queensland process.

The combination of BNU HCC Mine and the Blair Athol Thermal Coal Mine positions TerraCom well to capitalise on the strong coal coking and thermal coal markets through recommencement of operations at both BNU Mine and BA Mine.

The Company is also evaluating the acquisition of a hard coking coal mine in Kalimantan, Indonesia, a 500,000 tpa operation located in close proximity to road, barge and port infrastructure connecting it to the seaborne coal market.



Cameron McRae
Executive Chairman

Ref ML 1804



Department of
Natural Resources and Mines

1 February 2017

Mr Mark Reynolds
Director
Orion Mining Pty Ltd
By email: mreynolds@terracom.com

Dear Mr Reynolds,

Mining Lease 1804 – application under the *Mineral Resources Act 1989* for indicative approval for assessable transfer to Orion Mining Pty Ltd (Orion)

I refer to our previous correspondence about this matter.

The Minister's delegate has been considering the application by Blair Athol Coal Joint Venture (the applicant) for indicative approval for an assessable transfer of Mining Lease number 1804 to Orion.

At this stage in the application process, the delegate is minded to grant an indicative approval subject to conditions which achieve the following outcomes:

1. Orion to provide evidence demonstrating that it has in place arrangements for:
 - (a) guaranteed access to coal handling and preparation plant for crush and wash of product coal during the remainder of the term of ML 1804;
 - (b) rail load of product coal and transportation to market for the remainder of the term of ML 1804; and
 - (c) a secure supply of potable water to ML 1804 for the remainder of the term.
2. Orion gives DNRM a bank guarantee in favour of the State of Queensland for the sum of AUD \$13,500,000.00. The bank guarantee will be returned to Orion when Orion gives the Department of Environment and Heritage Protection the financial assurance required to be paid by Orion under the *Environmental Protection Act 1994* if Orion becomes the holder of EPML00876713.
3. Orion to provide a copy of the 'parent company guarantee' given by TerraCom Limited (**TerraCom**) in favour of Orion indicating that TerraCom has guaranteed that it will provide Orion with any necessary financial assistance Orion may request in order to comply with the statutory obligations connected with ML 1804 including obligations under the *Mineral Resources Act 1989*, the *Environmental Protection Act 1994*, the *Coal Mining Safety and Health Act 1999* and the *Water Act 2000*.

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The delegate has been advised that Orion has expressed a preference to give any financial assurance it may eventually be required to pay under the *Environmental Protection Act 1994* for the environmental authority associated with ML 1804 in the form of cash. If it remains Orion's preference to give any required financial assurance in cash rather than in the form of a bank guarantee from an investment-grade rated authorised deposit-taking institution, the delegate requires Orion, in addition to the matters stated above, to:

- state how it proposes to ensure that the State will have priority over any other registered security interest; and
- make any submissions as to an appropriate condition upon the indicative approval which will achieve that.

The delegate's preliminary view is that conditions that ensure the matters set out above would be appropriate having regard to the matters mentioned in section 318AAX(b) and (c) of the *Mineral Resources Act 1989* as in force immediately before 27 September 2016 (pre-amendment MRA).

I emphasise, however, that the delegate has not yet made a decision to grant an indicative approval, and impose conditions along the lines outlined above, under section 318AAV of the pre-amendment MRA.

Rather, the purpose of this letter is to give Orion the opportunity to make submissions regarding conditions of the nature set out above and the drafting of such conditions.

If Orion does wish to make any submissions, it should do so in writing by reply email to me by **4.00 pm on Monday 20 February 2017**.

Please note that I will be providing a copy of this letter to the applicant on behalf of the delegate, to give the applicant the same opportunity as Orion to make any submissions.

If Orion has any concerns that disclosing this information to the applicant may adversely affect its commercial confidentiality (or that of its parent company, TerraCom Ltd) please let me know in writing **by 4.00 pm on Friday 3 February 2017** and the delegate will consider how best to manage those concerns. If I do not hear from you by that time, I will send the material to the applicant without further notice to you.

If you have any questions about this letter, please do not hesitate to contact me on telephone number 4936 0132.

Yours sincerely,



Peter Donaghy
Director, Coal and Small Scale Mining Operations