



TerraCom Limited
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Supplemental Release

2017 Annual Financial Statement

Maiden Annual Profit

TerraCom Limited (TerraCom or the Company) (ASX: TER) is pleased to announce the 2017 Full Year Financial Results. The full release has been lodged with the ASX and is available for review.

SIGNIFICANT HIGHLIGHTS

- **Mongolian BNU Coking Coal mine successful return to production**
- **Australian Blair Athol Thermal Coal mine acquisition completed and mine successfully recommissioned**
- **Maiden annual profit of \$5.037 million**
- **Restructure and recalibration of balance sheet to deliver return to positive net assets of \$9.621 million**
- **Both mines on target to achieve annualised production rates early in FY 2018 delivering a combined coal mining output of 3.5Mtpa**

Mongolian BNU Coking Coal Mine Return to Production

During the FY 2017 the Company's wholly owned Mongolian subsidiary successfully returned to production the BNU Coking Coal Mine in Mongolia to export coal meeting obligations under a 5.5-year offtake agreement with the Kingho Group, one of the largest private coal companies in China.

In just over 4 months of operation since the recommencement of operations a total of **315,942 tonnes** of coal was sold contributing to this FY 2017 financial result.

Production continued to ramp up to achieve the forecast annualised rate of 1.5Mtpa² with a further **318,000 tonnes** of product coal contracted for sales in the first quarter of FY 2018.

Australian Blair Athol Thermal Coal Acquisition Completed and Mine Recommissioned

The Company's wholly owned subsidiary became the owner of the Blair Athol Mine following the completion of the Sale and Purchase Agreement on 31 May 2017 with the Blair Athol Coal Joint

Venture.

Mining Title transfer for the Blair Athol Mining Lease (ML 1804) occurred in mid May 2017. The Company developed and implemented a revised Plan of Operations to enable a return to coal mining at Blair Athol. This Plan of Operations was approved by the Queensland Government's Department of Environment and Heritage Protection and the associated Financial Assurance was calculated to be at AU\$74.6 million.

The Company safely recommissioned the Blair Athol world class infrastructure and key elements of the mining fleet to enable the successful dewatering of mining pits and initial reshaping for rehabilitation areas to commence in June 2017 and ultimately enabled a number of significant milestones to be achieved on schedule subsequent to the end of FY 2017 including:

- First Coal Mined – 13th August 2017
- First Product Coal Crushed – 25th August 2017
- First Dragline Swing – 26th August 2017
- First Coal Invoiced - August 2017

The Blair Athol Coal Mine is now an operational mine rapidly ramping up to forecast 2 million tonnes per annum annualised rate¹ in Q4 2017. A total of **124,250 tonnes** of coal has been mined in the first quarter of FY 2018. The Coal Handling and Preparation Plant on site has been re-commissioned and is scheduled to commence coal processing in the first week of October 2017.

The Company also announced¹ a further upgrade to the Blair Athol Mine JORC Reserve and Resources with independent experts Xenith Consulting Pty Ltd upgrading the total Blair Athol Mine JORC Reserves to 15.6Mt an increase of 2.1mt and effectively adding one (1) extra year to mine life, which now totals **8 years** based on ~2 million tonnes per annum (mtpa)¹.

Maiden Annual Profit of \$5.037 million

The Company has registered its maiden profit for the year of **\$5.037 million** (2016: loss of \$51.786 million) and comprehensive profit for the year of **\$7.392 million** (2016: loss of \$53.068 million).

These results have been driven by a number of key items, including the following:

- I. \$45.739 million gain on acquisition of Blair Athol Coal Mine. The Company acquired the mine for a \$1 purchase price and the Queensland Government received \$79.698 million in cash from the prior owners as TerraCom's financial assurance for the rehabilitation requirements of the site. The mine has JORC Reserves of 15.6mt which has been converted to a mine plan to produce 2mtpa for 8 years. This equates to a \$3 per tonne gain on acquisition per JORC Reserve tonne.
- II. \$19.603 million income tax benefit recognised. As a result of the acquisition of Blair Athol, some of the Group's Australian carried forward tax losses not previously recognised have been recorded as a Deferred Tax Asset as at 30 June 2017.
- III. \$5.223 million gross profit from BNU Mine before government royalties, selling and distribution costs and depreciation and amortisation. Post recommencement of coal mining activities in November 2016, the BNU Mine sold 315,942 tonnes of coal.
- IV. \$32.507 million financial expense. The financial expense includes \$6.157 million of interest amortisation which is not payable until the Principal Repayment which occurs in June 2021.

Restructure of Balance Sheet to deliver return to Positive Net Assets of \$9.621 million

The Company's closing net asset position as at 30 June 2017 was **\$9.621 million** (2016: deficiency of \$17.651 million) representing an improvement of **\$27.272 million** in the Group's net asset position year on year.

This result has been driven by a number of key items, including the following:

- I. \$45.739 million gain on acquisition of Blair Athol Coal Mine. The Company acquired the mine for a \$1 purchase price and the Queensland Government received \$79.698 million in cash from the prior owners as TerraCom's financial assurance for the rehabilitation requirements of the site. The mine has JORC Reserves of 15.6mt which has been converted to a mine plan to produce 2mtpa for 8 years. This equates to a \$3 per tonne gain on acquisition per JORC Reserve tonne.
- II. \$19.603 million income tax benefit recognised. As a result of the acquisition of Blair Athol, some of the Group's Australian carried forward tax losses not previously recognised have been recorded as a Deferred Tax Asset as at 30 June 2017.
- III. \$16.786 million fully paid ordinary share equity issued:
 - a. \$9.546 million issued to Noble. The 298,311,234 shares were issued at 3.2 cents, and was a debt for equity swap for the majority of the Fuel Exclusivity Facility.
 - b. \$7.441 million issued to strategic investors, including institutional and sophisticated investors based out of Australia, a Hong Kong based private investment company, and Eastern European based private investment companies.
- IV. US\$24.186 million of additional borrowings throughout the year.
 - a. US\$7.750 million of interest capitalised to the Listed Euroclear Bond through the Company's election in June 2017 to capitalise 50% of the interest to the Redemption Value of the facility for the 2017 financial year.
 - b. US\$16.085 million in new facilities extended by Noble Resources International Pte Limited and Link Mining Services Pty Limited with respect to the restart of the Blair Athol operations.

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TerraCom has fully commissioned the Baruun Noyon Uul (BNU) coking coal mine in the South Gobi of Mongolia. Export shipments under a 5.5 year offtake agreement have commenced on schedule. 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 completed the acquisition of the Blair Athol Coal Mine in May 2017. The acquisition included 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.

The acquisition of the Blair Athol Coal Mine is 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 has commenced 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 8 years¹ and ongoing progressive rehabilitation.

Additionally, TerraCom is 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.

1- Refer to ASX Announcement on 5th September 2017 for further information and clarification on the Blair Athol production forecast. The material assumptions underpinning the Blair Athol production target in this ASX Announcement continues to apply and has not materially changed.

2- Refer 21 November 2016 ASX Announcement for further information and clarification on the BNU Mine production forecast. The material assumptions underpinning the BNU Mine production target in the 21 November 2016 ASX Announcement continues to apply and has not materially changed.

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