



**TERRACOM**

# QUARTERLY REPORT

## FOR THE QUARTER ENDED 30 SEPTEMBER 2017

TerraCom Limited (“**TerraCom**” or the “**Company**”) (**ASX: TER**) present its quarterly production and exploration activities report for the period ended 30 September 2017.

### CONSOLIDATED PRODUCTION

The September 2017 quarter marks a milestone for the Company with coal being mined and sold in both Mongolia (BNU) and Australia (Blair Athol). During the September 2017 quarter the Company incurred all costs to recommission the Blair Athol mine. The first coal sales revenue receipt occurred in October 2017.

As outlined previously in the ASX Announcement on 2<sup>nd</sup> October 2017 the Company is on target to achieve annualised production rates in first half of 2018 financial year delivering a combined output of 3.5 million tonnes per annum.

#### Production: Quarter Ending 30 September 2017

	2018 Q1	2017 Q1	CHANGE	CHANGE %
Run of Mine Coal mined (tonnes)	271,468	-	271,468	NA
Overburden Mined (bcm)	5,584,092	-	5,584,092	NA
Equivalent Saleable Production (tonnes)	271,468	-	271,468	NA
Coal Sales (tonnes)	158,583	-	158,583	NA
Coal Inventory (tonnes)	186,680	40,049	146,631	366%

#### Production: Year to Date – 3 Months Ending 30 September 2017

	2018 YTD	2017 YTD	CHANGE	CHANGE %
Run of Mine Coal mined (tonnes)	271,468	-	271,468	NA
Overburden Mined (bcm)	5,584,092	-	5,584,092	NA
Equivalent Saleable Production (tonnes)	271,468	-	271,468	NA
Coal Sales (tonnes)	158,583	-	158,583	NA
Coal Inventory (tonnes)	186,680	40,049	146,631	366%

## CONSOLIDATED FINANCIAL POSITION

Gross working capital of the Company as at 30 September 2017 includes the following:

- Cash on Hand – \$0.82 million
- Accounts Receivable – \$7.86 million
- Inventory (at cost) – \$6.92 million
- Financial Assurance Rebate – \$4.71 million

## CORPORATE

### RESTRUCTURE OF BALANCE SHEET TO DELIVER RETURN TO POSITIVE NET ASSETS

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 several key items, including the following:

- I. \$45.739 million gain on acquisition of Blair Athol Coal Mine. The Company acquired the mine for a nominal 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.

## 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 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.

## BOARD AUGMENTATION FOR MINING AND GROWTH

On 4 September 2017, the Company announced the appointment of Wallace (Wal) Macarthur King AO as Non-Executive Chairman of the Board of TerraCom effective immediately. Wal replaced Mr Cameron McRae who will step down as Executive Chairman but remain on the Board as a Non-Executive Director.

Wal has been a highly successful leader in the mining and construction industry successfully leading Leighton Holdings Limited to become one of the world's major contracting, services and project development organisations. Wal is the Deputy Chairman of the UNSW Foundation Limited, is a Director of Kimberley Foundation Australia Limited; and was up until recently one of the longest serving Directors of Coca-Cola Amatil Limited.

The Company also announced Mr David Stone resigned as an Executive Director. Both Cameron and David's executive positions are not being replaced which will result in a significant overhead reduction for the Company. The operational reporting structure will be streamlined with both Neville McAllary (Australia Business Unit Head) and Sam Bowles (Mongolia Business Unit Head) now reporting directly to Wal.

## ORDINARY SHARE CAPITAL CONSOLIDATION

During the quarter, the Board of Directors unanimously approved a consolidation of ordinary shares of 10:1. This is subject to regulatory approvals, including shareholders' approval at the AGM later this year. The consolidation, if passed, will reduce the number of shares on issue from 3.01 billion shares to 301.3 million shares.

## OPERATIONS - MONGOLIA

### PRODUCTION – BNU COKING COAL MINE

The BNU Coking Coal Mine continued to ramp production to meet obligations under the Company's 5.5-year offtake agreement with the Kingho Group, and other contracted sales parties.

During the quarter, production levels increased in Pit 3 following initial early works late in Q2 2017 calendar year. In opening Pit 3, mining was predominantly focused on waste removal to access coal. The quality and consistency of coal uncovered and mined from Pit 3 has been better than anticipated.

Production from Pit 2 continued throughout the quarter, with some opportunities presented for blending of coal mined with that mined from Pit 3. By end of quarter, Pit 2 was in progress of final pushback to access the deepest extents of coal planned to be extracted.

#### Production: Quarter Ending 30 September 2017

	2018 Q1	2017 Q1	CHANGE	CHANGE %
Run of Mine Coal mined (tonnes)	147,218	-	147,218	NA
Overburden Mined (bcm)	3,362,735	-	3,362,735	NA
Equivalent Saleable Production (tonnes)	147,218	-	147,218	NA
Coal Sales (tonnes)	112,122	-	112,122	NA
Coal Inventory (tonnes)	108,891	40,049	68,842	172%

#### Production: Year to Date – 3 Months Ending 30 September 2017

	2018 YTD	2017 YTD	CHANGE	CHANGE %
Run of Mine Coal mined (tonnes)	147,218	-	147,218	NA
Overburden Mined (bcm)	3,362,735	-	3,362,735	NA
Equivalent Saleable Production (tonnes)	147,218	-	147,218	NA
Coal Sales (tonnes)	112,122	-	112,122	NA
Coal Inventory (tonnes)	108,891	40,049	68,842	172%

### SAFETY

During the quarter, the BNU site maintained its excellent safety record of not a single Lost Time Injury (LTI) since commencement of operation, with over 2.5 million man-hours worked LTI free by end Q3 2017 calendar year.

Continued performance at an Lost Time Injury Frequency Rate (LTIFR) of 0.0 LTIs per million man-hours worked compares very favourably to the typical safety performance of open cut coal mining operations in more established jurisdictions such as Queensland and New South Wales.

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## BUSINESS DEVELOPMENT – MONGOLIA

### **BNU ON-SITE CHPP**

Long form contracts have been signed with Guohua Technology Corporation (GTC) for the design and construction of the BNU coal handling and processing plant (CHPP). Construction is expected to commence during early Q1 2018 calendar year.

The CHPP will increase the BNU cash operating margin by allowing for improved utilization of coal mined in production of coking products for market. Additional value will be created as result of yield improvement gained through customised CHPP design, and savings in freight costs are expected on basis of transporting clean coal products only. The CHPP adds significant NPV value to the existing and future projects in the coal basin held under licence.

### **SOUTH GOBI EXPLORATION**

Progress has been made in development of the Company's multi-pit operating strategy, with continued successful development of BNU Pit 3 in the quarter. Outcrop definition trenching and exploration drilling was conducted during the quarter which have increased the target coal reserve in Pit 3, and further defined target resources for Pit 4 and Pit 5 located progressively west along strike from BNU Pit 3, under mining licence held by the Company. All of these pits will be developed utilising existing infrastructure as a hub.

## OPERATIONS – AUSTRALIA

### PRODUCTION – BLAIR ATHOL THERMAL COAL MINE

The Blair Athol Thermal Coal Mine met several production re-commencement milestones during the quarter:

- First Coal Mined – 13 August 2017
  - First Product Coal Crushed – 25 August 2017
  - First Dragline Swing – 26 August 2017
- Production: Quarter Ending 30 September 2017

	2018 Q1	2017 Q1	CHANGE	CHANGE %
Run of Mine Coal mined (tonnes)	124,250	NA	NA	NA
Overburden Mined (bcm)	2,221,357	NA	NA	NA
Equivalent Saleable Production (tonnes)	124,250	NA	NA	NA
Coal Sales (tonnes)	46,461	NA	NA	NA
Coal Inventory (tonnes)	77,789	NA	NA	NA

- Production: Year to Date – 3 Months Ending 30 September 2017

	2018 YTD	2017 YTD	CHANGE	CHANGE %
Run of Mine Coal mined (tonnes)	124,250	NA	NA	NA
Overburden Mined (bcm)	2,221,357	NA	NA	NA
Equivalent Saleable Production (tonnes)	124,250	NA	NA	NA
Coal Sales (tonnes)	46,461	NA	NA	NA
Coal Inventory (tonnes)	77,789	NA	NA	NA

Subsequent to quarter end, the Blair Athol Mine met several additional milestones:

- First Product Coal Washed – 10 October 2017
- First Coal Trucked to Third Party Coal Handling Facility – 19 October 2017

### SAFETY

TerraCom, with Link Mining, has successfully completed the production re-commencement milestones during the quarter recordable incident free.

## PURCHASE AGREEMENT – FIRST 6 MONTHS OF SALES

Orion has signed a purchase agreement for the sale of the first 6 months of production which will underpin the start-up of the Blair Athol mine with pricing linked to the Newcastle Thermal Coal Index in line with expectations. For this interim period coal will be transported to a down-stream train loading facility where it will be loaded onto trains and transported to DBCT port for export into Asia. There is an option to extend this purchase agreement for a further 6 months.

## BA RAIL FACILITY

Orion has assembled a Project Team being led by Aurizon to establish BA's own dedicated private train loading facility re-commissioning the rail line that runs across BA site and connects into the main Goonyella Rail Line which runs to DBCT. The Project is completing detailed design and work programs, with construction completion February 2018.

## JORC UPGRADE – RESOURCES AND RESERVES

Independent experts Xenith Consulting Pty Ltd (Xenith) and TerraCom have conducted further work since the last announcement in November 2016 and has been able to upgrade the total Blair Athol Mine JORC Reserves to 15.6mt and increase the JORC Measured Resource to 21.9mt. The coal reserves and resources have been estimated in accordance with the standards outlined in the JORC code (JORC, 2012) and the Coal Guidelines 2014.

Further work since TerraCom completed the acquisition of the Blair Athol Mine, which included the detailed assessment of all boreholes using historical data on site has enabled Xenith to extend the Reserves by 2.1mt adding one extra year to mine life, which now totals 8 years based on ~2 million tonnes per annum (mtpa), which is derived from the Reserves estimate presented in this announcement.

The JORC Resource has improved in confidence with the JORC Measured Resource increasing 9.5mt from 12.4mt to 21.9mt. The measured resource upgrade is significant as it has the potential to increase the mine life for a further 3 to 5 years.

### Reserves

Coal reserves have been estimated in accordance with the requirements of the 2012 edition of the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code). The estimate was compiled by a Competent Person from Xenith Consulting and has been signed off accordingly.

The total open cut coal reserves for Blair Athol Mine are presented in **Table 1**.

*Table 1 - Blair Athol Mine Open Cut Reserves Estimate*

Coal Reserve (Mt ROM) *	3 Seam	4 Upper	4 Lower	TOTAL
Proved	Nil	8.6	5.4	14
Probable	0.5	0.7	0.3	1.6
<b>Total Coal Reserve</b>	<b>0.5</b>	<b>9.3</b>	<b>5.8</b>	<b>15.6</b>

\* Tonnages and qualities in the above table are expressed on a "ROM" basis, incorporating the effects of mining losses and dilution, and on a 17.0% ROM moisture basis.

The marketable coal for Blair Athol Mine is thermal product only. Estimates have been made for the most likely split of the ROM coal to bypass or to process in the Coal Preparation Plant (CPP) to blend together

to produce an export quality thermal coal at 12.5% ash on an air-dried basis (adb). This has formed the basis of an estimate of Marketable reserves that correspond to the ROM reserve estimates. Therefore, Marketable Coal Reserves are a sub-set of Coal Reserves.

All Marketable Reserves tonnages have been expressed on a Washed Moisture Basis, which varies depending on the proportion of Bypass coal and is typically 17.7%.

*Table 2 - Blair Athol Open Cut Marketable Coal Reserve Estimate*

Type	Marketable Coal Reserve (Mt Product) *	3 Seam	4 Upper	4 Lower	TOTAL
Washed	Proved	-	1.3	3.9	5.2
	Probable	-	0.3	0.2	0.5
	<b>Washed Subtotal</b>	<b>-</b>	<b>1.6</b>	<b>4.1</b>	<b>5.7</b>
Bypass	Proved	-	6.7	0.1	6.7
	Probable	0.5	0.4	0.0	0.9
	<b>Bypass Subtotal</b>	<b>0.5</b>	<b>7.1</b>	<b>0.1</b>	<b>7.6</b>
Product	Proved	-	8.0	4.0	11.9
	Probable	0.5	0.7	0.2	1.4
	<b>Total Marketable Coal Reserve</b>	<b>0.5</b>	<b>8.6</b>	<b>4.2</b>	<b>13.3</b>

\*Total Marketable Coal is nominally at 12.5% ash (adb).

Maps relating to the JORC estimate can be found at the below link:

<http://terracomresources.com/wp-content/uploads/2017/09/1710567.pdf>

For a full list of the drill hole dataset, please go to below link:

<http://terracomresources.com/wp-content/uploads/2017/09/JORC-Drill-hole-database-for-Website.pdf>

### Resources

Coal resources have been estimated in accordance with the requirements of the 2012 edition of the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code). The estimate was compiled a Competent Person from Xenith Consulting and has been signed off accordingly.

The Coal Resource Estimate carried out in July and August 2017 for the Blair Athol Coal Mine was focused on the Seam 4 Measured and Indicated resource areas. In comparison with the previous JORC Estimate from 2016, this update incorporates 41 additional points of observation ('PoB') intersecting the Seam 4 Upper, and 31 PoB intersecting Seam 4 Lower.

In this update 2017, the Total Coal Resource remains 44 mt as estimated in October 2016.

Considering the two Seam 4 plies (4U, 4L), this update shows an upgrade of 9.5 mt into the Measured resource category, and 3 mt into the Indicated category.



The table below shows the comparison between the 2016 and 2017 Resources estimations.

*Table 3- Resource Comparison Table – Seam 4.*

Seam	Category	2017 (mt)	2016 (mt)	Comparison
4U	Measured	13.1	6.8	+ 48%
4U	Indicated	6	5	+ 17%
4U	Inferred	10	17	
4L	Measured	8.8	5.6	+ 36 %
4L	Indicated	3	3	+ 21 %
4L	Inferred	3	7	
<b>TOTAL (4U+4L)</b>		44	44	

*Table 4- Resource Table Seam 3.*

Seam Category Seam	Category	2017 (Mt)
N3H	Indicated	0.3
N3J	Indicated	0.2
<b>Total</b>		0.5

The tonnes have been estimated by applying an insitu density with standard bed moisture of 17%.

The coal at Blair Athol is a low rank, medium - high volatile, low ash, low sulphur thermal coal. Air dried moisture is on average approximately 6%. On an air dried basis (adb) the specific energy typically ranges between 21 and 26 MJ/kg, while the raw ash (adb) ranges between 13 - 20 % for the 4 Upper seam and 22 – 25 % for the 4 Lower seam. The specific energy for seam 3 is 27MJ/kg and the raw ash (adb) is 9.1%.

## FINANCIAL ASSURANCE

Orion has received notice of the decision from the Department of Environment and Heritage Protection (DEHP) as a delegate of the Environmental Protection Act 1994 (EP Act), and in accordance with section 295(1) of that Act, on the amount and form of financial assurance (FA) required for the Blair Athol coal mine authorised under mining lease (ML) 1804 and Environmental Authority (EA) EPML00876713. This decision relates to the replacement plan of operations lodged by Orion for the plan of operations period 20 June 2017 to 21 June 2018. The DEHP decision stated that the total cost of rehabilitation for the mine is \$74.6 million, and that the form of FA remains unchanged.

Subsequent to quarter end, the Company amended its plan of operations to accommodate the inclusion of the Coal Handling and Preparation Plant onsite at Blair Athol which resulted in the plan of operations for the period ending 21 June 2018 to \$74.9 million.

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## BUSINESS DEVELOPMENT – AUSTRALIA

### FERNLEE PROJECT (ADJOINING SPRINGSURE PROJECT)

As previously announced, TerraCom's wholly owned subsidiary Sierra Coal Pty Limited executed an Asset Sale Agreement for EPC1103 - Fernlee Project from the Liquidators of Fernlee Coal Pty Limited (In Liquidation). The Company received indicative approval for transfer from the DNRM in July 2017.

EPC1103 - Fernlee Project adjoins the EPC1674/MDL3002 - Springsure Project and is seen as a key strategic transaction for TerraCom providing the potential to expand the Springsure Project MDL area to the East and North East.

## MINING TENEMENTS HELD AT THE END OF THE QUARTER

Tenement	Interest at beginning of quarter	Interest at end of quarter	Location	Commodity
MV-17162, MV-020800, MV-020803, XV-17163	100%	100%	Mongolia	Coal
XV-018142, XV-018797, XV-018802, XV-20281, XV-20539	100%	100%	Mongolia	Coal, Potash/ Gypsum, Brines
XV-020139, XV-020329	100%	100%	Mongolia	Coal
XV-12929	100%	100%	Mongolia	Coal
XV-018111, XV-018513, XV-020268, XV-12600, MV-19149, MV-16971	100%	100%	Mongolia	Coal
ML1804	0%	100%	Australia	Coal
EPC 1300, EPC 1394, EPC 1477, EPC 1478, EPC 1479, EPC 1480, EPC 1574, EPC 2047, EPC 2049, EPC 2105	100%	100%	Australia	Coal
EPC 1890, EPC 1892, EPC 1893, EPC 1962, EPC 1963, EPC 1964	100%	100%	Australia	Coal
EPC 2503, EPC 2504	100%	100%	Australia	Coal
EPC 1250, EPC 1260	64.4%	64.4%	Australia	Coal
EPC 1674, MDL 3002	35.78%	35.78%	Australia	Coal
EPC 2256	100%	100%	Australia	Coal
EPC 1872	100%	100%	Australia	Coal
EPC 1822	100%	100%	Australia	Coal

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## COMPETENT PERSONS STATEMENT

### **Blair Athol. Competent Persons Statement – Reserves.**

The information in this report relating to coal reserves for Blair Athol was announced on 5 September 2017, titled "Further Extension to Blair Athol Mine Life". This is based on information compiled by Mr John Cawte who is an employee of Xenith Consulting Pty Limited. John has a Bachelor in Mining Engineering from University of Queensland and a Diploma of Business. He has over 20 years of experience in mining in the open cut coal mining industry that is relevant to the style of mineralisation and type of deposit described in the report, and the type of activity involved in the estimation of the coal reserves. John Cawte is a member of the Australasian Institute of Mining and Metallurgy and qualifies as a Competent Person under the JORC Code.

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcement on 5 September 2017; and that all material assumptions and technical parameters in the announcement made on 5 September 2017 continue to apply and have not materially changed.

### **Blair Athol. Competent Persons Statement – Resources.**

The information in this report relating to coal resources for Blair Athol was announced on 5 September 2017, titled "Further Extension to Blair Athol Mine Life". This is based on information compiled by Mr Troy Turner who is an employee of Xenith Consulting Pty Limited. Mr Turner is a qualified geologist and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves."

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcement on 5 September 2017; and that all material assumptions and technical parameters in the announcement made on 5 September 2017 continue to apply and have not materially changed.

### **Blair Athol. JORC Reserves Note.**

The depletion limits are adopted from the survey completed at the cessation of mining by Rio Tinto so no arithmetic adjustments have been made to take into account post-survey as there has been no change. Small differences may be present in the totals due to tonnes information being rounded so as to reflect the usual uncertainty associated with the estimate.

### **Forward Looking Statement**

This Announcement contains certain "forward-looking statements". The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan", "consider", "foresee", "aim", "will" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future production, resources, reserves, sales, capital expenditure, earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of TerraCom.

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## ABOUT TERRACOM – TERRACOMRESOURCES.COM

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 years<sup>1</sup> and ongoing progressive rehabilitation.

Additionally, TerraCom has long term exploration plans with the intent on developing two 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 5<sup>th</sup> 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.

***Please contact Nathan Boom, on +61 7 4983 2038 or at [info@terracomresources.com](mailto:info@terracomresources.com) for further information.***



**Nathan Boom**  
**Company Secretary**

## Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

### Name of entity

TerraCom Limited

### ABN

35 143 533 537

### Quarter ended ("current quarter")

30 September 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (.3.months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	10,976	10,976
1.2 Payments for		
(a) exploration & evaluation	(20)	(20)
(b) development	-	-
(c) production	(7,117)	(7,117)
(d) staff costs	(1,820)	(1,820)
(e) administration and corporate costs	(845)	(845)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(4,241)	(4,241)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(3,067)</b>	<b>(3,067)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(6,456)	(6,456)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

## Mining exploration entity and oil and gas exploration entity quarterly report

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (.3.months) \$A'000</b>
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(6,456)</b>	<b>(6,456)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	2,783	2,783
3.6	Repayment of borrowings	(1,011)	(1,011)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>1,772</b>	<b>1,772</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	8,587	8,587
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,067)	(3,067)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6,456)	(6,456)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,772	1,772
4.5	Effect of movement in exchange rates on cash held	(18)	(18)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>818</b>	<b>818</b>

5. <b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	818	8,587
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>818</b>	<b>8,587</b>

6. <b>Payments to directors of the entity and their associates</b>	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	375
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Cameron McRae's engagement as Executive Chairman was through consultancy firm Tarva Investments and Advisory LLC (Tarva) to which he is the appointed Executive Director. The payments to Tarva for Cameron's services have been disclosed within payments to directors above.

7. <b>Payments to related entities of the entity and their associates</b>	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	



## Mining exploration entity and oil and gas exploration entity quarterly report

**8. Financing facilities available**

*Add notes as necessary for an understanding of the position*

8.1 Loan facilities

8.2 Credit standby arrangements

8.3 Other (please specify)

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
220,531	217,117
-	-
-	-

**Super Senior Note A**

The Super Senior Note A secured facility is fully drawn down for the amount of US\$12.0 million. The facility bears an interest rate of 15% per annum with principal and interest payable on the repayment date.

**Super Senior Note B**

The Super Senior Note B secured facility is fully drawn down for the amount of US\$5.0 million. The facility bears an interest rate of 15% per annum with interest repayable on the repayment date, and principal amount can be converted to the Listed (Euroclear) bonds at TerraCom Limited's discretion.

**Listed (Euroclear) Bond**

The Listed (Euroclear) Bond secured facility is fully drawn down for the purchase value of the bonds to the amount of US\$97.0 million (redemption value of the bonds is US\$131.5 million, including US\$7.75 million of PIK interest). The facility bears a cash interest rate of 12% per annum; as well as having a value uplift applied between the redemption value and purchase price, along with the interest, implies an annual cumulative interest rate of 21.09%. At each interest repayment date, 50% of the interest charge can be capitalised into the principal amount of the loan. This facility also includes a special interest component.

**Fuel Exclusivity Agreement**

On 14 November 2013, the Company entered into a Fuel Exclusivity agreement with Noble Resources International Pte Limited (Noble) for US\$8.0 million. The facility has an implied interest rate of 9.7%. During the quarter, Noble agreed to convert USD\$7.16 million into 298,311,234 fully paid ordinary shares of TerraCom Limited. The remaining principal of US\$1.57 million carrying value will be repaid on 30 January 2018 and will accrue interest at 12.5% per annum payable on the principal repayment date.

**Non-Interest Bearing Loan**

This amount relates to US\$3,000,000 due by the Group to Noble and is payable by the recently acquired Enkhtunkh Orchlon LLC. This amount is due for repayment on 1 October 2020. The share sale agreement also included up to US\$4 million to be advanced by Noble to the group for furtherance of the business.

**Working Capital Loan**

The Working Capital Loan secured facility is drawn to the amount of US\$9.3 million. The facility bears an interest rate of 9% per annum. The facility has multiple principal repayment dates.

**Blair Athol Funding**

Upon the completion of the Blair Athol acquisition the following transactions were undertaken;

- 1) A finance facility was executed in relation to the Dragline and equipment. The facility is fully drawn to AUD \$3,900,000 and bears an interest rate of 12% per annum with principal and interest payable on specified repayment dates.
- 2) The acquisition of the onsite CHPP funded by Link Mining Services Pty Ltd and the subsequent sale and lease back. The finance lease is currently drawn to AUD \$3,000,000 and bears an interest rate of 12% per annum with principal and interest payable on specified repayment dates.
- 3) The sale and lease back of mobile equipment acquired as part of the Blair Athol acquisition. The total finance lease is for AUD \$3,210,000 and bears an interest rate of 12% per annum with principal and interest payable on specified repayment dates.

Refer to the Full Year Financial Statements for Year Ended 30 June 2017 for additional information on the facilities.

<b>9.</b>	<b>Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1	Exploration and evaluation	1,035
9.2	Development	5,022
9.3	Production	35,132
9.4	Staff costs	2,357
9.5	Administration and corporate costs	886
9.6	Other (principal and interest on finance facilities)	9,522
<b>9.7</b>	<b>Total estimated cash outflows</b>	<b>53,954</b>

The Company's cash balance as at 30 September 2017 and estimated cash inflows for the 3 months ended 31 December 2017 exceeds the estimated cash outflows above.

The estimated cash inflows includes revenue from coal sales which occurred in September 2017 quarter (including Blair Athol first coal sales revenue receipt in October 2017), revenue from coal sales to occur in December 2017 quarter (including coal sales from coal inventory as at 30 September 2017 and budgeted coal production), and receipt of funding facilities as previously announced on the ASX.

As outlined previously in the ASX Announcement on 2nd October 2017 the Company is on target to achieve annualised production rates in first half of 2018 financial year delivering a combined output of 3.5 million tonnes per annum.


Gross working capital of the Company as at 30 September 2017 includes the following:

- Cash on Hand – \$0.82 million
- Accounts Receivable – \$7.86 million
- Inventory (at cost) – \$6.92 million
- Financial Assurance Rebate – \$4.71 million

<b>10.</b>	<b>Changes in tenements (items 2.1(b) and 2.2(b) above)</b>	<b>Tenement reference and location</b>	<b>Nature of interest</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	-	-	-	-
10.2	Interests in mining tenements and petroleum tenements acquired or increased	-	-	-	-

**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  ..... Date: 31 October 2017 .....  
(~~Director~~/Company secretary)

Print name: Nathan Boom .....

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.