# TERRACOM LIMITED
ANNUAL REPORT *2019*

# Corporate Directory

## People

| | |
|---|---|
| **Directors** | Wallace King AO<br>Hon. Craig Wallace<br>Tsogt Togoo<br>Philip Forrest<br>James Soorley<br>Matthew Hunter<br>Paul Anderson |
| **Company Secretary** | Nathan Boom |
| **Chief Executive Officer** | Danny McCarthy |
| **Chief Financial Officer** | Nathan Boom |

## Corporate Information

| | |
|---|---|
| **Registered Office** | Blair Athol Mine Access Road<br>Clermont, Queensland, 4721<br>Australia<br>Telephone: +61 7 4983 2038 |
| **Contact Address** | PO Box 131<br>Clermont, Queensland, 4721<br>Australia |
| **Internet address** | terracomresources.com |
| **Country of Incorporation** | Australia |
| **Australian Business Number** | ABN 35 143 533 537 |
| **Stock Exchange Listing** | Australian Securities Exchange Ltd<br>ASX Code : TER |

## Service Providers

| | |
|---|---|
| **Share Registry** | Link Market Services Limited<br>Level 12, 680 George Street<br>Sydney New South Wales 2000<br>Australia<br>Telephone: +61 1300 554 47<br>Facsimile: +61 2 9287 0303<br>Email:<br>registers@linkmarketservices.com.au |
| **Solicitors** | Ashurst Australia<br>Level 26, 181 William Street<br>Melbourne Victoria 3000<br>Australia |
| **Bankers** | Westpac Banking Corporation Ltd<br>Suite 2, Level 2,<br>22 Walker Street<br>Townsville, Queensland, 4810<br>Australia |
| **Auditors** | Ernst & Young<br>200 George Street<br>Sydney, New South Wales, 2000<br>Australia |

# Contents

## Company Overview



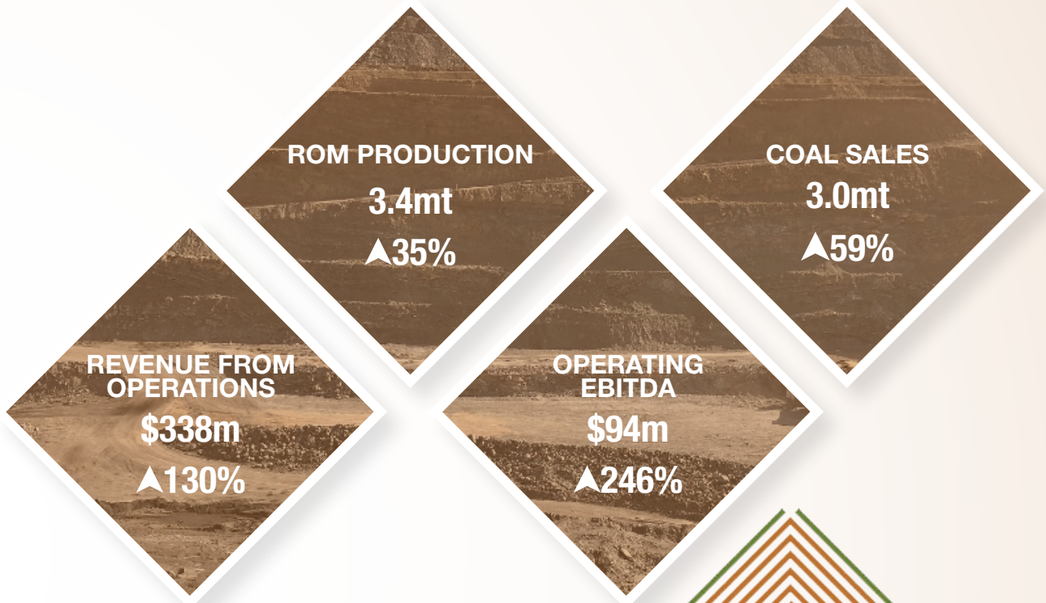
## Company Update



## Financial Report



# Key Highlights




TERRACOM

COVER IMAGE
*Dragline in operation at Blair Athol*

# Company Overview

OPPOSITE PAGE
*Blair Athol Operations, Queensland, Australia*

TOP
*Blair Athol - Rehabilitation of Tailings Dam post mulch application*
BOTTOM
*Rehabilitation completed in 2017*

# Chairman's Letter

Above
*Wal King AO,*
*Non-Executive Chairman,*
*TerraCom Limited.*

Dear Shareholders,

It is with great pleasure that I present the TerraCom Limited (ASX: TER) (TerraCom or the Company) Annual Report for the year ended 30 June 2019.

From both an operating and financial perspective, the 2019 Financial Year has been the Company's most successful year in its history. This success was driven from a superb operating and financial performance from the Company's flagship mine – the Blair Athol Coal Mine in Central Queensland, Australia.

TerraCom continued to deliver exceptional results year on year from both a financial and production performance perspective. These include:

I. ROM Production – 3.4Mt, representing a 35% increase year on year
II. Coal Sales – 3.0Mt, representing a 59% increase year on year
III. Revenue from Operations – $338M, representing a 130% increase year on year
IV. Operating EBITDA – $94M, representing a 246% increase year on year

The Company also continued to set new milestones on a quarter by quarter basis. These included:

- September 2018
  I. Blair Athol Saleable Production of 598,413 tonnes, eclipsing the previous record set in June 2018 quarter by 157,801 tonnes or 36%
  II. Blair Athol Coal Sales of 613,558 tonnes, eclipsing the previous record set in March 2018 quarter by 203,865 tonnes or 50%
- March 2019
  I. Total Saleable Production of 820,230 tonnes, eclipsing the previous record set in June 2018 quarter by 88,940 tonnes or 12%
  II. Total Coal Sales of 826,714 tonnes, eclipsing the previous record set in June 2018 quarter by 177,494 tonnes or 27%
- June 2019
  I. Total ROM Production of 1,037,115 tonnes, eclipsing the previous record set in June 2018 quarter by 21,645 tonnes or 2%
  II. Blair Athol ROM Production of 794,542 tonnes, eclipsing the previous record set in June 2018 quarter by 69,570 tonnes or 10%

*continued*

*Blair Athol - Train Load Out*

# Chairman's Letter

As outlined further in the Annual Report, the Company successfully upgraded the JORC Reserve and Resource at its Blair Athol Mine during the year:

I. Blair Athol JORC Resource – increase in the JORC Measured Resource to 31.5Mt (increase 9.6Mt or 44%) and JORC Indicated Resource to 11.6Mt (increase of 2.6Mt or 29%).

II. Blair Athol JORC Reserve – increase after taking into account mining depletion of 2.3 million tonnes (Mt), since September 2017, the Blair Athol Mine JORC Reserves has been upgraded by 13.1Mt or 84% from 15.6Mt to 28.7Mt

The Company continued its commitment to rehabilitation activities at the Blair Athol Mine. Activities completed during the year included the mulching of the historical tailings dam, as well as advancing face rehabilitation which is expected to significantly reduce the rehabilitation requirements at the end of the mine life.

Mining in Mongolia progressed with 738,041 tonnes of Run of Mine Coking Coal being sold from the mine during the year. The Company has previously announced its intention to divest Mongolia via a 100% demerger (subject to approval by shareholders) or a divestment of at least 51% of Mongolia. Many of its actions taken during the year have been to restructure the Mongolia business:

I. Engaged Mongolia owned mining contractor – resulting in a reset of the operating cost base of the mine

II. Increased customer base – resulting in an increase of the average revenue per tonne

Subsequent to the end of the financial year the Company has achieved a number of key refinancing items, namely:

I. Insurance Bond – executed binding term sheet with an Underwriter for the Blair Athol Mine, which when issued will result in $27 million of Restricted Cash on the Balance Sheet being released back to the Company.

II. Loan Facility – US$80 million 3 year amortising term loan facility, resulting in significant annualised interest costs.

The Company will be addressing the finalising of the restructure of its balance sheet over the next several months, including finalisation of the debt refinance package. It will also be aiming to deliver on its goal of delivering a maiden dividend to shareholders.

The 2019 Financial Year truly was a transformational year for TerraCom, which will allow the Company to focus on organic growth and strategic acquisitions, including in new jurisdictions and commodities.

I would like to thank my Board colleagues for their efforts and commitment during the year. I would also like to thank the management and staff of the Company for their hard work in producing an excellent financial and operational result and congratulate them on their success. Finally I would like to thank you, the shareholders, for your continued support.

Wal King AO

Chairman

# Board Members

**Wallace King AO**

Non-Executive Chairman,
Independent Director
Appointed 17 May 2017

Wal King holds a Bachelor of Engineering, a Master of Engineering Science and an Honorary Doctorate of Science from the University of New South Wales. Wal has worked in the construction industry for over 40 years and was CEO of Leighton Holdings Limited from 1987 until December 2010. Mr King is a Director of Kimberley Foundation Australia Limited; and was up until May 2017 one of the longest serving Directors of Coca-Cola Amatil Limited. Mr King is also currently the Non-Executive Chairman of Built Holdings Pty Limited.

He is a former Deputy Chairman of the University of New South Wales Foundation Limited, former Board Member of the Business Council of Australia, a former Council Member of the University of New South Wales and was President of the Australian Constructors Association from its inception in 1994 to December 2010. Mr King is an Honorary Fellow of the Institution of Engineers Australia; a Foundation Fellow of the Australian Institute of Company Directors, and a Fellow of the Australian Institute of Management, the Australian Institute of Building and the Australian Academy of Technological Sciences and Engineering.

**Craig Wallace**

Deputy Chairman,
Independent Director
Appointed 12 December 2013

Craig Wallace served as the State Minister for Main Roads, Fisheries and Marine Infrastructure from 2009 to 2012. His departments delivered major infrastructure projects across Queensland including the Gateway Bridge and rebuilding of Queensland Road assets following major floods.

He was a member of the Executive Council of Queensland, a member of Roads Australia and a Patron of the Committee for Infrastructure and Logistics Australia.

In 2012 he formed Shanghai Commonwealth Investment and Consulting (which is operating mainly in China). The company has a focus on building trade ties between China and Australia with a particular focus on food products. Mr Wallace also serves as the Chairman of the Advisory Board China for CPG Capital Partners Limited.

**Philip Forrest**

Non-Executive,
Independent Director
Appointed 9 April 2015

Philip Forrest has lived in South East Asia for over 30 years and has contributed to the commercial relationship between Australia and Asia.

Since 1991, Mr Forrest has headed three international banks (Westpac, NatWest and ANZ), with wide-ranging regional responsibilities. His most recent banking position was Asia Head for ANZ Bank, with responsibility for all of the Bank's activities in eleven countries ranging from Japan to Indonesia.

Philip is currently a Director of The Australian Chamber of Commerce, Singapore and a Member of the Governing Council of the Singapore Institute of Directors. Philip is a Fellow of the Australian Institute of Company Directors, and CPA.

**Tsogt Togoo**

Non-Executive,
Independent Director
Appointed 25 February 2013

Mr Tsogt has 20 years of experience in the Mongolian public sector. He worked in the senior management of the Mongolian National Oil company and was in charge of the commercial and operational functions of the company.

Mr Tsogt also worked as the head of the Privatisation Division of the State Property Committee and has played extensive roles in the privatisation of Mongolia's most valuable state-owned companies. He was in charge of the privatisation of the national oil and aviation companies, restructuring power generation and energy distribution enterprises and the deregulation of the energy, oil, aviation and mining sectors.

Mr Tsogt has a Masters of Business Administration from the Leeds University Business School, United Kingdom and Master of Economics and Bachelor of Economics degrees from the Mongolian State University of Agriculture with First Class Honours.

**James (Jim) Soorley**

Non-Executive,
Independent Director
Appointed 8 March 2017

Jim Soorley was the Lord Mayor of Brisbane from 1991 to 2003, presiding over an annual budget of $1.6 billion and a workforce of 7,000. Jim lists his greatest achievement as Lord Mayor as transforming Brisbane from a city with a 'country town' mentality into a vibrant urban metropolis, without compromising its livability.

Since leaving the Mayoralty, Jim has worked as a consultant for government and business across a range of issues relating to sustainable development, partnerships between government and corporations, and environmental initiatives. Jim currently holds other board positions at Unitywater and CS Energy.

# Board Members

**Matthew Hunter**
Non-Executive Director
Appointed 18 January 2018

Matthew has more than 20 years' experience in the finance industry, most recently with over 10 years' experience in private equity investment. Mr Hunter is a member of the Advisory Board of AtlasTrend and Consultant engaged by OCP Asia.

Mr Hunter founded Rivendell Capital in early 2016 to provide capital and advisory services to small and medium sized enterprises and specialised projects. Prior to founding Rivendell Capital, Mr Hunter was a Managing Director of The Carlyle Group. He also served on the Board as a Non-Executive Director of both Coates Hire and Healthscope, two of the largest private equity transactions undertaken in Australia.

Mr Hunter is OCP Asia's Nominee Director and is a substantial shareholder of the company. He also acts as Non-Executive Director of Silver Heritage Group Limited and Chairman of Measure Australia Pty Ltd which provides managed drone data solutions. Mr Hunter is the non-executive director of Medirent Pty Ltd which is a national provider of medical and maternity rental equipment.

**Paul Anderson**
Non-Executive Director
Appointed 16 May 2018

Paul has over 30 years' experience in senior executive management roles in both the public and private sector.

Mr Anderson holds formal qualifications in Building Surveying, Engineering, Planning and Management is a member of the Australian Institute of Company Directors.

Mr Anderson has had broad experience in development after managing a vast array of community infrastructure. His knowledge and experience of all aspects of building lead the team with a strong vision. Mr Anderson firmly believes that property development is a collaborative process with his team, project partners and the local community.

Paul is Bonython Coal No 1 Pty Limited's (Bonython) nominee director, who is a substantial shareholder of the Company.

OPPOSITE
*Blair Athol - mine truck in operation*

# Management Team

**Danny McCarthy**
Chief Executive Officer

Danny McCarthy is a highly experienced mining executive having held senior roles with Mineral Resources, Thiess, Wesfarmers, and QCoal and has a proven record of delivering exceptional results over 22-years in the resources sector.

Prior to joining TerraCom in December 2018, for 2.5 years, Mr McCarthy held the role of Chief Operating Officer for the highly regarded, West Australian based, commodity producer and mining services company Mineral Resources Limited (ASX: MIN, Market capitalisation of approximately $2.5 Billion). During his time in this role, he has overseen the successful implementation of MIN's strategic growth initiatives.

Danny brings a wealth of experience to TerraCom with a strong commercial focus and background in the development and implementation of business strategy, construction, mining and minerals processing across a range of commodities.

**Nathan Boom**
Chief Financial Officer

Nathan Boom holds a Bachelor of Commerce (Accounting) from University of Wollongong, and is a Chartered Accountant with a strong resources sector background.

His 14 year career working at large multinationals such as Xstrata Coal and Tenova Delkor has provided him with extensive exposure in business restructuring and associated implementation of recovery plans also leading finance and commercial aspects of the business. Nathan has led business development projects and re-financing packages with banking consortiums, and has substantial experience in financial system implementation and integration. Nathan joined TerraCom in 2015, was appointed Company Secretary in January 2016 and Chief Financial Officer in March 2017.

# Australian Business Unit

## Operations – Australia

*Blair Athol - Dragline in operation*

### Summary

| | |
|---|---|
| **OWNERSHIP** | Orion Mining Pty Ltd, a wholly owned subsidiary of TerraCom Limited |
| **LOCATION** | Clermont, Queensland, Australia |
| **TENEMENTS** | ML1804 |
| **JORC 2012** | Reserves 27.4.4Mt (Proved 15.3Mt, Probable 12.1Mt)<br>Marketable Reserves 22.3Mt (Proved 12.7Mt, Probable 9.6Mt)<br>Resources 43.8Mt (Measured 30.2Mt, Indicated 11.6Mt, Inferred 2.0Mt) |
| **EMPLOYEES** | As at 30 June 2019: 211 Full Time Equivalent (9 employees; 202 contractors) |

### Production – Blair Athol Thermal Coal Mine

Blair Athol delivered a number of new milestones on a quarter by quarter basis. These included:

| | |
|---|---|
| **September 2018** | Blair Athol Saleable Production of 598,413 tonnes, eclipsing the previous record set in June 2018 quarter by 157,801 tonnes or 36% |
| | Blair Athol Coal Sales of 613,558 tonnes, eclipsing the previous record set in March 2018 quarter by 203,865 tonnes or 50% |
| **June 2019** | Blair Athol ROM Production of 794,542 tonnes, eclipsing the previous record set in June 2018 quarter by 69,570 tonnes or 10% |

### Production Overview: Quarter by Quarter for 12 Months Ending 30 June 2019

| | Quarter 1 September 2018 | Quarter 2 December 2018 | Quarter 3 March 2019 | Quarter 4 June 2019 | 2019 Financial Year |
|---|---|---|---|---|---|
| **Run of Mine Coal mined (tonnes)** | 630,403 | 562,776 | 659,496 | 794,542 | 2,647,216 |
| **Strip Ratio** | 6.6 | 5.6 | 7.6 | 7.0 | 6.7 |
| **Saleable Production (tonnes)** | 598,413 | 546,873 | 590,093 | 552,736 | 2,288,115 |
| **Sales (tonnes)** | 613,558 | 605,423 | 586,826 | 492,276 | 2,298,083 |
| **Inventory (tonnes)** | 302,424 | 200,992 | 187,165 | 357,891 | 357,891 |

### Production: Year to Date – 12 Months Ending 30 June 2019

| | 2019 Financial Year | 2018 Financial Year | CHANGE | CHANGE % |
|---|---|---|---|---|
| **Run of Mine Coal mined (tonnes)** | 2,647,216 | 1,574,920 | 1,072,296 | 68% |
| **Strip Ratio** | 6.7 | 9.0 | 2.3 | 26% |
| **Saleable Production (tonnes)** | 2,288,115 | 1,306,761 | 981,354 | 75% |
| **Sales (tonnes)** | 2,298,083 | 994,642 | 1,303,441 | 131% |
| **Inventory (tonnes)** | 357,891 | 312,119 | 45,772 | 15% |

### Rehabiliation and environment

With respect to rehabilitation, the mulching of the old tailings storage facility (TSF) has been completed ahead of schedule.

The Company has established its integrated production and rehabilitation schedule. One of the key benefits of this has allowed the Company to establish advancing face rehabilitation which should reduce the rehabilitation requirements of the mine at the end of the mine life.

On 2 July 2019, the Queensland Government's Department of Environment and Science finalised its assessment and amended the financial assurance requirements for the Blair Athol mine down to A$71,791,440.

### Safety

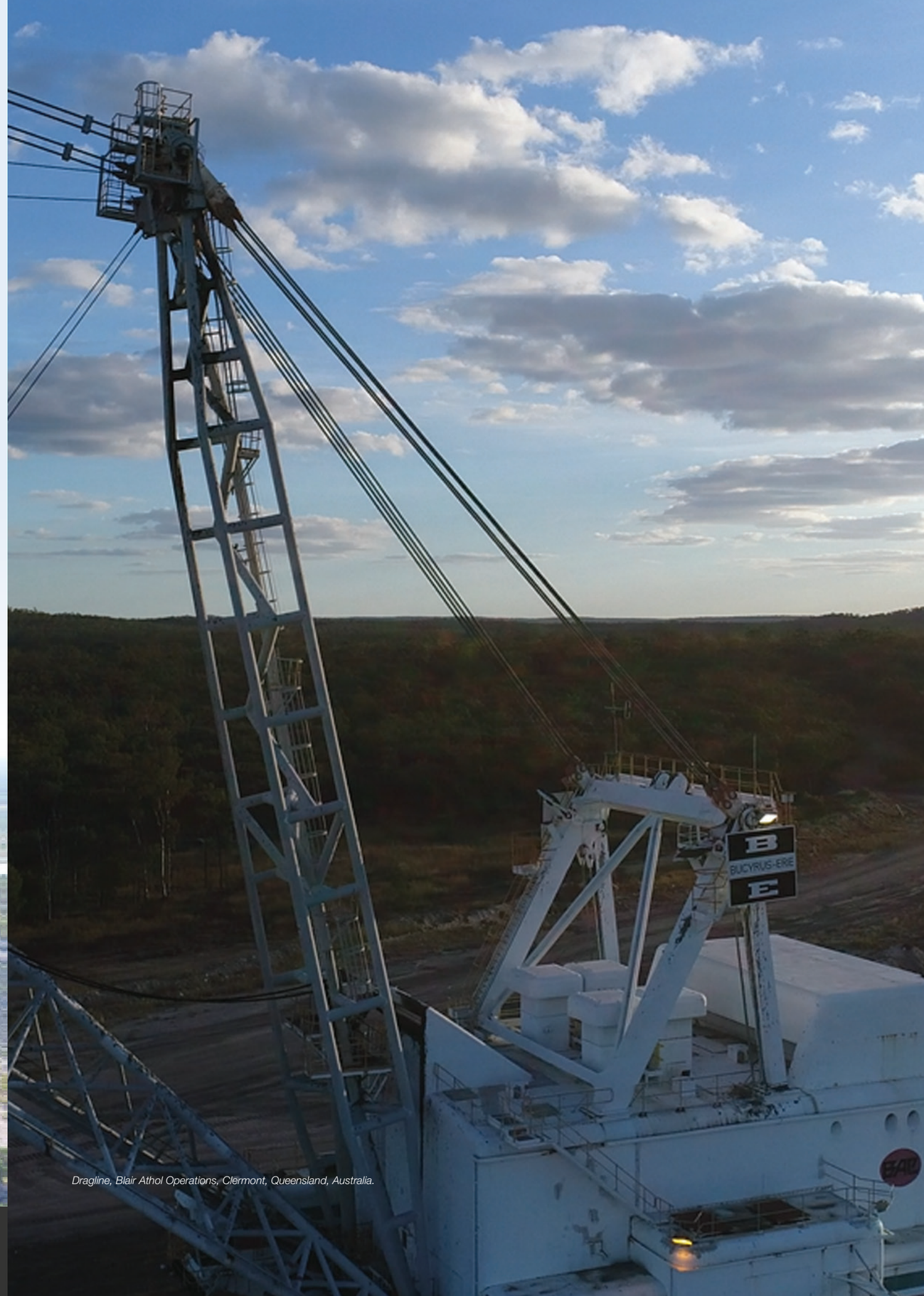
TerraCom promotes health and safety as a core value of our business, the wellbeing of our people is a key driver for us and, we are committed to providing a safe working environment, while ensuring we achieve our production targets. TerraCom, along with our business partners and contractors, continued its elevated focus on pro-active risk management and enhancing the positive safety culture within our workforce. Our objective is simple - our employees and contractors are empowered to consider safety in everything they do. Strong, visible leadership; positive role models; simple and effective systems and total commitment from our people are what make our workplaces safe.

TOP
*Rehabilitation of Tailings Dam post mulch application*

2ND FROM TOP
*Train Load Out*

3RD FROM TOP
*Advancing face rehabilitation, south pit*

*MAIN*
*Rehabilitation completed in 2017*




*Dragline, Blair Athol Operations, Clermont, Queensland, Australia.*

*Blair Athol Site from above, Clermont, Queensland, Australia.*


*TerraCom's Northern Galilee Hub Tenements*

# Business Development
## Australia

## Northern Galilee Project

## Hughenden Project

Hughenden Project has the scale and potential to support multiple underground mining operations producing substantial export thermal coal tonnages. The resource is at moderate to deep mining depth. The Project is located in close proximity to key supporting infrastructure such as the Mount Isa to Townsville rail line. This rail line does not currently carry coal and the Townsville port is currently not available for coal loading.

| | |
|---|---|
| **PROJECT NAME** | Hughenden Project |
| **JORC 2004 RESOURCE** | 1,209 Mt<br>133 Mt Indicated; 1,076 Mt Inferred |
| **COAL TYPE & QUALITY** | Thermal |
| **LOCATION** | Galilee Basin<br>Hughenden, Queensland |
| **TENEMENTS** | EPC 1300, EPC 1394<br>EPC 1477, EPC 1478<br>EPC 1479, EPC 2049,<br>EPC 1641 |
| **OWNERSHIP** | FTB (QLD) Pty Ltd a wholly owned Subsidiary of TerraCom Limited |
| **AREA** | 6,423.2 $Kms^2$ |

## Northern Galilee Project

## Clyde Park Project

TerraCom Limited has drilled 36 boreholes within EPC 1260 as part of the Clyde Park exploration program and of these, 26 boreholes have been included in the geological model.

Similar to the Hughenden project, the Clyde Park Project is located in close proximity to key supporting infrastructure such as the Mount Isa to Townsville rail line. This rail line does not currently carry coal and the Townsville port is currently not available for coal loading.

| | |
|---|---|
| **PROJECT NAME** | Clyde Park Project |
| **JORC 2004 RESOURCE** | 728 Mt<br>51 Mt Indicated; 677 Mt Inferred |
| **COAL TYPE & QUALITY** | Thermal |
| **LOCATION** | North Eastern Galilee Basin<br>Hughenden, Queensland |
| **TENEMENTS** | EPC 1250<br>EPC 1260 |
| **OWNERSHIP** | EPC 1250 & EPC 1260 wholly owned by Clyde Park Coal Pty Ltd.<br>TerraCom Limited owns 64.4% of Clyde Park Coal Pty Ltd. |
| **AREA** | 132 $Kms^2$ |

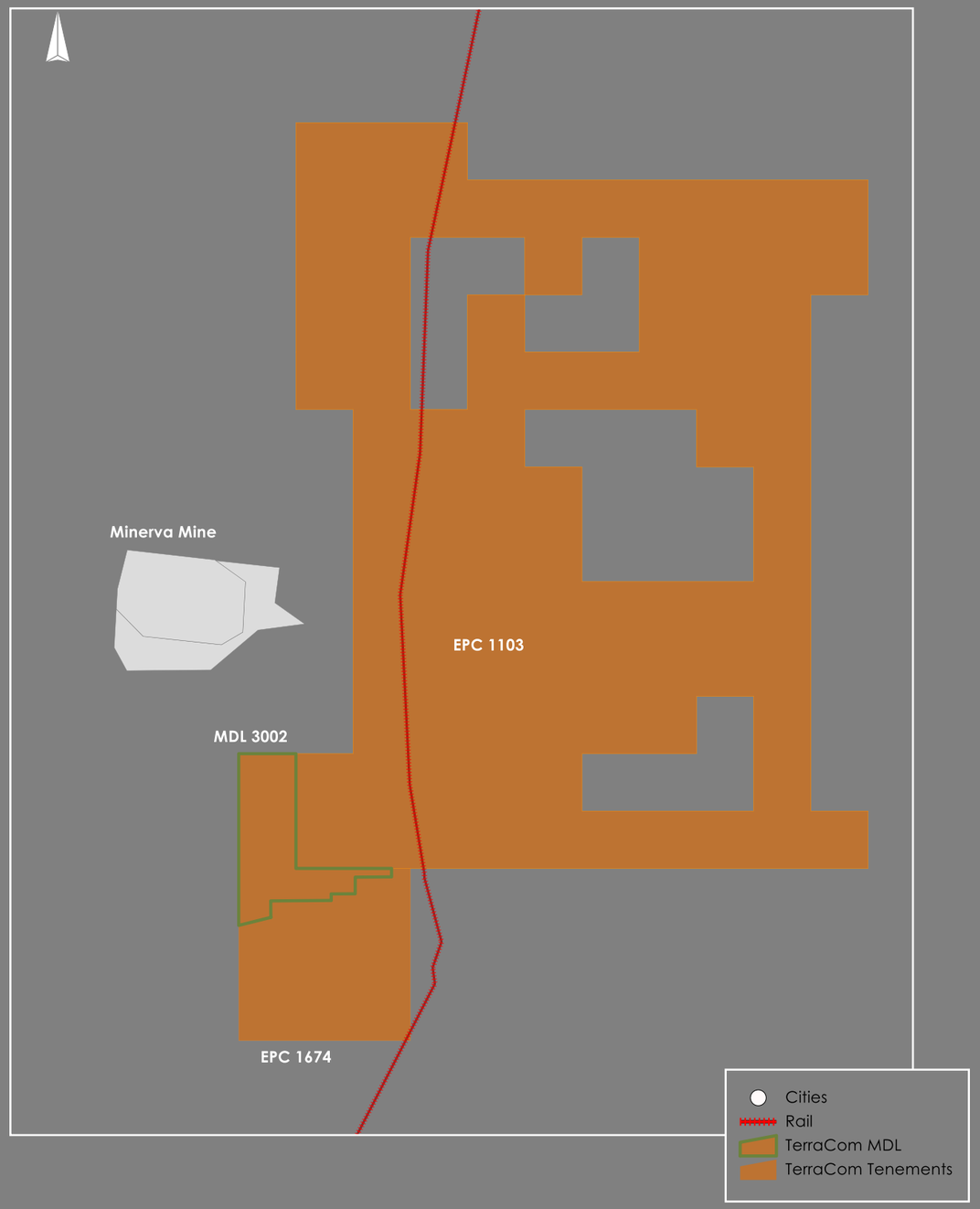
## Northern Galilee Project

## Pentland Project

The Pentland Project will benefit from the same strategic opportunities as its sister projects at Hughenden and Clyde Park with its location relative to existing infrastructure.

An exploration scout drilling program is planned. The objective of this drill program is to further explore coal occurrences within the project area targeting Jurassic Ronlow Beds and Permian Betts Creek Beds within the Galilee Basin.

| | |
|---|---|
| **PROJECT NAME** | Pentland Project |
| **JORC** | Nil calculated to date |
| **COAL TYPE & QUALITY** | Thermal |
| **LOCATION** | Northern end of the Eromanda and Galilee Basins<br>Pentland, Queensland |
| **TENEMENTS** | EPC 1890, EPC 1892, EPC 1893, EPC 1962, EPC 1964 |
| **OWNERSHIP** | Orion Mining Pty Ltd, a wholly owned Subsidiary of TerraCom Limited |
| **AREA** | 2,492 $Kms^2$ |




*TerraCom's Springsure Tenements (including the Fernlee project currently being acquired).*

## Springsure Project

The Springsure Project (MDL 3002 and EPC 1674) area covers a total area of 31km2 and is made up of 11 sub-blocks approximately 8km north of the town of Springsure on the Gregory Highway in the Springsure Region. The Springsure Project is 100% owned by Springsure Mining Pty Ltd, of which TerraCom Limited is a 86.97% shareholder.

The Project area occurs on strike with Minerva Coal Pty Ltd's Minerva South and Minerva No.1 mines which are located approximately 3km to the north. The Minerva mine is a multi-seam mine targeting high quality thermal coal resources within the Reids Dome Beds coal measures.

| | |
|---|---|
| **PROJECT NAME** | Springsure Project |
| **JORC 2004 RESOURCE** | 191Mt.<br>43 Mt Indicated; 148 Mt Inferred |
| **COAL TYPE & QUALITY** | PCI Coal<br>Thermal Coal |
| **LOCATION** | Southern Bowen Basin<br>Springsure, Queensland |
| **TENEMENTS** | MDL 3002,<br>EPC 1674 |
| **OWNERSHIP** | Wholly owned by Springsure Mining Pty Ltd. TerraCom Limited owns 86.97% of Springsure Mining Pty Ltd. |
| **AREA** | 31 $Kms^2$ |

## Fernlee Project

## (Adjoining Springsure Project)

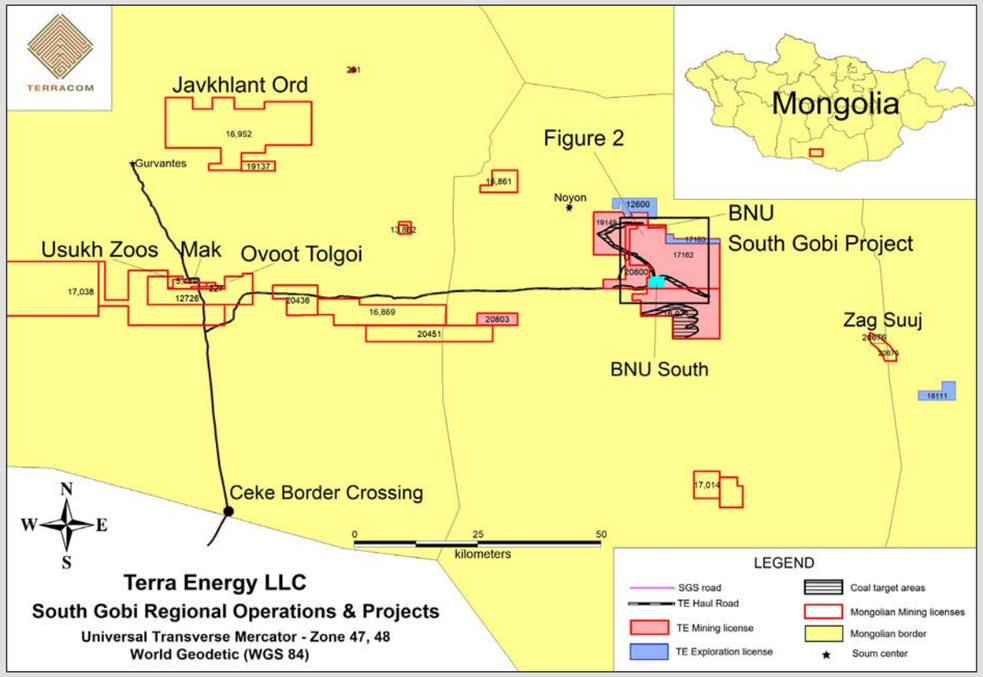
EPC1103 - Fernlee Project adjoins the EPC1674/ MDL3002 - Springsure Project and is seen as a key strategic transaction for TerraCom providing the potential to expand the Spingsure Project MDL area to the East and North East.

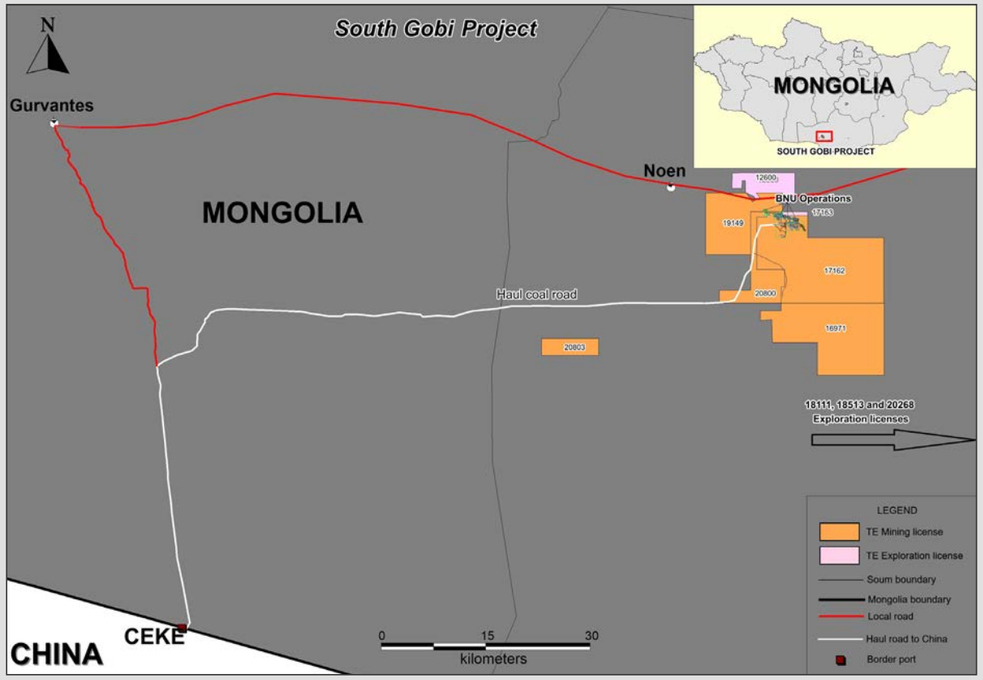
| | |
|---|---|
| **PROJECT NAME** | Fernlee Project |
| **JORC** | Nil calculated to date |
| **COAL TYPE & QUALITY** | Thermal |
| **LOCATION** | Southern Bowen Basin<br>Springsure, Queensland |
| **TENEMENTS** | EPC 1103 |
| **OWNERSHIP** | Sierra Coal Pty Ltd, a wholly owned subsidiary of TerraCom Limited. |
| **AREA** | 246 $Kms^2$ |

# MONGOLIAN BUSINESS UNIT


*Mining Trucks, Terra Energy, South Gobi, Mongolia.*

# MONGOLIAN BUSINESS UNIT




TOP
*Regional Map of BNU South and BNU Coking Coal Mine*

BOTTOM
*South Gobi Tenement Overview*

## Operations - Mongolia

### Summary

| | |
|---|---|
| **OWNERSHIP** | 100% TerraCom Limited through Mongolia subsidiary companies |
| **LOCATION** | Umnugovi Aimag, Noyon Soum (South Gobi Desert), Mongolia |
| **TENEMENTS (Key)** | MV-17162; MV-19149; MV-20800; MV16971 (83.87% owned by TerraCom Limited) |
| **JORC RESOURCES** | 81Mt (40Mt JORC 2012 41Mt JORC 2004)<br>BNU (MV17162): 14.0Mt Measured; 8.2Mt Indicated; 2.7Mt Inferred (JORC 2012)<br>KS North (MV19149): 15Mt Inferred (JORC 2012)<br>Huvguun East: 41Mt Inferred (JORC 2004) |
| **EMPLOYEES** | As at 30 June 2019: 724 Full Time Equivalent (219 employees; 505 contractors) |

**Production – BNU Coking Coal Mine**

Mining in Mongolia progressed with 738,041 tonnes of Run of Mine Coking Coal being sold from the mine during the year. The Company has previously announced its intention to divest Mongolia via a 100% demerger (subject to approval by shareholders) or a divestment of at least 51% of Mongolia. Many of its actions taken during the year have been to restructure the Mongolia business:

I. Engaged Mongolia owned mining contractor – resulting in a reset of the operating cost base of the mine

II. Increased customer base – resulting in an increase of the average revenue per tonne

**Production Overview: Quarter by Quarter for 12 Months Ending 30 June 2019**

| | Quarter 1 September 2018 | Quarter 2 December 2018 | Quarter 3 March 2019 | Quarter 4 June 2019 | 2019 Financial Year |
|---|---|---|---|---|---|
| **Run of Mine Coal mined (tonnes)** | 100,331 | 147,271 | 230,137 | 242,574 | 720,313 |
| **Strip Ratio** | 11.2 | 15.9 | 20.2 | 19.0 | 17.7 |
| **Saleable Production (tonnes)** | 100,331 | 147,271 | 230,137 | 242,574 | 720,313 |
| **Sales (tonnes)** | 120,330 | 140,964 | 239,888 | 236,859 | 738,041 |
| **Inventory (tonnes)** | 49,999 | 54,164 | 38,775 | 50,129 | 50,129 |

**Production: Year to Date – 12 Months Ending 30 June 2019**

| | 2019 Financial Year | 2018 Financial Year | CHANGE | CHANGE% |
|---|---|---|---|---|
| **Run of Mine Coal mined (tonnes)** | 720,313 | 924,073 | (203,760) | -22% |
| **Strip Ratio** | 17.7 | 13.5 | (4.2) | -31% |
| **Saleable Production (tonnes)** | 720,313 | 924,073 | (203,760) | -22% |
| **Sales (tonnes)** | 738,041 | 910,534 | (172,493) | -19% |
| **Inventory (tonnes)** | 50,129 | 81,521 | (31,392) | -39% |

ABOVE & BELOW
*BNU Operations*

**Safety**

TerraCom continued its elevated focus on pro-active risk control and enhancing the positive safety culture within the workforce.

**Environment, Rehabilitaton and Community**

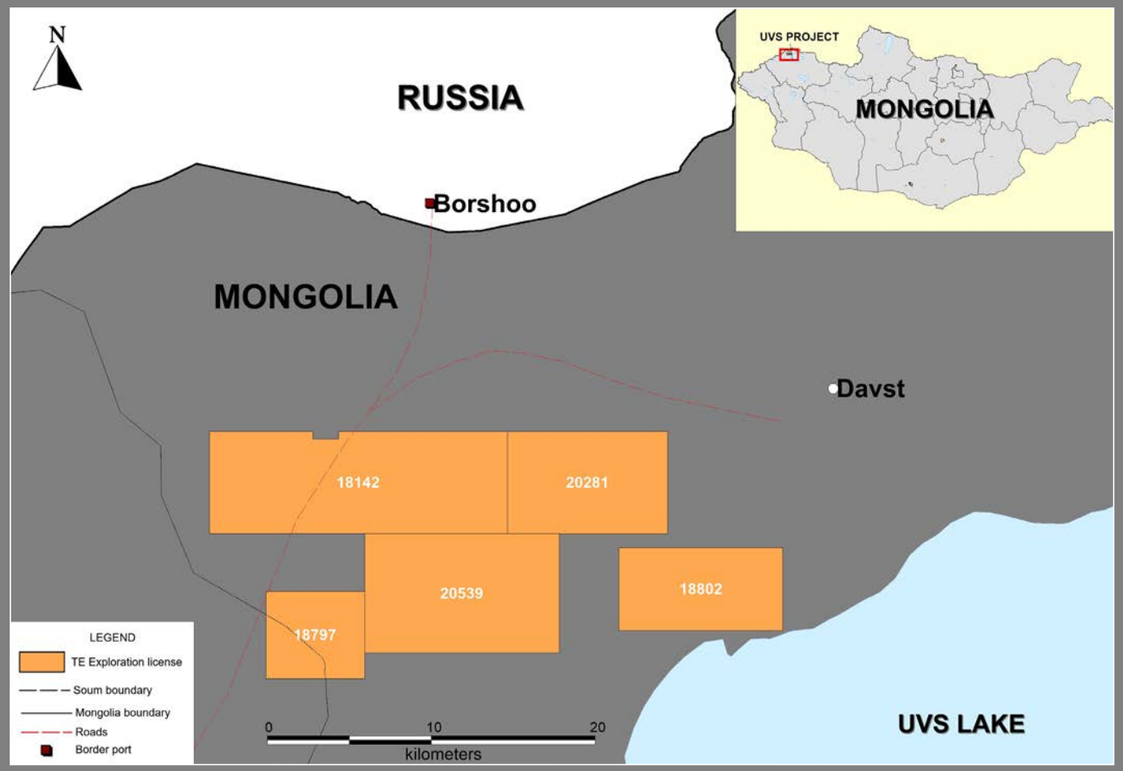
The Company's environmental strategy aims to support operational initiatives, whilst encouraging detailed planning to ensure legislative compliance and minimisation of impact. A set of Key Performance Indicators have been developed to ensure full compliance with Mongolian Regulations, and has additional focus on reducing waste streams at the source and conserving precious natural resources such as water.

The Community Development Agreement (CDA) is a tri-partite between the people of Noyon Soum (as represented by the Noyon Governor), Umnugovi Aimag (as represented by the Dalanzadgad Governor) and TerraCom. The CDA is intended to promote the concept "shared value" between the business and the communities in which we live and work. The focus is on advancing three interconnected areas; an enhanced of sustainable local economy (focus on, where possible, use of local employment and suppliers), strategic investment in social infrastructure and fostering of community cohesion. cohesion.

*Coal being loaded for export*

ABOVE

*Mongolia rehabilitation and community development projects*




## UVS Project

The Uvs Project exploration presents strategic opportunity for the Company spread across five licenses in the far north west of Mongolia. There is the potential to develop operations targeting multiple commodities, in the geologically mixed sedimentary and volcanic units within the license areas. Target commodities identified include coal, strata bound evaporates (Potash and related minerals), Brines and mineralized clays. Local evaporite and coal deposits including the active Tuz Tag salt mine and Shuden Uul salt mines are in close proximity.

| | |
|---|---|
| **PROJECT NAME** | Uvs Project |
| **EXPLORATION STAGE** | Detailed Mapping and 3D ground Based Geophysics |
| **COAL TYPE & QUALITY** | Hard Coking Coal, Evaporates, Mineralized Clays and Brines |
| **LOCATION** | Uvs aimag, Davst, Sagil and Ulaangom soums north western Mongolia |
| **TENEMENTS** | XV-18142; XV-18797; XV-18802; XV-20281; XV-20539 |
| **OWNERSHIP** | 100% TerraCom Limited through wholly owned Mongolian Subsidiary |
| **AREA** | 340.65 $Kms^2$ |

Oppisite Page: *Map of Project Uvs.*

## Mining Tenements Oveview

| Tenement number | Location | 2019 % | 2018 % |
|---|---|---|---|
| 1103 | Emerald, Queensland Australia | 100.00% | 100.00% |
| 1250 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| 1260 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| 1300 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| 1394 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| 1477 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| 1478 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| 1479 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| 1641 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| 1674 | Emerald, Queensland Australia | 35.78% | 86.97% |
| MDL 3002 | Emerald, Queensland Australia | 35.78% | 86.97% |
| 1822 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| 1872 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| 1890 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| 1892 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| 1893 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| 1962 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| 1964 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| 2047 | Mount Isa, Queensland Australia | 100.00% | - |
| 2049 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| 2105 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| 2256 | Emerald, Queensland Australia | 100.00% | - |
| ML1804 | Blair Athol, Queensland Australia | 100.00% | 100.00% |
| XV-20139 | East Gobi, Mongolia | 100.00% | 100.00% |
| XV-20329 | East Gobi, Mongolia | 100.00% | 100.00% |
| XV-12929 | Mid Gobi, Mongolia | 100.00% | 100.00% |
| XV-12600 | South Gobi, Mongolia | 100.00% | 100.00% |
| MV-16971 | South Gobi, Mongolia | 83.87% | 83.87% |
| MV-17162 | South Gobi, Mongolia | 100.00% | 100.00% |
| XV-17163 | South Gobi, Mongolia | 100.00% | 100.00% |
| XV-18111 | South Gobi, Mongolia | 100.00% | 100.00% |
| XV-18513 | South Gobi, Mongolia | 100.00% | 100.00% |
| MV-19149 | South Gobi, Mongolia | 100.00% | 100.00% |
| XV-20268 | South Gobi, Mongolia | 100.00% | 100.00% |
| MV-20800 | South Gobi, Mongolia | 100.00% | 100.00% |
| MV-20803 | South Gobi, Mongolia | 100.00% | 100.00% |
| XV-18142 | Uvs, Mongolia | 100.00% | 100.00% |
| XV-18797 | Uvs, Mongolia | 100.00% | 100.00% |
| XV-18802 | Uvs, Mongolia | 100.00% | 100.00% |
| XV-20281 | Uvs, Mongolia | 100.00% | 100.00% |
| XV-20539 | Uvs, Mongolia | 100.00% | 100.00% |

## Annual Coal Resources and Reserves Summary

As previously announced on 30 September 2019, TerraCom Limited has completed its annual Coal Reserves and Resources Summary as at 30 June 2019.

During the year the Company:

I. Increased the confidence of the Blair Athol Coal Resource. As disclosed on page 2, the JORC 2012 Resource has increased by 1Mt year on year even after accounting for mining production depletion of 2.6Mt in the 2019 financial year.

II. Increased the Blair Athol Coal Reserve. As disclosed on page 5, the JORC 2012 Reserves have increased by 10.9Mt (or 66%) even after accounting for mining production depletion of 2.6Mt in the 2019 financial year.

III. Completed a review of all coal licences (exploration and mining) to align the portfolio of coal licences with TerraCom's business strategy. This resulted in some relinquishments of coal licences which had no attributable JORC Resource or JORC Reserve, and for which also had no or limited indication of an economically viable resource or where there was no foreseeable opportunity to develop the coal licence.

### TerraCom Group Resources

| Deposit | Location | Status | Licence Number | Commodity | Measured | Indicated | Inferred | 2019 Total | 2018 Total | Report Date |
|---|---|---|---|---|---|---|---|---|---|---|
| **JORC 2012** | | | | | 44.2 | 19.8 | 19.7 | 83.7 | 83.0 | |
| **Blair Athol** | Clermont, Queensland, Australia | Mine | ML1804 | Thermal Coal | 30.2 | 11.6 | 2.0 | 43.8 | 42.8 | 6-Dec-2018 |
| **BNU** | Umnugovi Aimag, Noyon Soum (South Gobi Desert), Mongolia | Mine | MV-17162 | Coking Coal | 14.0 | 8.2 | 2.7 | 24.9 | 25.2 | 25-Jun-2014 |
| **KS North** | Umnugovi Aimag, Noyon Soum (South Gobi Desert), Mongolia | Mine/ Exploration | MV-19149 | Coking Coal | - | - | 15 | 15 | 15 | 23-Jun-2015 |
| **JORC 2004** | | | | | - | 259 | 2,131 | 2,390 | 2,390 | |
| **Springsure (1)** | Southern Bowen Basin, Springsure, Queensland, Australia | Exploration | MDL 3002; EPC 1674 | PCI Coal and Thermal Coal | - | 43 | 148 | 191 | 191 | 29-Nov-2013 |
| **Hughenden** | Galilee Basin, Hughenden, Queensland, Australia | Exploration | EPC1300; EPC1394; EPC1477; EPC1478; EPC1479; EPC1641; EPC2049; | Thermal Coal | - | 133 | 1,076 | 1,209 | 1,209 | 8-Feb-2013 |
| **Clyde Park (2)** | North Eastern Galilee Basin,Hughenden, Queensland, Australia | Exploration | EPC1250; EPC1260 | Thermal Coal | - | 51 | 677 | 728 | 728 | 8-Feb-2013 |
| **Hovguun East (3)** | Umnugovi Aimag, Noyon Soum (South Gobi Desert), Mongolia | Exploration | MV-16971 | Thermal Coal | - | - | 41 | 41 | 41 | 19-Nov-2012 |
| **Mid-Gobi** | Mandalgovi aimag, Delgerkhangai, Saikhanovoo and Erdenedalai soums, souther Eastern Mongolia | Exploration | XV-12929 | Thermal Coal | - | 32 | 189 | 221 | 221 | 7-Dec-2011 |
| **TOTAL JORC** | | | | | 44.2 | 278.8 | 2,150.7 | 2,473.7 | 2,472.6 | |

(1) Figures shown are 100% of the total resources. TerraCom's ownership is 86.97%.
(2) Figures shown are 100% of the total resources. TerraCom's ownership is 64.4%.
(3) Figures shown are 100% of the total resources. TerraCom's ownership is 83.87%.

## Competent Persons Statement

The estimates of coal resources herein (as previously announced on 30 September 2019) have been prepared in accordance with the guidelines of the '*Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves* – The JORC Code'. These resources are inclusive of the reserves reported in the Reserves Statement. The work has been undertaken internally and reviewed by Mr Reece Henry who is a Member of the Australian Institute of Mining and Metallurgy and is employed by TerraCom Limited as its Exploration Manager in Mongolia. Mr Henry has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the relevant JORC Code. Mr Henry consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

The Company confirm that it is not aware of any new information or data that materially affects the information included in the original market announcements relating to drill results, resource estimates or studies and that all material assumptions and technical parameters underpinning the drill results and estimates in the relevant market announcements continue to apply and have not materially changed. Please refer to the column in the table above titled "Report Data" for the announcement date of each release relating to the deposit.

## TerraCom Group Reserves

**Recoverable Reserves**

| Deposit | Location | Status | Licence Number | Commodity | Proved | Probable | 2018 Total | 2017 Total | Report Date |
|---|---|---|---|---|---|---|---|---|---|
| **JORC 2012** | | | | | | | | | |
| **Blair Athol** | Clermont, Queensland, Australia | Mine | ML1804 | Thermal Coal | 15.3 | 12.1 | 27.4 | 16.5 | 20-Mar-2019 |

**Marketable Reserves**

| Deposit | Location | Status | Licence Number | Commodity | Proved | Probable | 2018 Total | 2017 Total | Report Date |
|---|---|---|---|---|---|---|---|---|---|
| **JORC 2012** | | | | | | | | | |
| **Blair Athol** | Clermont, Queensland, Australia | Mine | ML1804 | Thermal Coal | 12.7 | 9.6 | 22.3 | 14.0 | 20-Mar-2019 |

## Competent Persons Statement

The information relating to coal reserves (as previously announced on 30 September 2019) is based on information compiled by Mr Ian Neilsen who is a member of the Australasian Institute of Mining and Metallurgy and is a full time employee of Deswik Mining Consultants Pty Ltd. Mr Neilsen is a qualified Mining Engineer 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*." Mr Neilsen consents to the inclusion in the report of the matters based on the information, in the form and context in which it appears. Mr Neilsen has 18 years Open Cut Coal experience with approximately 11 years' experience providing mining volume estimates and strip reconciliation using Deswik and Vulcan Software.

The Company confirm that it is not aware of any new information or data that materially affects the information included in the original market announcements relating to drill results, resource estimates or studies and that all material assumptions and technical parameters underpinning the drill results and estimates in the relevant market announcements continue to apply and have not materially changed. Please refer to the column in the table above titled "Report Data" for the announcement date of each release relating to the deposit.



## Forward Looking Statement

This document contains summary information about, TerraCom, its subsidiaries, and its activities which are current as at the date of this document. The information in this document is general in nature and does not purport to be complete nor does it contain all the information which a prospective investor may require in evaluating a possible investment in TerraCom or that would be required in a prospectus or product disclosure statement prepared in accordance with the Corporations Act 2001 (Cth). Information in this document should therefore be read in conjunction with other announcements made by TerraCom to the ASX.

No representation or warranty, express or implied, is made as to the fairness, accuracy or completeness of the information contained in this document (or any associated presentation, information or matters). To the maximum extent permitted by law, TerraCom and its related bodies corporate and affiliates, and their respective directors, officers, employees, agents and advisers, disclaim any liability (including, without limitation, any liability arising from fault, negligence or negligent misstatement) for any direct or indirect loss or damage arising from any use or reliance on this document or its contents, including any error or omission from, or otherwise in connection with, it.

Certain statements in or in connection with this document contain or comprise forward looking statements. Such statements may include, but are not limited to, statements with regard to capital cost, capacity, future production and grades, sales projections and financial performance and may be (but are not necessarily) identified by the use of phrases such as "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan", "consider", "foresee", "aim", "will". By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future and may be outside TerraCom's control. Accordingly, results, events or outcomes could differ materially from the results, events or outcomes expressed in or implied by the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in the regulatory environment and other government actions, fluctuations in product prices and exchange rates and business and operational risk management. Subject to any continuing obligations under applicable law or relevant stock exchange listing rules, TerraCom undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

Nothing in this document constitutes investment, legal or other advice. You must not act on the basis of any matter contained in this document but must make your own independent investigation and assessment of TerraCom and obtain any professional advice you require before making any investment decision based on your investment objectives and financial circumstances. An investment in TerraCom shares is subject to known and unknown risks, some of which are beyond the control of TerraCom. Investors should have careful regard to the risk factors outlined in this document.

This document does not constitute an offer, invitation, solicitation, advice or recommendation with respect to the issue, purchase or sale of any security in any jurisdiction.

## Competent Persons Statement

**Annual Coal Resources Summary – as at 30 June 2019**

The estimates of coal resources herein have been prepared in accordance with the guidelines of the '*Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves* – The JORC Code'. These resources are inclusive of the reserves reported in the Reserves Statement. The work has been undertaken internally and reviewed by Mr Reece Henry who is a Member of the Australian Institute of Mining and Metallurgy and is employed by TerraCom Limited as its Exploration Manager in Mongolia. Mr Henry has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the relevant JORC Code. Mr Henry consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

The Company confirm that it is not aware of any new information or data that materially affects the information included in the original market announcements relating to drill results, resource estimates or studies and that all material assumptions and technical parameters underpinning the drill results and estimates in the relevant market announcements continue to apply and have not materially changed. Please refer to the ASX announcement on 30 September 2019 for further details.

**Annual Coal Reserves Summary – as at 30 June 2019**

The information in this announcement relating to coal reserves is based on information compiled by Mr Ian Neilsen who is a member of the Australasian Institute of Mining and Metallurgy and is a full time employee of Deswik Mining Consultants Pty Ltd. Mr Neilsen is a qualified Mining Engineer 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*." Mr Neilsen consents to the inclusion in the report of the matters based on the information, in the form and context in which it appears. Mr Neilsen has 18 years Open Cut Coal experience with approximately 11 years' experience providing mining volume estimates and strip reconciliation using Deswik and Vulcan Software.

The Company confirm that it is not aware of any new information or data that materially affects the information included in the original market announcements relating to drill results, resource estimates or studies and that all material assumptions and technical parameters underpinning the drill results and estimates in the relevant market announcements continue to apply and have not materially changed. Please refer to the ASX announcement on 30 September 2019 for further details.

**Blair Athol – Reserves**

The information in this report relating to coal reserves for Blair Athol was announced on 20 March 2019, titled "*Further Blair Athol Mine Life Extension*". This is based on information compiled by Mr Ian Neilsen who is a full time employee of Deswik Mining Consultants. Ian is a qualified mining Engineer and has sufficient experience 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. Ian is a member of the Australasian Institute of Mining and Metallurgy and qualifies as a 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 20 March 2019; and that all material assumptions and technical parameters in the announcement made on 20 March 2019 continue to apply and have not materially changed.

**Blair Athol – Resources**

The information in this report relating to coal resources for Blair Athol was announced on 6 December 2018, titled "*JORC Resource Confidence Upgrade - Blair Athol*". This is based on information compiled by Mr Greg Jones who is a Principal Consultant of JB Mining Services Pty Ltd. Mr Jones 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 6 December 2018; and that all material assumptions and technical parameters in the announcement made on 6 December 2018 continue to apply and have not materially changed.

**Hughenden – Resources**

The information in this report relating to coal resources for Hughenden was announced on 8 February 2013, titled "*Mongolia and Queensland Update*". This is based on information compiled by Mr Mark Briggs who is previously Principal Geologist of Moultrie Database and Modelling. Mr. Biggs is a member of the Australasian Institute of Mining and Metallurgy (Member #107188) and has over 25 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the *Australasian Code for Reporting of Minerals Resources and Reserves* (JORC) 2004.

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcement on 8 February 2013; and that all material assumptions and technical parameters in the announcement made on 8 February 2013 continue to apply and have not materially changed.

**Clyde Park – Resources**

The information in this report relating to coal resources for Clyde Park was announced on 8 February 2013, titled "*Mongolia and Queensland Update*". This is based on information compiled by Ms Kim Maloney who is previously Senior Resource Geologist of Moultrie Geology. Kim has experience within the Central Queensland coal mines and has held various roles in these mine's Technical Services, including Exploration Geologist, Mine Geologist and Geology Superintendent. Kim is a Competent Person for coal as defined by the JORC Code (2004). Kim is a Senior Resource Geologist, previously with Moultrie Geology. Her principal qualifications are a Bachelor of Science from James Cook University and a Masters of Business Administration (Human Resource Management) from the Central Queensland University. Kim is a Member of The Australasian Institute of Mining & Metallurgy (# 229120) and a Member of the Bowen Basin Geological Group.

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcement on 8 February 2013; and that all material assumptions and technical parameters in the announcement made on 8 February 2013 continue to apply and have not materially changed.

**Springsure – Resources**

The information in this report relating to coal resources for Springsure was announced on 29 November 2013, titled "*Maiden Springsure JORC Indicated Resource*". This is based on information compiled by Ms Kim Maloney who is previously Senior Resource Geologist of Moultrie Geology. Kim has experience within the Central Queensland coal mines and has held various roles in these mine's Technical Services, including Exploration Geologist, Mine Geologist and Geology Superintendent. Kim is a Competent Person for coal as defined by the JORC Code (2004). Kim is a Senior Resource Geologist, previously with Moultrie Geology. Her principal qualifications are a Bachelor of Science from James Cook University and a Masters of Business Administration (Human Resource Management) from the Central Queensland University. Kim is a Member of The Australasian Institute of Mining & Metallurgy (# 229120) and a Member of the Bowen Basin Geological Group.

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcement on 29 November 2013; and that all material assumptions and technical parameters in the announcement made on 29 November 2013 continue to apply and have not materially changed.

**BNU – Resources**

The information in this report relating to coal resources for BNU was announced on 25 June 2014, titled "*Baruun Noyon Uul (BNU) JORC (2012) Compliant Resource Statement*". This is based on information compiled by Mr Craig Williams who is the Principal Consultant-Geologist of HDR Salva. Craig Williams is a member of the Australasian Institute of Mining & Metallurgy, and a fulltime employee of HDR|Salva, has sufficient experience that is relevant to the style of mineralisation under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code (2012).

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcement on 25 June 2014; and that all material assumptions and technical parameters in the announcement made on 25 June 2014 continue to apply and have not materially changed.

**KS North – Resources**

The information in this report relating to coal resources for KS North was announced on 22 June 2015, titled "*JORC Resource Upgrade for 12600X in Mongolia*" and 25 June 2015, titled "*Clarification Statement*". 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 22 June 2015; and that all material assumptions and technical parameters in the announcement made on 22 June 2015 continue to apply and have not materially changed.

**Huvguun – Resources**

The information in this report relating to coal resources for Huvguun was announced on 19 November 2012, titled "*Mining Update - Mongolia*". This is based on information compiled by Mr Mark Briggs who is previously Principal Geologist of Moultrie Database and Modelling.

Mr. Biggs is a member of the Australasian Institute of Mining and Metallurgy (Member #107188) and has over 25 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the *Australasian Code for Reporting of Minerals Resources and Reserves* (JORC) 2004.

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcement on 19 November 2012; and that all material assumptions and technical parameters in the announcement made on 19 November 2012 continue to apply and have not materially changed.

**Mid Gobi – Resources**

The information in this report relating to coal resources for Mid Gobi was announced on 7 December 2011, titled "*Maiden Mongolia Middle Gobi JORC*". This is based on information compiled by Mr Mark Briggs who is previously Principal Geologist of Maultrie Database and Modelling.

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcement on December 2011; and that all material assumptions and technical parameters in the announcement made on 19 November 2012 continue to apply and have not materially changed.

**BNU South**

The information in this report relating to coal resources for BNU South as announced on 6 June 2018, titled "*Major Strike within Coal Deposit Discovered at BNU Mongolia*". This is based on information compiled by Mr Reece Henry who is employed by TerraCom Limited as its Exploration Manager in Mongolia. Mr Henry is a member of the Australian Institute of Mining and Metallurgy and has experience related to the style and type of coal deposit under consideration and to the activity which is being undertaken to quality as a Competent Person as defined in the 2012 edition of the "*Australian 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 6 June 2018; and that all material assumptions and technical parameters in the announcement made on 6 June 2018 continue to apply and have not materially changed.



# Financial Report

## 1. Company details

| | |
|---|---|
| Name of entity: | TerraCom Limited |
| ABN: | 35 143 533 537 |
| Reporting period: | For the year ended 30 June 2019 |
| Previous period: | For the year ended 30 June 2018 |

## 2. Results for announcement to the market

| | | | | $'000 |
|---|---|---|---|---|
| Revenues from ordinary activities | up | 129.9% | to | 338,322 |
| Loss from ordinary activities after tax attributable to the owners of TerraCom Limited | down | 39.0% | to | (11,229) |
| Loss for the year attributable to the owners of TerraCom Limited | down | 39.0% | to | (11,229) |

*Dividends*
There were no dividends paid, recommended or declared during the current financial period.

*Comments*
The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to $11,229,000 (30 June 2018: $18,399,000).

## 3. Net tangible assets

| | Reporting period Cents | Previous period Cents |
|---|---|---|
| Net tangible assets per ordinary security | 15.08 | 7.24 |

## 4. Control gained over entities

| | |
|---|---|
| Name of entities (or group of entities) | Springsure Mining Pty Ltd |
| Date control gained | 27 March 2019 |

## 5. Loss of control over entities

Not applicable.

## 6. Dividends

*Current period*
There were no dividends paid, recommended or declared during the current financial period.

*Previous period*
There were no dividends paid, recommended or declared during the previous financial period.





## 7. Dividend reinvestment plans

Not applicable.

## 8. Details of associates and joint venture entities

Not applicable.

## 9. Foreign entities

*Details of origin of accounting standards used in compiling the report:*

Not applicable.

## 10. Audit qualification or review

*Details of audit/review dispute or qualification (if any):*

The financial statements have been audited and an unqualified opinion has been issued.

## 11. Attachments

*Details of attachments (if any):*

The Annual Financial Report of TerraCom Limited for the year ended 30 June 2019 is attached.

## 12. Signed

Signed _____ Date: 30 August 2019

Wallace Macarthur King
Non-Executive Chairman
Sydney

# TerraCom Limited

**ABN 35 143 533 537**

# Annual Financial Report - 30 June 2019



## TerraCom Limited
## Corporate directory
## 30 June 2019

| | |
|---|---|
| Directors | Mr Wallace (Wal) King AO<br>The Hon. Craig Wallace<br>Mr Tsogt Togoo<br>Mr Philip Forrest<br>Mr James (Jim) Soorley<br>Mr Matthew Hunter<br>Mr Paul Anderson |
| Company secretary | Mr Nathan Boom |
| Registered office | Blair Athol Mine Access Road<br>Clermont, Queensland, 4721<br>Australia |
| Principal place of business | Blair Athol Mine Access Road<br>Clermont, Queensland, 4721<br>Australia |
| Contact address | PO Box 131<br>Clermont, Queensland, 4721<br>Australia |
| Share register | Link Market Services Limited<br>Level 12, 680 George Street<br>Sydney, New South Wales, 2000<br>Australia<br>Telephone: +61 1300 554 474<br>Facsimile: +612 9287 0303 |
| Auditor | Ernst & Young<br>200 George Street<br>Sydney, New South Wales, 2000<br>Australia |
| Solicitors | Ashurst Australia<br>Level 26, 181 William Street<br>Melbourne, Victoria, 3000<br>Australia |
| Bankers | Westpac Banking Corporation<br>Suite 2, Level 2<br>22 Walker Street<br>Townsville, Queensland, 4810<br>Australia |
| Stock exchange listing | TerraCom Limited shares are listed on the Australian Securities Exchange (ASX code: TER) |
| Website | terracomresources.com |

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of TerraCom Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

## Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- Continuing the process of ramping up production towards 3Mtpa of the Blair Athol Thermal Coal Mine (BA).
- Continuing the process of ramping up production of the BNU mine in Mongolia.
- Rehabilitation of the Blair Athol Coal Mine
- Mineral exploration activities in a number of mining tenements held across Australia and Mongolia.

## Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

## Directors

The following persons were directors of TerraCom Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr Wallace (Wal) King AO
The Hon. Craig Wallace
Mr Tsogt Togoo
Mr Philip Forrest
Mr James (Jim) Soorley
Mr Matthew Hunter
Mr Paul Anderson
Mr Michael Avery (Resigned 27 November 2018)





## Information on directors

| | |
|---|---|
| Name: | Mr Wallace (Wal) King (AO) |
| Title: | Non-Executive Chairman, Independent Director |
| Qualifications: | Honorary Doctorate of Science<br>Master of Engineering Science<br>Bachelor of Engineering |
| Experience and expertise: | Mr King 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, and also the world's largest contract miner, collectively employing around 45,000 people and operating in more than 30 countries.<br><br>Mr King began his career with Leighton's in 1968 working on major construction projects all over Australia and quickly moved into management, becoming a Director of Leighton Holdings Limited in 1975 and being appointed CEO of Leighton Holdings Limited in February 1987, until his retirement on 31 December 2010. Mr King is a Director of Kimberley Foundation Australia Limited; and was up until recently one of the longest serving Directors of Coca-Cola Amatil Limited. He is a former Deputy Chairman of the University of New South Wales Foundation Limited, former Board Member of the Business Council of Australia and a former Council Member of the University of New South Wales and was President of the Australian Constructors Association from its inception in 1994 to December 2010. Mr King is an Honorary Fellow of the Institution of Engineers Australia; a Foundation Fellow of the Australian Institute of Company Directors, and a Fellow of the Australian Institute of Management, the Australian Institute of Building and the Australian Academy of Technological Sciences and Engineering. Mr King is also currently the Non-executive Chairman of Built Holdings Pty Limited. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Chairman, Sundance Resources Limited (retired December 2016)<br>Director, Coca-Cola Amatil Limited (retired May 2017) |
| Special responsibilities: | Chairman of Remuneration Committee |
| Interests in shares: | As at 30 June 2019, Mr King had an interest in 1,488,544 ordinary shares (direct 117,300 and indirect 1,371,244). The indirect ordinary shares are held by Point Road Investments Pty Limited, which Mr King is a director and shareholder. |
| Interests in options: | Nil<br>The Company notes that at the 2018 AGM (held on 27 November 2018), Mr King (along with all other existing directors) was awarded up to 128,761 options subject to performance of TerraCom's share price in comparison to the ASX 200. As at the date of this report, these options have not yet been issued (only approved by shareholders to be issued). |
| Interests in rights: | Nil |
| Contractual rights to shares: | Nil |

| | |
|---|---|
| Name: | The Hon. Craig Wallace |
| Title: | Non-Executive Deputy Chairman, Independent Director |
| Qualifications: | Bachelor of Arts |
| Experience and expertise: | Mr Wallace served as the Queensland Minister for Main Roads, Fisheries and Marine Infrastructure from 2009 to 2012. His departments delivered major infrastructure projects across Queensland including the Gateway Bridge and rebuilding of Queensland Road assets following major floods. He is a former member of the Executive Council of Queensland, a member of Roads Australia and a Patron of the Committee for Infrastructure and Logistics Australia.<br><br>In 2012 he formed Shanghai Commonwealth Investment and Consulting (which is operating mainly in China). The company has a focus on building trade ties between China and Australia with a particular focus on food products.<br><br>Mr Wallace also serves as the Chairman of the Advisory Board China for CPG Capital Partners Limited. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Member of the Audit Committee |
| Interests in shares: | As at 30 June 2019: 10,200 ordinary shares |
| Interests in options: | Nil<br>The Company notes that at the 2018 AGM (held on 27 November 2018), Mr Wallace (along with all other existing directors) was awarded up to 115,663 options subject to performance of TerraCom's share price in comparison to the ASX 200. As at the date of this report, these options have not yet been issued (only approved by shareholders to be issued). |
| Interests in rights: | Nil |
| Contractual rights to shares: | Nil |

| | |
|---|---|
| Name: | Mr Michael Avery |
| Title: | Executive Director (Resigned 27 November 2018) |
| Qualifications: | Master of Business Administration<br>Bachelor of Engineering (Mining) (First Class Hons) |
| Experience and expertise: | Mr Avery has been involved in the establishment and management of a number of successful public and private companies in mining, exploration and development, mining consulting services and mining contractor services.<br><br>Mr Avery is a 30 year plus mining industry veteran with BE Mining (1st Class Honours) from UNSW and an MBA from Mt Eliza Business School. Mr Avery is also a qualified Coal Mine Manager and a member of the Australian Institute of Mining and Metallurgy.<br><br>Mr Avery has extensive experience in the mining sector working in senior management and technical roles for a number of blue-chip mining companies (mostly Rio Tinto and BHP Billiton) at operations in Australia and around the world. These roles covered the full life cycle of open cut and underground mines from resource exploration and evaluation, through conceptual design, pre-feasibility, feasibility, construction, operation and management. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Nil |
| Interests in shares: | Indirectly owns 1,465,509 ordinary shares.<br><br>Michael Avery is a beneficiary of Omaroo Pty Ltd and Crem Pty Ltd who are trustee companies for Omaroo Family Trust and Crem Family Trust respectively. Omaroo Pty Ltd and Crem Pty Ltd hold 736,240 and 729,269 shares respectively as at the date of Mr Avery's resignation. |
| Interests in options: | Nil |
| Interests in rights: | Nil |
| Contractual rights to shares: | Nil |





| | |
|---|---|
| Name: | Mr Tsogt Togoo |
| Title: | Non-Executive, Independent Director |
| Qualifications: | Master of Business Administration<br>Master of Economics<br>Bachelor of Economics (First Class Honours) |
| Experience and expertise: | Mr Tsogt has close to two decades of experience in the Mongolian public sector. He worked in the senior management of the Mongolian national oil company, overseeing commercial and operational functions, including petroleum product imports and internal distribution to filling stations.<br><br>Mr Tsogt also led the privatisation division of the State Property Committee and has played extensive roles in the privatisation of Mongolia's most valuable state owned companies. Mr Tsogt was in charge of the privatisation of the national oil company, banks and other state-owned enterprises, restructuring power generation and energy distribution enterprises and the deregulation of the energy and oil sectors. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Nil |
| Interests in shares: | Nil |
| Interests in options: | Nil<br>The Company notes that at the 2018 AGM (held on 27 November 2018), Mr Togoo (along with all other existing directors) was awarded up to 133,869 options subject to performance of TerraCom's share price in comparison to the ASX 200. As at the date of this report, these options have not yet been issued (only approved by shareholders to be issued). |
| Interests in rights: | Nil |
| Contractual rights to shares: | Nil |

| | |
|---|---|
| Name: | Mr Philip Forrest |
| Title: | Non-Executive, Independent Director |
| Qualifications: | Fellow of the Australian Institute of Company Directors<br>Certified Public Accountant<br>Bachelor of Commerce (University of Queensland) |
| Experience and expertise: | For over 30 years, Mr Forrest has lived in South East Asia and contributed to the Australia/Asia commercial relationship. He is reinforcing that contribution through directorships, involvement in not for profit organisations, and the provision of consultation and advice. Since arriving in Singapore in 1992, he has headed three international banks (Westpac, NatWest and ANZ), with wide-ranging regional responsibilities. His most recent banking position was Asia Head for ANZ Bank, with responsibility for all of the Bank's activities in eleven countries from Japan to Indonesia.<br><br>Mr Forrest's current non-executive directorships include: Voyager Estate (Singapore), Readymix Holdings International, Gemstar Technology Asia, and EVOLVE Agribusiness Pte Ltd.<br><br>He is currently a Director of The Australian Chamber of Commerce Singapore, and a Member of the Governing Council of the Singapore Institute of Directors.<br>Philip is a Fellow of the Australian Institute of Company Directors, a Fellow of CPA Australia, and a Fellow of the Australian Institute for Business and Economics. He is a Member of the Thai Institute of Directors and of the Singapore Mining Club. He received an award in 2014 for forty years of membership of CPA Australia. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Chairman of the Audit Committee<br>Member of the Remuneration Committee (resigned 18 June 2019) |
| Interests in shares: | As at 30 June 2019, Mr Forrest directly owned 162,770 ordinary shares |
| Interests in options: | Nil<br>The Company notes that at the 2018 AGM (held on 27 November 2018), Mr Forrest (along with all other existing directors) was awarded up to 48,193 options subject to performance of TerraCom's share price in comparison to the ASX 200. As at the date of this report, these options have not yet been issued (only approved by shareholders to be issued). |
| Interests in rights: | Nil |
| Contractual rights to shares: | Nil |





| | |
|---|---|
| Name: | Mr James (Jim) Soorley |
| Title: | Non-Executive, Independent Director |
| Qualifications: | Master of Organisation Development<br>Bachelor of Arts |
| Experience and expertise: | Mr Soorley has been a highly successful leader in local government and business, which is demonstrated through previously being Lord Mayor of the City of Brisbane for 12 years. Mr Soorley's wealth of experience allows him to provide guidance and leadership in stakeholder relations and management to the TerraCom team both within Australian and overseas.<br><br>Mr Soorley is currently the inaugural Chairman of Unitywater and Chairman of CS Energy, a Queensland Government owned electricity generator producing a third of Queensland's electricity. Mr Soorley is also the former inaugural Chairman for the Queensland Partnership Group (now PROPEL). He has also served on a number of key government committees and boards including the A.C.T Land Development Agency and Brisbane International Film Festival. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Member of the Audit Committee and Remuneration Committee |
| Interests in shares: | As at 30 June 2019, Mr Soorley held 683,117 ordinary shares indirectly through JSJP Pty Ltd as trustee for Soorley and Philip Superannuation Fund. Mr Soorley is the director of the trustee and member of the superannuation fund. |
| Interests in options: | Nil<br>The Company notes that at the 2018 AGM (held on 27 November 2018), Mr Soorley (along with all other existing directors) was awarded up to 115,663 options subject to performance of TerraCom's share price in comparison to the ASX 200. As at the date of this report, these options have not yet been issued (only approved by shareholders to be issued). |
| Interests in rights: | Nil |
| Contractual rights to shares: | Nil |

| | |
|---|---|
| Name: | Mr Matthew Hunter |
| Title: | Non-Executive Director |
| Qualifications: | Bachelor of Commerce, Accounting and Finance |
| Experience and expertise: | Mr Hunter has more than 20 years' experience in the finance industry, most recently with over 10 years' experience in private equity investment. Mr Hunter is a member of the Advisory Board of AtlasTrend and Consultant engaged by OCP Asia.<br><br>Mr Hunter founded Rivendell Capital in early 2016 to provide capital and advisory services to small and medium sized enterprises and specialised projects. Prior to founding Rivendell Capital, Mr Hunter was a Managing Director of The Carlyle Group. He also served on the Board as a Non-Executive Director of both Coates Hire and Healthscope, two of the largest private equity transactions undertaken in Australia.<br><br>Mr Hunter also acts as Chairman of Measure Australia Pty Ltd which provides managed drone data solutions. Mr Hunter is the non-executive director of Medirent Pty Ltd which is a national provider of medical and maternity rental equipment. |
| Other current directorships: | Non-Executive Director of Silver Heritage Group Limited (appointed 14 December 2016) |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Nil |
| Interests in shares: | As at 30 June 2019, Mr Hunter had an interest in 1,592,309 ordinary shares (direct 1,236,250 and indirect 356,059). The indirect ordinary shares are held by M & M Hunter Pty Ltd as trustee for the Hunter Superannuation Fund of which Mr Hunter is a director of the trustee company and a member of the superannuation fund. |
| Interests in options: | Nil<br>The Company notes that at the 2018 AGM (held on 27 November 2018), Mr Hunter (along with all other existing directors) was awarded up to 52,814 options subject to performance of TerraCom's share price in comparison to the ASX 200. As at the date of this report, these options have not yet been issued (only approved by shareholders to be issued). |
| Interests in rights: | Nil |
| Contractual rights to shares: | Nil |





| | |
|---|---|
| Name: | Mr Paul Anderson |
| Title: | Non-Executive Director |
| Qualifications: | Master of Management<br>Master of Engineering |
| Experience and expertise: | Mr Anderson has had broad experience in development after managing a vast array of community infrastructure. His knowledge and experience of all aspects of building lead the team with a strong vision. Mr Anderson firmly believes that property development is a collaborative process with his team, project partners and the local community. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Nil |
| Interests in shares: | As at 30 June 2019 and as at the date of this report, Mr Anderson directly owns 19,502 ordinary shares.<br><br>As at 30 June 2019, Mr Anderson indirectly owned 79,180,227 ordinary shares;<br>i) 78,819,723, ordinary shares - Bonython Coal No 1 Pty Ltd as trustee for the Bonython Coal No 1 Unit Trust. Mr Anderson is a director of the trustee company;<br>ii) 346,350 ordinary shares - Singleton Group Nominees Pty Ltd as trustee for the Singleton No 5 Investment Trust. Mr Anderson is a director of the trustee company; and<br>iii)14,155 ordinary shares - PMANDO Pty Ltd as trustee for Anderson Family Superannuation Fund. Mr Anderson is a director of the trustee company and a member of the superannuation fund.<br><br>As at 30 June 2019 this represents a total of 79,199,730 ordinary shares (direct 19,502 and indirect 79,180,227). |
| Interests in options: | Nil<br>The Company notes that at the 2018 AGM (held on 27 November 2018), Mr Anderson (along with all other existing directors) was awarded up to 52,814 options subject to performance of TerraCom's share price in comparison to the ASX 200. As at the date of this report, these options have not yet been issued (only approved by shareholders to be issued). |
| Interests in rights: | Nil |
| Contractual rights to shares: | Nil |

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

## Company secretary

*Mr Nathan Boom*

Mr Boom was appointed as the Company Secretary on 15 January 2016 and is also the Chief Financial Officer (appointed 15 March 2017). Mr Boom has been an employee of TerraCom since July 2015.

Mr Boom holds a Bachelor of Commerce (Accounting) from University of Wollongong, and is a Chartered Accountant with a strong resources sector background.

## Directors interests

The interest of each director in the ordinary shares of the company, as notified by the directors to the Australian Securities Exchange in accordance with section 205G(1) of the Corporations Act 2001 as at the date of this report is as follows:

| | Ordinary shares Direct interest | Ordinary shares Indirect interest | Options over ordinary shares Direct interest (5) | Total |
|---|---|---|---|---|
| **Directors interests** | | | | |
| Mr Wallace (Wal) King AO (1) | 117,300 | 1,371,244 | 128,761 | 1,617,305 |
| The Hon. Craig Wallace | 10,200 | - | 115,663 | 125,863 |
| Mr Tsogt Togoo | - | - | 133,869 | 133,869 |
| Mr Philip Forrest | 162,770 | - | 48,193 | 210,963 |
| Mr James (Jim) Soorley (2) | - | 683,117 | 115,663 | 798,780 |
| Mr Matthew Hunter (3) | 1,236,250 | 356,059 | 52,814 | 1,645,123 |
| Mr Paul Andersen (4) | 19,502 | 79,180,228 | 52,814 | 79,252,544 |
| | 1,546,022 | 81,590,648 | 647,777 | 83,784,447 |

(1) Wallace King AO is a director and shareholder of Point Road Investments Pty Limited which holds the above indirect ordinary shares.

(2) Jim Soorley is a director of the trustee company (JSJP Pty Ltd) and a member of the Soorley and Philip Superannuation Fund which holds the above indirect ordinary shares.

(3) Matthew Hunter is a director of the trustee company (M&M Hunter Pty Ltd) and a member of the Hunter Family Superannuation Fund which holds the above indirect ordinary shares.

(4) The direct shareholding of 19,502 ordinary shares above is jointly held with Monique Anderson.

The Indirect shareholding of 79,180,228 ordinary shares above is as follows:
i) 78,819,723, ordinary shares - Bonython Coal No 1 Pty Ltd as trustee for the Bonython Coal No 1 Unit Trust. Paul Anderson is a director of the trustee company;
ii) 346,350 ordinary shares - Singleton Group Nominees Pty Ltd as trustee for the Singleton No 5 Investment Trust. Paul Anderson is a director of the trustee company;
iii) 14,155 ordinary shares - PMAND Pty Ltd as trustee for Anderson Family Superannuation Fund. Paul Anderson is a director of the trustee company and a member of the superannuation fund.

(5) The Company notes that at the 2018 AGM (held on 27 November 2018), shareholders approved the directors to be awarded options subject to performance of TerraCom's share price in comparison to the ASX 200. As at the date of this report, these options have not been issued to any of the directors and accordingly the directors have not reported these options in their respective disclosures.

## Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

| | Full Board | | Remuneration Committee | | Audit and Risk Committee | |
|---|---|---|---|---|---|---|
| | Attended | Held | Attended | Held | Attended | Held |
| Mr Wallace (Wal) King AO | 13 | 13 | 3 | 3 | - | - |
| The Hon. Craig Wallace | 13 | 13 | - | - | 4 | 4 |
| Mr Michael Avery(1) | 5 | 7 | - | - | - | - |
| Mr Tsogt Togoo | 12 | 13 | - | - | - | - |
| Mr Philip Forrest | 13 | 13 | 3 | 3 | 4 | 4 |
| Mr James (Jim) Soorley | 12 | 13 | 3 | 3 | 4 | 4 |
| Mr Matthew Hunter | 13 | 13 | - | - | - | - |
| Mr Paul Andersen | 12 | 13 | - | - | - | - |

The nomination committee has all members of the board as members. Accordingly, this is dealt with at the Board of Directors meetings.





Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

(1) Mr Michael Avery resigned on 27 November 2018

## Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

## Shares under option

As at the date of this report, the following options were available to acquire shares in the Company or a controlled entity:

- As announced on 5 April 2011, TerraCom granted a call option with respect to its now wholly owned subsidiary Terra Energy LLC. The Call Option Deed counterparty has the right to acquire a 25% interest in Terra Energy LLC for AU$25 million with the option expiring immediately prior to a qualifying IPO, otherwise there is no expiration date.
- As previously announced, the now extinguished debt facilities with OCP Asia and others (Amortising Notes and Convertable Notes facilities) had 12,630,833 detachable warrants issued on 26 February 2016 which have not yet expired. Principle terms of the warrants are:
  i) Expiry date: five years from the date of issue;
  ii) Exercise price: is $0.262 per share, unless a cross listing on the SGX has completed, in which case the exercise price is the lower of the Cross Listing Price and the Market Price;
  iii) Fully transferrable (either in whole or part) to another sophisticated or professional investor;
  iv) Exercisable at holder's option in exchange for fully paid ordinary shares in the Company.
- On 21 September 2018 the Company issued 1,500,000 unlisted ordinary share options ("Options") to Foster Stockbroking Pty Ltd at a strike price equal to $0.60 and with an expiry date of 31 August 2020.
- On 27 November 2018, shareholders at the Company's AGM approved the issue of up to 647,777 options to all Company Directors. The vesting of these awards are subject to the director's continuous engagement with the Company and the performance of TerraCom's share price in comparison to the ASX 200 over the three year vesting period (1 July 2018 to 1 July 2021). These options will expire on 27 November 2023. As at the date of this report, these options have not been issued (only approved by shareholders to be issued).

## Shares issued on the exercise of options

On 29 August 2016 the Company issued unlisted ordinary share options (options) to Foster Stockbroking Pty Limited (Foster) which during the 2019 financial year and up to the date of this report were converted to ordinary shares as follows:

- On 5 July 2018 the company, following receiving option exercise notice from Foster's, converted 750,000 options at a strike price of $0.30 to 750,000 ordinary shares: and
- On 28 August 2018 the company, following receiving option exercise notice from Foster's, converted 1,500,000 options at a strike price of $0.45 to 1,500,000 ordinary shares.

## Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

## Indemnity and insurance of auditor

To the extend permitted by law, the company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement, against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

## Review of operations

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to $11,229,000 (30 June 2018: $18,399,000).

**Highlights**

TerraCom Limited and its controlled entities (TerraCom or the Company) has achieved the following for the year ended 30 June 2019:

- Run of mine production 3,367,529 tonnes (2018: 2,498,933 tonnes)
- Coal sales 3,036,124 tonnes (2018: 1,905,176 tonnes)
- Revenue from operations $338.3 million (2018: $147.1 million)
- Earnings before interest, tax, depreciation and amortisation (Operating EBITDA) of $93.9 million (2018: $27.2 million)
- Net loss after tax of $11.3 million (2018: $19.1 million)
- Net operating cash flows of $67.0 million (2018: $34.3 million)
- Net increase of gross working capital of $46.8 million (2018: $27.3 million)
- Cash and cash equivalents of $59.2 million (2018: $13.9 million)

**Financial Performance, Financial Position and Cash Flow**

The Company has reported a net loss after tax of $11.3 million (2018: $19.1 million).

The Company has reporting earnings before interest, tax, depreciation and amortisation (Operating EBITDA) of $93.9 million (2018: $27.2 million).

| Statement of comprehensive income analysis | Year ended 30 June 2019 $M | Year ended 30 June 2018 $M | Year ended 30 June 2017 $M |
|---|---|---|---|
| Revenue | 338.3 | 147.1 | 22.5 |
| Cost of Goods Sold | (226.6) | (106.3) | (21.3) |
| Gross Profit | 111.7 | 40.8 | 1.2 |
| Gain on Acquisition | - | - | 60.9 |
| Other Expenses | (17.8) | (13.7) | (24.2) |
| EBITDA | 93.9 | 27.1 | 37.9 |
| Depreciation and Amortisation | (35.5) | (18.2) | (4.9) |
| Net Financial Expense | (76.6) | (36.1) | (32.5) |
| Profit/(Loss) Before Income Tax | (18.2) | (25.7) | 0.5 |
| Income Tax Benefit | 6.9 | 6.6 | 21.7 |
| Profit/(Loss) After Income Tax | (11.3) | (19.1) | 22.2 |

The Company has reported an increase in its cash and cash equivalents by $45.631 million to $59.201 million (2018: increase of $5.271 million to $13.874 million).





| Statement of cash flows analysis | Year ended 30 June 2019 $M | Year ended 30 June 2018 $M | Year ended 30 June 2017 $M |
|---|---|---|---|
| Net cash at beginning of period | 13.9 | 8.6 | 1.2 |
| Net cash from operating activities | 67.0 | 34.3 | (9.8) |
| Net cash from investing activities | (31.4) | (53.2) | (4.0) |
| Net cash from financing activities | 10.0 | 24.2 | 21.2 |
| Net increase/(decrease) in cash held | 45.3 | 5.3 | 7.4 |
| Net cash at end of period | 59.2 | 13.9 | 8.6 |

The Company ended the 2019 financial year with a net asset position of $70.4 million (2018: $27.3 million).

During the year, and as part of the increased working capital investment resulting from the increase of 1,130,948 coal sales tonnes year on year (2019: 3,036,124 tonnes; 2018: 1,905,176 tonnes), current assets increased by $46.8 million and current liabilities increased by $6.8 million.

| Statement of financial position analysis | As at 30 June 2019 $M | As at 30 June 2018 $M | As at 30 June 2017 $M |
|---|---|---|---|
| Current Assets | 93.0 | 46.1 | 21.4 |
| Non-Current Assts | 399.3 | 373.4 | 324.9 |
| Total Assets | 492.2 | 419.5 | 346.3 |
| Current Liabilities | 119.7 | 112.9 | 68.1 |
| Non-Current Liabilities | 302.2 | 279.3 | 248.1 |
| Total Liabilities | 421.8 | 392.2 | 316.2 |
| Net Assets | 70.4 | 27.3 | 30.1 |
| Equity | 70.4 | 27.3 | 30.1 |

**Operational Summary**

Production Overview: Quarter by quarter for 12 Months Ending 30 June 2019:

| Production Overview: Quarter by quarter | Q1 Sep 2018 | Q2 Dec 2018 | Q3 Mar 2019 | Q4 Jun 2019 | Total Total 2019 |
|---|---|---|---|---|---|
| Run of Mine Coal mined (tonnes) | 730,734 | 710,047 | 889,633 | 1,037,115 | 3,367,529 |
| Overburden Mined (bcm) | 5,313,759 | 5,472,799 | 9,668,704 | 10,138,306 | 30,593,568 |
| Strip Ratio | 7.3 | 7.7 | 10.9 | 9.8 | 9.1 |
| Saleable Production (tonnes) | 698,744 | 694,144 | 820,230 | 795,310 | 3,008,428 |
| Sales (tonnes) | 733,888 | 746,387 | 826,714 | 729,135 | 3,036,124 |
| Inventory (tonnes) | 351,899 | 255,156 | 226,671 | 408,020 | 408,020 |

Production: Year to Date – 12 Months Ending 30 June 2019:

| Production: Year to Date | 2019 YTD | 2018 YTD | Change | Change % |
|---|---|---|---|---|
| Run of Mine Coal mined (tonnes) | 3,367,529 | 2,498,993 | 868,536 | 35% |
| Overburden Mined (bcm) | 30,593,568 | 26,711,926 | 3,881,642 | 15% |
| Strip Ratio | 9.1 | 10.7 | (1.6) | 15% |
| Saleable Production (tonnes) | 3,008,428 | 2,230,834 | 777,594 | 35% |
| Sales (tonnes) | 3,036,124 | 1,905,176 | 1,130,948 | 59% |
| Inventory (tonnes) | 408,020 | 393,640 | 14,380 | 4% |

**Blair Athol Coal Mine (Australia)**

Production Overview: Quarter by Quarter for 12 Months Ending 30 June 2019:

| | Q1 Sep 2018 | Q2 Dec 2018 | Q3 Mar 2019 | Q4 Jun 2019 | Total Total 2019 |
|---|---|---|---|---|---|
| **Blair Athol Coal Mine production by quarter** | | | | | |
| Run of Mine Coal mined (tonnes) | 630,403 | 562,776 | 659,496 | 794,542 | 2,647,216 |
| Overburden Mined (bcm) | 4,191,796 | 3,137,119 | 5,010,382 | 5,524,591 | 17,863,889 |
| Strip Ratio | 6.6 | 5.6 | 7.6 | 7.0 | 6.7 |
| Saleable Production (tonnes) | 598,413 | 546,873 | 590,093 | 552,736 | 2,288,115 |
| Sales (tonnes) | 613,558 | 605,423 | 586,826 | 492,276 | 2,298,083 |
| Inventory (tonnes) | 301,900 | 200,992 | 187,165 | 357,891 | 357,891 |

Production: Year to Date – 12 Months Ending 30 June 2019:

| | 2019 YTD | 2018 YTD | Change | Change % |
|---|---|---|---|---|
| **Blair Athol Coal Mine production** | | | | |
| Run of Mine Coal mined (tonnes) | 2,647,216 | 1,574,920 | 1,072,296 | 68% |
| Overburden Mined (bcm) | 17,863,889 | 14,248,865 | 3,615,024 | 25% |
| Strip Ratio | 6.7 | 9.0 | (2.3) | 25% |
| Saleable Production (tonnes) | 2,288,115 | 1,306,761 | 981,354 | 75% |
| Sales (tonnes) | 2,298,083 | 994,642 | 1,303,441 | 131% |
| Inventory (tonnes) | 357,891 | 312,119 | 45,772 | 15% |

During the year the Company continued to complete advancing face and rehabilitation. This included capping of the old tailings storage facility which was completed ahead of schedule.

**BNU Coal Mine (Mongolia)**

Production Overview: Quarter by Quarter for 12 Months Ending 30 June 2019:

| | Q1 Sep 2018 | Q2 Dec 2018 | Q3 Mar 2019 | Q4 Jun 2019 | Total Total 2019 |
|---|---|---|---|---|---|
| **BNU Coal Mine production by quarter** | | | | | |
| Run of Mine Coal mined (tonnes) | 100,331 | 147,271 | 230,137 | 242,574 | 720,313 |
| Overburden Mined (bcm) | 1,121,962 | 2,335,680 | 4,658,322 | 4,613,715 | 12,729,679 |
| Strip Ratio | 11.2 | 15.9 | 20.2 | 19.0 | 17.7 |
| Saleable Production (tonnes) | 100,331 | 147,271 | 230,137 | 242,574 | 720,313 |
| Sales (tonnes) | 120,330 | 140,964 | 239,888 | 236,859 | 738,041 |
| Inventory (tonnes) | 49,999 | 54,164 | 39,507 | 50,129 | 50,129 |

Production: Year to Date – 12 Months Ending 30 June 2019:

| | 2019 YTD | 2018 YTD | Change | Change % |
|---|---|---|---|---|
| **BNU Coal Mine production** | | | | |
| Run of Mine Coal mined (tonnes) | 720,313 | 924,073 | (203,760) | (22%) |
| Overburden Mined (bcm) | 12,729,679 | 12,463,061 | 266,618 | 2% |
| Strip Ratio | 17.7 | 13.5 | 4.2 | (31%) |
| Saleable Production (tonnes) | 720,313 | 924,073 | (203,760) | (22%) |
| Sales (tonnes) | 738,041 | 910,534 | (172,493) | (19%) |
| Inventory (tonnes) | 50,129 | 81,521 | (31,392) | (39%) |





## Matters subsequent to the end of the financial year

Following working with financial institutions and advisors for more than 12 months, on 1 July 2019 the Company announced on the ASX that it had executed a binding term sheet with OCP Asia (Singapore) Pte. Limited to fully underwrite a US$80 million term loan facility. This facility will have a three year term, repayable in instalments, and includes an interest rate of 8.5% per annum (payable semi-annually).

On 3 July 2019, the Company announced on the ASX that is had engaged its advisors (PwC and Ashurst) to advise on a restructuring of the Mongolia business. The restructuring is expected to be either a demerger of 100% of Mongolia (subject to its approval by shareholders) or a divestment of at least 51% of Mongolia. The Company's intention is to maintain management and marketing rights for the Mongolia business.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report.

## Environmental regulation

The Group holds licences issued by the relevant environmental protection authorities of the various countries in which it operates. There have been no significant known breaches of the consolidated entities' licence conditions or any environmental regulations.

## Risks relating to TerraCom's future prospects

The Company operates in the coal sector in both Mongolia and Australia. There are a number of factors, both specific to the Company and to the coal sector in general, which may, either individually or in combination, affect the future operating and financial performance of the Group, its prospects and/or the value of the Company's shares. Many of the circumstances giving rise to these risks are beyond the control of the Company's Directors and its management. The major risks believed to be associated with investment in the Company is as follows:

**Development Risks**

There is a risk that circumstances (including unforeseen circumstances) may cause a delay to project development, exploration milestones or other operating factors, resulting in receipt of revenue at a later date than expected. Additionally, the construction of new projects/expansion by the Company may exceed the currently envisaged timeframe or cost for a variety of reasons outside the control of the Company.

**Country Risks**

There is a risk that circumstances (including unforeseen circumstances) in either Mongolia, Australia or Singapore may cause a delay to project development, exploration milestones or other operating factors, resulting in receipt of revenue at a later date than expected. There is also a risk that a change in laws may impact the viability of the projects.

**Financing Risks**

To meet ongoing working capital requirements, interest and principal payments, capital expenditure commitments at the BNU and Blair Athol mines, additional funding may be required. The Company's funding plans and basis of preparation of the financial statements on a going concern basis are disclosed in Note 1 of the financial statements. If adequate funds are not available on acceptable terms, the Company may be unable to fund its operations and/or any expansion and growth opportunities.

**Competition Risk**

The industry in which the Company is involved is subject to domestic and global competition. While the Company will undertake all reasonable due diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, which activities or actions may, positively or negatively, affect the operating and financial performance of the Company's projects and business.

**Resources and Reserves Risk**

The future success of the Company will depend on its ability to find or acquire coal reserves that are economically recoverable. There can be no assurance that the Company's planned exploration activities will result in significant resources or reserves or that it will have success mining coal. Even if the Company is successful in finding or acquiring coal reserves or resources, reserve and resource estimates are estimates only and no assurance can be given that any particular level of recovery from coal resources or reserves will in fact be realised or that an identified coal resource will ever qualify as commercially viable which can be legally and economically exploited. Market fluctuations in the price of coal, as well as increased production costs or reduced recovery rates may render coal reserves and resources containing relatively lower grades of mineralisation uneconomic and may ultimately result in a restatement of reserves and or resources. Short-term operating factors relating to the coal reserves and resources, such as the need for orderly development of the ore bodies and the processing of new or different mineral grades may cause a mining operation to be unprofitable in any particular accounting period and may adversely affect the Company's profitability. The mining of coal involves a high degree of risk, including that the coal mined may be of a different quality, tonnage or strip ratio from that estimated.

**Exploration and Evaluation Risk**

Mineral exploration and development are high risk undertakings. While the Company has attempted to reduce this risk by selecting projects that have identified prospective mineral targets, there is still no guarantee of success. Even if an apparently viable deposit is identified, there is no guarantee that it can be economically exploited. The Company's exploration and appraisal activities are dependent upon the grant and maintenance of appropriate licences, permits, resource consents, access arrangements and regulatory authorities (authorisations) which may not be granted or may be withdrawn or made subject to limitations. Although the authorisations may be renewed following expiry or granting (as the case may be), there can be no assurance that such authorisations will be renewed or granted on the same terms. There are also risks that there could be delays in obtaining such authorisations. If the Company does not meet its work and/or expenditure obligations under its authorisations, this may lead to dilution of its interest in, or the loss of such authorisations. The business of commodity development and production involves a degree of risk. Amongst other factors, success is dependent on successful design, construction and operation of efficient gathering, processing and transportation facilities. Even if the Company discovers or recovers potentially commercial quantities of coal from its exploration activities, there is no guarantee that the Company will be able to successfully transport these resources to commercially viable market or sell the resources to customers to achieve a commercial return.

**Operational Risk**

The Company's coal mining operations are subject to operating risks that could impact the amount of coal produced or processed at its coal mines, delay coal deliveries or increase the cost of mining for varying lengths of time. These include failure to achieve predicted grade in exploration, mining and processing, technical difficulties encountered in operating plant and equipment, mechanical failure, metallurgical problems which affect extraction rates and costs, adverse weather conditions, industrial and environmental accidents, industrial disputes, unexpected shortages or increase in the costs of consumables, spare parts, plant and equipment. Geological uncertainty is also an inherent operational risk which could result in pit wall failures, rock falls or other failures to mine infrastructure.

**Environmental Risk**

The Company's projects are subject to laws and regulations regarding environmental matters. Many of the activities and operations of the Company cannot be carried out without prior approval from and compliance with all relevant authorities. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws. However, the Company could be subject to liability due to risks inherent to its activities, such as groundwater contamination, subsidence, accidental spills, leakages or other unforeseen circumstances.





**Market Risks - Coal Price and Foreign Currency**

The Company's plans for any revenue are to be derived mainly from the sale of coal and/or coal products. Consequently, the Company's financial position, operating results and future growth will closely depend on the market price of each of these commodities. Market prices of coal products are subject to large fluctuations in response to changes in demand and/or supply and various other factors. These changes can be the result of uncertainty or several industry and macroeconomic factors beyond the control of the Company, including political instability, governmental regulation, forward selling by producers, climate, inflation, interest rates and currency exchange rates. If market prices of the commodities sold by the Company were to fall below production costs for these products and remain at that level for a sustained period of time, the Company would be likely to experience losses, having a material adverse effect on the Company. The Company does not currently hedge against coal price and foreign exchange.

**Acquisitions and Commercial Transactions**

Acquisitions and commercial transactions are completed by the Company with the principal objective of growing the Company's portfolio of assets. Risks associated with these transactions include adverse market reaction to proposed and/or completed transactions, further exploration and evaluation activities not meeting expectations, and the imposition of unfavourable or unforeseen conditions, obligations and liabilities.

**Infrastructure Risks**

Coal sold from the Company's mining operations is transported to customers by a combination of trucks, rail and ship. A number of factors could disrupt these transport services, including a failure of infrastructure providers to increase capacity in order to meet future export requirements. Rail and port capacity is obtained predominantly through contract arrangements which includes take-or-pay provisions which require payment to be made irrespective of whether the service is actually used.

**Counterparty Risk**

The Company deals with a number of counterparties, including customers and suppliers. Risks include non-supply or changes to the quality of key inputs which may impact costs and production at its mining operations, or failure of suppliers or customers to perform against operational and sales contracts.

**Climate Change Risk**

The physical and non-physical impacts of climate change may affect the Company's assets, production and the coal markets where its thermal coal products are sold. These impacts may include severity and frequency of weather patterns, policy and regulatory change, and coal demand responses.

## Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Share-based compensation
- Additional disclosures relating to key management personnel

***Principles used to determine the nature and amount of remuneration***
The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In consultation with external remuneration consultants (refer to the section 'Use of remuneration consultants' below), the Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

*Non-executive directors remuneration*
Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Remuneration Committee. The Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 27 November 2018, where the shareholders approved a maximum annual aggregate remuneration of $1,000,000, excluding remuneration and reward framework items which is approved by resolution at the Annual General Meeting.

*Executive remuneration*
The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.





Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. For the 2019 financial year the core KPIs was coal sales tonnes and cash margin from the Group's two operating coal mines.

*Consolidated entity performance and link to remuneration*
Remuneration for certain individuals is directly linked to the performance of the consolidated entity. A portion of cash bonus and incentive payments are dependent on defined earnings per share targets being met. The remaining portion of the cash bonus and incentive payments are at the discretion of the Remuneration Committee. Refer to the section below for details of the earnings and total shareholders return for the last five years.

| Last 5 years performance measures | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Profit/(loss) attributable to the Group (millions) | (11.305) | (19.135) | 22.245 | (51.786) | (43.326) |
| Share price at year end | 0.555 | 0.415 | 0.270 | 0.060 | 0.310 |
| Basic EPS (cents per share) | (2.84) | (5.58) | 8.55 | (31.38) | (45.68) |
| Diluted EPS (cents per share) | (2.84) | (5.58) | 7.94 | (31.38) | (45.68) |

The Remuneration Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

No remuneration recommendations were received from external providers during the financial year.

*Voting and comments made at the company's 27 November 2018 Annual General Meeting ('AGM')*
At the 27 November 2018 AGM, 98.44% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

***Details of remuneration***

*Amounts of remuneration*
Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

**Non-Executive Directors**

| Name | Position / Title |
|---|---|
| Mr Wallace (Wal) King AO | Non-Executive Chairman, Independent Director |
| The Hon. Craig Wallace | Non-Executive Deputy Chairman, Independent Director |
| Mr Tsogt Togoo | Non-Executive, Independent Director |
| Mr Philip Forrest | Non-Executive, Independent Director |
| Mr James (Jim) Soorley | Non-Executive, Independent Director |
| Mr Matthew Hunter | Non-Executive Director |
| Mr Paul Anderson | Non-Executive Director |

**Executives**

| Name | Position / Title |
|---|---|
| Mr Michael Avery (1) | Executive Director; and Vice President - Corporate Development |
| Mr Danny McCarthy (2) | Chief Executive Officer |
| Mr Nathan Boom | Company Secretary; and Chief Financial Officer |

(1) Mr Michael Avery resigned on 27 November 2018.

(2) Mr Danny McCarthy was appointed on 1 December 2018.

| | Short-term benefits | | Post-employment benefits | Share-based payments | | |
|---|---|---|---|---|---|---|
| 2019 | Salary (4) $ | Cash bonus $ | Super-annuation $ | Share Options (5) $ | Shares $ | Total $ |
| *Non-Executive Directors:* | | | | | | |
| Mr Wallace (Wal) King AO (1) | 133,589 | - | 10,411 | 7,697 | 120,510 | 272,207 |
| The Hon. Craig Wallace | 120,000 | - | - | 6,914 | - | 126,914 |
| Mr Tsogt Togoo | 130,892 | - | - | 8,003 | - | 138,895 |
| Mr Philip Forrest | 75,821 | - | - | 2,881 | - | 78,702 |
| Mr James (Jim) Soorley | 120,000 | - | - | 6,914 | - | 126,914 |
| Mr Matthew Hunter | 54,795 | - | 5,205 | 3,157 | - | 63,157 |
| Mr Paul Anderson | 54,795 | - | 5,205 | 3,157 | - | 63,157 |
| *Executives:* | | | | | | |
| Mr Michael Avery (2) | 265,716 | 25,000 | 19,238 | - | - | 309,954 |
| Mr Danny McCarthy (3) | 422,917 | - | 14,583 | 21,920 | - | 459,420 |
| Mr Nathan Boom | 408,333 | 87,170 | 25,000 | 39,854 | - | 560,357 |
| | 1,786,858 | 112,170 | 79,642 | 100,497 | 120,510 | 2,199,677 |

(1) The $150,000 ordinary shares issued to Mr King relate to the period 1 January 2019 to 31 December 2019 and were approved at the Annual General Meeting on 27 November 2018. The fair value of these ordinary shares on grant date, being 27 November 2018, was $0.51 per share amounting to $120,510.

(2) Mr Michael Avery resigned on 27 November 2018.

(3) Mr Danny McCarthy commenced in 1 December 2018.

(4) Salary includes the entitlement for annual leave that was expensed during the period.

(5) The Company notes that at the 2018 AGM (held on 27 November 2018), Shareholders approved the directors to be awarded options subject to performance of TerraCom's share price in comparison to the ASX 200. As at the date of this report, these options have not been issued to any of the directors.





| | Short-term benefits | | Post-employment benefits | Share-based payments | |
|---|---|---|---|---|---|
| 2018 | Salary (4) $ | Cash bonus $ | Super-annuation $ | Shares $ | Total $ |
| *Non-Executive Directors:* | | | | | |
| Mr Wallace (Wal) King AO (1) | 122,365 | - | 8,676 | 163,107 | 294,148 |
| The Hon. Craig Wallace | 120,000 | - | - | - | 120,000 |
| Mr Tsogt Togoo | 129,678 | - | - | - | 129,678 |
| Mr Philip Forrest | 57,724 | - | - | - | 57,724 |
| Mr James (Jim) Soorley | 120,000 | - | - | - | 120,000 |
| Mr Matthew Hunter | 24,893 | - | 2,365 | - | 27,258 |
| Mr Paul Anderson | 6,923 | - | 658 | - | 7,581 |
| *Executives:* | | | | | |
| Mr Michael Avery | 405,000 | - | 38,475 | - | 443,475 |
| Mr Nathan Boom | 421,154 | - | 25,000 | - | 446,154 |
| Mr David Stone (2) | 135,824 | - | 6,635 | - | 142,459 |
| Mr Cameron McRae (3) | 79,975 | - | - | - | 79,975 |
| | 1,623,536 | - | 81,809 | 163,107 | 1,868,452 |

(1) The $200,000 ordinary shares issued to Mr King relate to the period 1 September 2017 to 31 December 2018 and were approved at the Annual General Meeting on 30 November 2017. The fair value of these ordinary shares on grant date, being 30 November 2017, was $0.21 per share amounting to $163,107.

(2) Mr David Stone resigned on 31 August 2017.

(3) Mr Cameron McRae resigned on 21 November 2017.

(4) Salary includes the entitlement for annual leave that was expensed during the period.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

| | Fixed remuneration | | Share based payment | | At risk - incentives | |
|---|---|---|---|---|---|---|
| Name | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| *Non-Executive Directors:* | | | | | | |
| Mr Wallace (Wal) King AO | 53% | 40% | 47% | 60% | - | - |
| The Hon. Craig Wallace | 95% | 100% | 5% | - | - | - |
| Mr Tsogt Togoo | 94% | 100% | 6% | - | - | - |
| Mr Philip Forrest | 96% | 100% | 4% | - | - | - |
| Mr James (Jim) Soorley | 95% | 100% | 5% | - | - | - |
| Mr Matthew Hunter | 95% | 100% | 5% | - | - | - |
| Mr Paul Anderson | 95% | 100% | 5% | - | - | - |
| *Executives:* | | | | | | |
| Mr Michael Avery | 92% | 100% | - | - | 8% | - |
| Mr Danny McCarthy | 95% | - | 5% | - | - | - |
| Mr Nathan Boom | 77% | 100% | 7% | - | 16% | - |
| Mr David Stone | - | 100% | - | - | - | - |
| Mr Cameron McRae | - | 100% | - | - | - | - |

***Share-based compensation***

*Issue of shares*
Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2019 are set out below:

| Name | Date | Shares | Issue price | $ |
|---|---|---|---|---|
| Mr Wallace (Wal) King AO | 24 December 2018 | 236,450 | $0.6344 | 150,000 |

*Options*
At the 2018 AGM (held on 27 November 2018), shareholders approved the directors to be awarded options. The vesting of these awards are subject to the director's continuous engagement with the Company and the performance of TerraCom's share price in comparison to the ASX 200 over the period 1 July 2018 to 30 June 2019 with a vesting date of 1 July 2021 and options expiry date of 27 November 2023. The listing of options approved by director is as follows:

- Mr Wallace (Wal) King AO – 128,761
- The Hon. Craig Wallace – 115,663
- Mr Tsogt Togoo – 133,869
- Mr Philip Forrest – 48,193
- Mr James (Jim) Soorley – 115,663
- Mr Matthew Hunter – 52,814
- Mr Paul Anderson – 52,814

The cost of these options are measured at fair value on grant date. Fair value is independently determined using the Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution, market performance conditions, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. Key inputs to the valuation model are:

- Grant date – 27 November 2018
- Share price - $0.510 as on 27 November 2018; $0.415 as on 1 July 2018
- Index Values – 5,728 ASX200 Index as on 27 November 2018; 6,195 ASX200 as on 1 July 2018
- Risk Free Rate – 2.20%
- Volatility – 70% based on the historical TerraCom Limited share price volatility as at the Grant Date; 10% based on the historical ASX200 index value volatility as at the Grant Date
- Exercise price - $0.415

As at the date of this report, these options have not been issued (only approved by shareholders to be issued).





On 20 March 2019, Mr Danny McCarthy (Chief Executive Officer) and Mr Nathan Boom (Chief Financial Officer and Company Secretary) were each awarded 400,000 options. These awards are subject to the same conditions as the awards issued to directors on 27 November 2018.

The cost of these options are measured at fair value on grant date. Fair value is independently determined using the Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution, market performance conditions, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment.

Key inputs to the valuation of Mr Danny McCarthy's options are:

- Grant date – 20 March 2019
- Share price - $0.665 as on 20 March 2019; $0.595 as on 1 December 2018
- Index Values – 6,165 ASX200 Index as on 20 March 2018; 5,667 ASX200 as on 1 December 2018
- Risk Free Rate – 1.53%
- Volatility – 65% based on the historical TerraCom Limited share price volatility as at the Grant Date; 11% based on the historical ASX200 index value volatility as at the Grant Date
- Exercise price - $0.595

Key inputs to the valuation of Mr Nathan Boom's options are:

- Grant date – 20 March 2019
- Share price - $0.665 as on 20 March 2019; $0.415 as on 1 July 2018
- Index Values – 6,165 ASX200 Index as on 20 March 2018; 6,195 ASX200 as on 1 July 2018
- Risk Free Rate – 1.53%
- Volatility – 65% based on the historical TerraCom Limited share price volatility as at the Grant Date; 11% based on the historical ASX200 index value volatility as at the Grant Date
- Exercise price - $0.415

As at the date of this report, these options have not be issued.

There were no other options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2019.

***Additional disclosures relating to key management personnel***

*Shareholding*
The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Ordinary shares* | | | | | |
| Mr Wallace (Wal) King AO | 955,936 | 236,450 | 296,158 | - | 1,488,544 |
| The Hon. Craig Wallace | - | - | 10,200 | - | 10,200 |
| Mr Philip Forrest | 61,539 | - | 101,231 | - | 162,770 |
| Mr James (Jim) Soorley | 392,000 | - | 291,117 | - | 683,117 |
| Mr Matthew Hunter | 734,616 | - | 857,693 | - | 1,592,309 |
| Mr Paul Anderson | 55,793,432 | - | 23,406,298 | - | 79,199,730 |
| | 57,937,523 | 236,450 | 24,962,697 | - | 83,136,670 |

***This concludes the remuneration report, which has been audited.***

### Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

### Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 7 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 7 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

### Officers of the company who are former partners of Ernst & Young

There are no officers of the company who are former partners of Ernst & Young.

### Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### Auditor

Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Wallace Macarthur King
Non-Executive Chairman

Danny McCarthy
Chief Executive Officer

30 August 2019
Sydney



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## Auditor's Independence Declaration to the Directors of TerraCom Limited

As lead auditor for the audit of TerraCom Limited for the year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of TerraCom Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Anthony Jones
Partner
30 August 2019

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## General information

The financial statements are presented in Australian dollars, which is TerraCom Limited's presentation currency. With the exception of the Australian exploration subsidiaries, the functional currency of all individual entities within the Group are United States Dollar (USD).

TerraCom Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Blair Athol Mine Access Road, Clermont, Queensland, 4721

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2019. The directors have the power to amend and reissue the financial statements.

**TerraCom Limited**
**Statement of comprehensive income**
**For the year ended 30 June 2019**

| | Note | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| Revenue | | 338,322 | 147,141 |
| Cost of goods sold | | (226,617) | (106,330) |
| Gross profit | | 111,705 | 40,811 |
| **Expenses** | | | |
| Other operating expenses | | (6,787) | (4,362) |
| Administration expense | | (10,729) | (9,099) |
| Exploration tenement write-off | | (257) | (184) |
| Share of losses of associates | | (42) | (14) |
| **Operating EBITDA** | | 93,890 | 27,152 |
| Depreciation and amortisation expense | 4 | (35,473) | (18,177) |
| Financial income | 5 | 3,994 | 5 |
| Financial expense | 6 | (74,933) | (36,119) |
| Net foreign exchange (loss) / gain | | (5,687) | 1,403 |
| **Loss before income tax benefit** | | (18,209) | (25,736) |
| Income tax benefit | 8 | 6,904 | 6,601 |
| **Loss after income tax benefit for the year** | | (11,305) | (19,135) |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | | 3,482 | 590 |
| Other comprehensive income for the year, net of tax | | 3,482 | 590 |
| **Total comprehensive income for the year** | | (7,823) | (18,545) |
| Loss for the year is attributable to: | | | |
| Non-controlling interest | | (76) | (736) |
| Owners of TerraCom Limited | 33 | (11,229) | (18,399) |
| | | (11,305) | (19,135) |
| Total comprehensive income for the year is attributable to: | | | |
| Non-controlling interest | | (76) | (771) |
| Owners of TerraCom Limited | | (7,747) | (17,774) |
| | | (7,823) | (18,545) |
| | | Cents | Cents |
| Basic earnings per share | 44 | (2.84) | (5.58) |
| Diluted earnings per share | 44 | (2.84) | (5.58) |

*The above statement of comprehensive income should be read in conjunction with the accompanying notes*

**TerraCom Limited**
**Statement of financial position**
**As at 30 June 2019**

| | Note | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 57,201 | 11,874 |
| Trade and other receivables | 10 | 17,892 | 15,324 |
| Inventories | 12 | 17,040 | 16,333 |
| Restricted cash | 13 | 702 | 2,449 |
| Other current assets | | 161 | 212 |
| Total current assets | | 92,996 | 46,192 |
| **Non-current assets** | | | |
| Trade and other receivables | 11 | 8,436 | 8,026 |
| Restricted cash | 14 | 73,791 | 73,814 |
| Investments accounted for using the equity method | 16 | - | 1,363 |
| Property, plant and equipment | 18 | 253,785 | 243,132 |
| Exploration and evaluation | 19 | 48,031 | 40,779 |
| Deferred tax | 20 | 10,691 | 2,730 |
| Other non-current assets | 15 | 4,518 | 3,539 |
| Total non-current assets | | 399,252 | 373,383 |
| **Total assets** | | 492,248 | 419,575 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 21 | 91,786 | 75,044 |
| Borrowings | 23 | 7,306 | 22,641 |
| Provisions | 25 | 474 | 347 |
| Financial liabilities | 27 | 3,470 | 1,805 |
| Deferred revenue | 29 | 16,614 | 13,031 |
| Total current liabilities | | 119,650 | 112,868 |
| **Non-current liabilities** | | | |
| Trade and other payables | 22 | 5,467 | 5,294 |
| Borrowings | 24 | 213,483 | 196,067 |
| Provisions | 26 | 71,072 | 74,165 |
| Financial liabilities | 28 | 12,129 | 3,808 |
| Total non-current liabilities | | 302,151 | 279,334 |
| **Total liabilities** | | 421,801 | 392,202 |
| **Net assets** | | 70,447 | 27,373 |
| **Equity** | | | |
| Issued capital | 31 | 277,662 | 227,804 |
| Reserves | 32 | (23,847) | (27,194) |
| Accumulated losses | 33 | (187,755) | (176,526) |
| Equity attributable to the owners of TerraCom Limited | | 66,060 | 24,084 |
| Non-controlling interest | 34 | 4,387 | 3,289 |
| **Total equity** | | 70,447 | 27,373 |

*The above statement of financial position should be read in conjunction with the accompanying notes*

**TerraCom Limited**
**Statement of changes in equity**
**For the year ended 30 June 2019**

| Consolidated | Issued capital $'000 | Acquisition reserve $'000 | Foreign currency translation reserve $'000 | Share based payments / options reserve $'000 | Accumulated Losses $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2017 | 212,062 | (36,685) | (2,264) | 11,053 | (158,127) | 4,060 | 30,099 |
| Loss after income tax benefit for the year | - | - | - | - | (18,399) | (736) | (19,135) |
| Other comprehensive income for the year, net of tax | - | - | 625 | - | - | (35) | 590 |
| Total comprehensive income for the year | - | - | 625 | - | (18,399) | (771) | (18,545) |
| *Transactions with owners in their capacity as owners:* | | | | | | | |
| Contributions of Equity (Note 31) | 16,346 | - | - | - | - | - | 16,346 |
| Share issue cost (net of tax) | (804) | - | - | - | - | - | (804) |
| Share-based payments (Note 45) | 200 | - | - | 77 | - | - | 277 |
| Balance at 30 June 2018 | 227,804 | (36,685) | (1,639) | 11,130 | (176,526) | 3,289 | 27,373 |

| Consolidated | Issued capital $'000 | Acquisition reserve $'000 | Foreign currency translation reserve $'000 | Share based payments / options reserve $'000 | Accumulated Losses $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2018 | 227,804 | (36,685) | (1,639) | 11,130 | (176,526) | 3,289 | 27,373 |
| Loss after income tax benefit for the year | - | - | - | - | (11,229) | (76) | (11,305) |
| Other comprehensive income for the year, net of tax | - | - | 3,482 | - | - | - | 3,482 |
| Total comprehensive income for the year | - | - | 3,482 | - | (11,229) | (76) | (7,823) |
| *Transactions with owners in their capacity as owners:* | | | | | | | |
| Contributions of equity (Note 31) | 52,176 | - | - | - | - | - | 52,176 |
| Share issue costs (net of tax) | (2,468) | - | - | - | - | - | (2,468) |
| Acquisition of a subsidiary | - | (672) | - | - | - | 1,174 | 502 |
| Share-based payments (Note 45) | 150 | - | - | 537 | - | - | 687 |
| Balance at 30 June 2019 | 277,662 | (37,357) | 1,843 | 11,667 | (187,755) | 4,387 | 70,447 |

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**TerraCom Limited**
**Statement of cash flows**
**For the year ended 30 June 2019**

| | Note | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 334,863 | 145,374 |
| Payments to suppliers and employees | | (232,823) | (91,597) |
| Interest received | | 1,429 | 5 |
| Interest paid | | (38,910) | (19,111) |
| Receipts/(payments) relating to secured deposits | | 2,448 | (390) |
| Net cash from operating activities | 46 | 67,007 | 34,281 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | 18 | (27,849) | (47,625) |
| Payments for exploration and evaluation | | (2,500) | (2,357) |
| Payments for cash advances to other parties | 15 | (1,063) | (3,258) |
| Net cash used in investing activities | | (31,412) | (53,240) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 35,341 | 14,734 |
| Proceeds from borrowings | | - | 21,268 |
| Share issue transaction costs | | (3,523) | (1,149) |
| Repayment of borrowings | | (21,782) | (10,623) |
| Net cash from financing activities | | 10,036 | 24,230 |
| Net increase in cash and cash equivalents | | 45,631 | 5,271 |
| Cash and cash equivalents at the beginning of the financial year | | 13,874 | 8,586 |
| Effects of exchange rate changes on cash and cash equivalents | | (304) | 17 |
| Cash and cash equivalents at the end of the financial year | | 59,201 | 13,874 |
| **Cash and cash equivalents at the end of the financial year** | | | |
| Current | 9 | 57,201 | 11,874 |
| Non-current | 14 | 2,000 | 2,000 |
| | | 59,201 | 13,874 |

*The above statement of cash flows should be read in conjunction with the accompanying notes*



**TerraCom Limited**
**Notes to the financial statements**
**30 June 2019**

## Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

*AASB 9 Financial Instruments*
The Group has adopted AASB 9 *Financial Instruments* from 1 July 2018. The standard introduced new classification and measurement; impairment and hedge accounting models for financial instruments.

A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest, as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch.

For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an impairment. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition, in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

**Impact on the Group:**

The accounting for the Group's financial assets and financial liabilities remains largely the same as under AASB 139 and as a result, there not been a material impact on the Group as a result of adopting AASB 9, and no comparative balances have been restated.

**Accounting policy applied from 1 July 2018:**

*Financial assets:*

The Group classifies its financial assets into the following categories: those to be measured subsequently at fair value (either through OCI, or profit or loss) and those to be held at amortised cost. Classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under AASB 15 policy in note below.

*Financial liabilities:*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or as payables. All financial liabilities are recognised initially at fair value. The Group's financial liabilities include trade and other payables and loans and borrowings.

*Hedge Accounting:*

The Group does not currently participate in any hedging arrangements.





## Note 1. Significant accounting policies (continued)

*AASB 15 Revenue from Contracts with Customers*
The Group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 July 2018 using the modified retrospective method for contracts that are not completed as at 1 July 2018 and comparatives are not restated. AASB 15 supersedes AASB 118 *Revenue* and AASB 111 *Construction Contracts* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are within the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The core principle of AASB 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to the customer. The amount of revenue recognised should reflect the consideration to which an entity expects to be entitled in exchange for transferring those goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

**Impact on the Group:**

The Group's revenue is derived from the sale of coal on a Free on Board or Free on Truck basis in which the transfer of the risks and rewards coincides with the fulfilment of performance obligations and transfer of control as defined by AASB 15. There was no quantitative change in respect of the timing and amount of revenue the Group currently recognises.

**Accounting policy applied from 1 July 2018:**

The Group recognises sales revenue related to the transfer of promised goods or services when control of the goods or services is transferred to the customer. The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled in exchange for those goods or services.

Sales revenue is recognised on individual sales when control transfers to the customer. The title, risks and rewards, and fulfilment of performance obligation occurs when the product is loaded onto the vessel or truck for delivery to the customer. The Group sells its products on Free on Board or Free on Truck terms where the Group has no responsibility for freight or insurance once control of the goods has passed at the loading facility. Under these terms there is only one performance obligation, being the provision of goods at the point when control passes to the customer.

The Group's products are sold to customers under contracts which vary in tenure and pricing mechanisms, primarily being monthly or quarterly quoted market indices. Certain sales may be provisionally priced at the date revenue is recognised, however substantially all coal sales are reflected at final prices by the end of the reporting period. The final selling price is based on the price for the agreed market quoted index period stipulated in the contract.

**New Accounting Standards and Interpretations not yet mandatory adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations that are not adopted and most relevant to the consolidated entity, the assessment of its impact is set out below.

*AASB 16 Leases*
This standard is applicable to TerraCom from 1 July 2019. The standard replaces AASB 117 *'Leases'* and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs.

## Note 1. Significant accounting policies (continued)

The Group's implementation project is in progress. This project has focused on a review of contracts, aggregation of data to support the evaluation of the accounting impacts of applying the new standard and assessment of the need for changes to systems and processes. The Group intends to adopt the modified retrospective approach when applying this standard. Based on the work performed by the Group to date, the calculated impact of transition to AASB 16 on the Group's 1 July 2019 balance sheet is approximately an increase in right of use assets of $19.209 million, an increase in lease liabilities of $19.217 million, and a reduction of $0.009 million to retained earnings. Information on the undiscounted amount of the Group's lease commitments under AASB 117 *'Leases'*, which was in effect at 30 June 2019, is disclosed in Note 40 'Commitments'. The full quantification of the adjustment will be finalised in the first half of fiscal 2020.

### Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

*Going Concern*

The financial report has been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As at 30 June 2019 the Group had a net current liability deficiency of $26.654 million (30 June 2018: $66.676 million) and recorded a statutory loss after tax of $11.305 million (2018: $19.135 million), of which $35.473 million related to non-cash depreciation and amortisation (2018: $ 18.177 million) and $38.650 million related to non-cash finance costs (2018: $7.019 million). The Group has total net assets of $70.447 million at 30 June 2019 (30 June 2018: $27.373 million) and generated net cash from operating activities during the year ended 30 June 2019 of $67.007 million (2018: $34.281 million).

Based on current operations the Group believes the going concern basis is appropriate.

*Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

*Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Some comparative information has been reclassified for presentation purposes.

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 42.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of TerraCom Limited ('company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. TerraCom Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.





## Note 1. Significant accounting policies (continued)

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of a business is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

### Foreign currency translation

The financial statements are presented in Australian dollars, which is TerraCom Limited's presentation currency. With the exception of the Australian exploration subsidiaries which have its functional currency as Australian dollars, the functional currency of all individual entities within the Group is United States Dollar (USD).

*Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

### Revenue recognition

The consolidated entity recognises revenue as follows:

*Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

## Note 1. Significant accounting policies (continued)

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

*Sale of goods*
Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

For accounting policy applied to comparatives, refer to 30 June 2018 financial statements.

*Interest*
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

### Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.





## Note 1. Significant accounting policies (continued)

Deferred tax assets and liabilities are always classified as non-current.

### Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

For accounting policy applied to comparatives, refer to 30 June 2018 financial statements.

### Inventories
Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### Associates
Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The consolidated entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### Property, plant and equipment
Land and buildings is stated at historical cost. Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a units of production method for plant and equipment and mine development based on original cost and a straight-line basis for other assets with expected useful lives as follows:

| | |
|---|---|
| Furniture, fixtures and fittings | 1-10 years |
| Office equipment | 1-10 years |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

## Note 1. Significant accounting policies (continued)

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### Deferred stripping

Deferred stripping expenditure incurred to remove overburden or waste material during the production phase of a mining operation is deferred to the extent it gives rise to future economic benefits and charged to operating costs on a units of production basis using the estimated average stripping ratio for the area being mined. Changes in estimates of average stripping ratios are accounted for prospectively. The stripping activity asset is subsequently depreciated on a units of production basis over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. For the purposes of assessing impairment, deferred stripping costs are grouped with other assets of the relevant cash generating unit.

### Exploration and evaluation assets

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

### Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

### Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition except those classified as non-current which are paid after 12 months from year end.

### Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

### Restoration and rehabilitation

A provision is recognised in the consolidated statement of financial position when the Group has a present legal or constructive obligation as a result of a past events, and it is probable that resources will be expended to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provision are made for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cashflows. The estimated costs of rehabilitation include the current cost of re-contouring, topsoiling and revegetation based on legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.





## Note 1. Significant accounting policies (continued)

The amount of the provision relating to rehabilitation of mine infrastructure and dismantling obligations is recognised at the commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a liability with a corresponding asset included in mining property and development assets.

At each reporting date, the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amount of the costs to be incurred. Changes in the liability relating to rehabilitation of mine infrastructure and dismantling obligations are added to or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance expense in the consolidated statement of comprehensive income as it occurs.

For closed mines, changes to estimated costs are recognised immediately in the consolidated statement of comprehensive income.

The amount of the provision relating to rehabilitation of environmental disturbance caused by on-going production and extraction activities is recognised in the consolidated statement of comprehensive income as incurred.

### Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

### Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

### Employee benefits

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

*Share-based payments*

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Monte Carlo or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, market performance conditions, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

## Note 1. Significant accounting policies (continued)

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Monte Carlo or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

### Deferred revenue

Deferred revenue is recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier), before the consolidated entity has transferred the goods or services to the customer. The liability is the consolidated entity's obligation to transfer goods or services to a customer from which it has received consideration.

### Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.





## Note 1. Significant accounting policies (continued)

### Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### Earnings per share

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of TerraCom Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

## Note 1. Significant accounting policies (continued)

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

### Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

## Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*Carrying value of assets*
The consolidated entity assesses at the end of each reporting period, whether there is any indication that an asset may be impaired. If any such indication exists, the consolidated entity estimates the recoverable amount of the asset. The recoverable amount of an individual asset, or cash generating unit is determined based on the higher of fair value less cost of disposal (FVLCD) or value in use (VIU). These calculations require the use of estimations and assumptions.

Estimated future cash flows used to determined FVLCD are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including reserves and production estimates, together with economic factors including future coal prices, discount rates, foreign exchange rates, future costs of production, stripping ratios, and future capital expenditure. These assumptions are likely to change over time, which may then impact the estimated life of the mine, and the associated FVLCD.

*Exploration and evaluation costs*
Exploration and evaluation costs have been capitalised on the basis that the consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

*Mineral reserves and resources*
The estimated quantities of economically recoverable Reserves and Resources are based upon interpretations of geological and geophysical models and require assumptions to be made requiring factors such as estimates of future operating performance, future capital requirements, and coal prices. The consolidated entity is required to determine and report Reserves and Resources under the Australian Code for Reporting Mineral Resources and Ore Reserves December 2012 (JORC code). The JORC code requires the use of reasonable investment assumptions to calculate reserves and resources. Changes in reported reserves and resources can impact the life of mine, which impacts the carrying value of mining assets, rehabilitation provisioning and amortisation and depreciation.





## Note 2. Critical accounting judgements, estimates and assumptions (continued)

*Rehabilitation provision*
A provision has been made for the present value of anticipated costs for future rehabilitation of land explored or mined. The consolidated entity's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The consolidated entity recognises management's best estimate for assets retirement obligations and site rehabilitation in the period in which they are incurred. Actual costs incurred in the future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

*Share-based payment transactions*
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Monte Carlo or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

*Valuation of financial instruments*
In respect of the instruments measured at amortised cost, judgement is required in estimating the timing of expected cash inflows and outflows used in applying the effective interest rate method. These cash flows are dependent on timing of future coal production, and timing of debt repayments.

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine the consideration, timing and volume of future sales.

*Income tax*
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

*Recovery of deferred tax assets*
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

## Note 3. Operating segments

*Identification of reportable operating segments*
The consolidated entity is organised into two operating segments distinguished into geographic units. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

*Types of products and services*
The principal products and services of each of these operating segments are as follows:

| | |
|---|---|
| Australia | Coal exploration and extraction activities within Australia |
| Mongolia | Coal exploration and extraction activities within Mongolia |

## Note 3. Operating segments (continued)

*Major customers*
During the year ended 30 June 2019 the consolidated entity's external revenue was derived from sales to the following customers:

| | 2019 $'000 | 2019 % | 2018 $'000 | 2018 % |
|---|---|---|---|---|
| **Major customers** | | | | |
| Noble Group | 159,711 | 47.2% | 67,827 | 46.1% |
| Kingho Group | 45,434 | 13.4% | 64,722 | 44.0% |
| Other customers | 133,177 | 39.4% | 14,592 | 9.9% |
| | 338,322 | | 147,141 | |

*Operating segment information*

| Consolidated - 2019 | Australia $'000 | Mongolia $'000 | Unallocated / Corporate $'000 | Total $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 275,058 | 63,264 | - | 338,322 |
| Cost of goods sold | (167,335) | (59,282) | - | (226,617) |
| **Gross Margin** | 107,723 | 3,982 | - | 111,705 |
| Other operating and administration expenses | (4,279) | (2,476) | (10,761) | (17,516) |
| Exploration tenement write-off | (257) | - | - | (257) |
| Share of profits of associates | (42) | - | - | (42) |
| **Operating EBITDA** | 103,145 | 1,506 | (10,761) | 93,890 |
| Depreciation and amortisation | (10,380) | (25,093) | - | (35,473) |
| Net Finance expenses | - | (11,401) | (59,538) | (70,939) |
| Net foreign exchange loss | - | - | (5,687) | (5,687) |
| | 92,765 | (34,988) | (75,986) | (18,209) |
| **Profit / (Loss) before income tax** | | | | (18,209) |
| Income tax benefit / (expense) | | | | 6,904 |
| **Profit after income tax benefit** | | | | (11,305) |
| **Assets** | | | | |
| Segment assets | 265,171 | 162,547 | 64,530 | 492,248 |
| **Total assets** | | | | 492,248 |
| *Total assets includes additions and acquisitions of non-current assets:* | | | | |
| Property, plant and equipment | 7,384 | 20,464 | | 27,848 |
| Exploration and evaluation | 462 | 2,038 | | 2,500 |
| | 7,846 | 22,502 | | 30,348 |
| **Liabilities** | | | | |
| Segment liabilities | 112,882 | 97,759 | 211,160 | 421,801 |
| **Total liabilities** | | | | 421,801 |





## Note 3. Operating segments (continued)

| Consolidated – 2018 | Australia $'000 | Mongolia $'000 | Unallocated / Corporate $'000 | Total $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 82,419 | 64,722 | - | 147,141 |
| Cost of goods sold | (51,597) | (54,733) | - | (106,330) |
| **Gross Margin** | 30,822 | 9,989 | - | 40,811 |
| Other operating and administration expenses | (3,409) | (2,955) | (7,097) | (13,461) |
| Exploration tenement write-off | (184) | - | - | (184) |
| Share of profits of associates | (14) | - | - | (14) |
| **Operating EBITDA** | 27,215 | 7,034 | (7,097) | 27,152 |
| Depreciation and amortisation | (5,798) | (12,379) | - | (18,177) |
| Net Finance expenses | - | - | (36,114) | (36,114) |
| Net foreign exchange loss | - | - | 1,403 | 1,403 |
| | 21,417 | (5,345) | (41,808) | (25,736) |
| **Profit / (Loss) before income tax** | | | | (25,736) |
| Income tax benefit / (expense) | | | | 6,601 |
| **Profit after income tax benefit** | | | | (19,135) |
| **Assets** | | | | |
| Segment assets | 248,885 | 160,434 | 10,256 | 419,575 |
| **Total assets** | | | | 419,575 |
| *Total assets includes additions and acquisitions of non-current assets:* | | | | |
| Property, plant and equipment | 28,713 | 18,912 | | 47,625 |
| Exploration and evaluation | 93 | 2,264 | | 2,357 |
| | 28,806 | 21,176 | | 49,982 |
| **Liabilities** | | | | |
| Segment liabilities | 147,018 | 57,442 | 187,742 | 392,202 |
| **Total liabilities** | | | | 392,202 |

*Geographical information*

| | Sales to external customers | | Geographical non-current assets | |
|---|---|---|---|---|
| | 2019 $'000 | 2018 $'000 | 2019 $'000 | 2018 $'000 |
| Australia | 275,058 | 82,419 | 273,098 | 221,840 |
| Mongolia | 63,264 | 64,722 | 113,152 | 151,543 |
| | 338,322 | 147,141 | 386,250 | 373,383 |

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts.

## Note 4. Depreciation and amortisation expense

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Depreciation expense | 21,300 | 1,041 |
| Amortisation expense | 10,109 | 17,136 |
| Amortisation of financial assets and liabilities | 4,064 | - |
| | 35,473 | 18,177 |

## Note 5. Financial income

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Interest Income | 1,447 | 5 |
| Gain on debt to equity conversion | 2,547 | - |
| | 3,994 | 5 |

On 21 December 2018, Noble Resources International Pte Limited (Noble) and the company agreed to convert Noble's Blair Athol Prepayment Facility into fully paid ordinary shares of TerraCom. The issue price per ordinary share was AU$0.75, which represented a 23% premium to the closing share price on the date of the conversion (refer to Note 24, working capital facilities).

## Note 6. Financial expense

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Interest expense on interest bearing loans | 28,946 | 27,517 |
| Amortisation of bond discount (1) | 27,250 | 7,019 |
| Other interest and finance expense (2) | 18,737 | 1,583 |
| | 74,933 | 36,119 |

*Other interest and finance expense*

Other interest and finance expense includes special interest amortisation, royalties and changes in amortised cost of financial instruments, refer to Note 27 and 28. The large increase in interest expense is driven by the following items:

(1) As outlined in Note 24 the Euroclear Listed Bond included non-cash amortisation over the 5 year term due to the difference in the purchase price and initial redemption value of the bonds. As a result of the Company's intention to refinance this facility in the September 2019 quarter the company has accelerated non-cash amortisation of $19.8 million (US$13.8 million) such that the redemption value of the bonds is recognised as the amount outstanding as at 30 June 2019.

(2) As outlined in Note 28, during the period the company issued a Mongolia royalty to OCP Asia. The key terms include a royalty of US$2 per coking coal tonne sold from MV-17162 for the period 1 October 2018 to 30 September 2023. This financial instrument is carried at amortised cost and accordingly an expense of $11.4 million (US$8.0 million) has been recorded upon initial recognition.





## Note 7. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the company, and its network firms:

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| *Audit services* | | |
| Audit or review of the financial statements | 352,560 | 288,700 |
| *Other services* | | |
| Other assurance services | 205,048 | 232,300 |
| | 557,608 | 521,000 |
| *Audit services - network firms* | | |
| Audit or review of the financial statements | 152,563 | 97,263 |
| *Other services - network firms* | | |
| Preparation of the tax return (Singapore subsidiaries) | - | 10,966 |
| | 152,563 | 108,229 |

## Note 8. Income tax benefit

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| *Income tax expense/(benefit)* | | |
| Adjustment relating to the origination and reversal of temporary differences | (6,904) | (6,587) |
| Adjustments to tax losses | - | (14) |
| Aggregate income tax benefit | (6,904) | (6,601) |
| Deferred tax included in income tax benefit comprises: | | |
| Increase in deferred tax assets (note 20) | (6,116) | (3,199) |
| Decrease in deferred tax liabilities (note 30) | (1,845) | (3,388) |
| Adjustment relating to the origination and reversal of temporary differences | (7,961) | (6,587) |
| Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate | | |
| *Loss before income tax benefit* | (18,209) | (25,736) |
| Tax at the statutory tax rate of 30% | (5,463) | (7,721) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-taxable items | 945 | 8,239 |
| Recognition of deferred tax assets previously not brought to account | (11,894) | (7,754) |
| Deferred tax assets not recognised | 11,859 | 419 |
| Adjustments in respect of current income tax of previous years | (375) | - |
| | (4,928) | (6,817) |
| Difference in overseas tax rates | (1,976) | 216 |
| Income tax expense/(benefit) | (6,904) | (6,601) |

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| *Amounts credited directly to equity* | | |
| Deferred tax assets (note 20) | (1,057) | (345) |

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| *Deferred tax assets not recognised* | | |
| Deferred tax assets not recognised comprises temporary differences attributable to: | | |
| Tax losses (Mongolia) | 24,041 | 14,158 |
| Total deferred tax assets not recognised | 24,041 | 14,158 |





## Note 9. Current assets - Cash and cash equivalents

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Cash on hand | 2 | 2 |
| Cash at bank | 57,199 | 11,872 |
| | 57,201 | 11,874 |

## Note 10. Current assets - Trade and other receivables

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Trade receivables | 13,280 | 11,609 |
| Other receivables | 4,612 | 3,715 |
| | 17,892 | 15,324 |

The other receivables includes Australian refundable Goods and Services Tax (GST) of $0.845 million (2018: $3.552 million).

Due to the short term nature of these receivables, their carrying value is assumed to approximate to their fair value. The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

## Note 11. Non-current assets - Trade and other receivables

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Other receivables | 8,436 | 8,026 |

Please refer to Note 37 for the fair value disclosure of non-current other receivables.

The non-current other receivables includes Mongolian value added tax (VAT) which has been discounted to reflect its amortised cost at balance date.

## Note 12. Current assets - Inventories

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Stock on hand | 17,040 | 16,333 |

Coal inventory has been valued at the lower of cost or net realisable value.

## Note 13. Current assets - Restricted cash

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Secured deposit | 702 | 2,449 |

The secured cash relates to an amount of $701,943 which is refundable to Orion Mining Pty Limited a wholly owned subsidiary of TerraCom Limited. During the period, there was a reduction in the amount required to be held under a secured deposit as a result of an updated Financial Assurance approved by the Queensland Government's Department of Environment and Science for the Blair Athol Coal Mine's Environmental Authority EPML00876713.

## Note 14. Non-current assets - Restricted cash

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Bank deposit | 2,000 | 2,000 |
| Secured deposit | 71,791 | 71,814 |
| | 73,791 | 73,814 |

The bank deposit of $2.0 million is held by the State Bank of India, Sydney Branch as required under the $15.0 million facility agreement. Please refer to Note 23 and 24 for more information regarding the facility agreement. The restricted cash currently bears an interest rate of 2.4% per annum, with interest paid quarterly in arrears.

The secured deposit relates to the cash pledged as security for the issuance 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. The secured deposit is held by the State Bank of India, Sydney Branch and currently bears an interest rate of 2.4% per annum, with interest paid quarterly in arrears.

## Note 15. Non-current assets - Other non-current assets

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Other deposits | 4,518 | 3,539 |

Other deposits comprises mainly of $4.320 million (2018: $3.258 million) of refundable security deposits paid to Dalrymple Bay Coal Terminal and Aurizon Network for port and below rail contract security for the Blair Athol supply chain.





## Note 16. Non-current assets - Investments accounted for using the equity method

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Springsure Mining Pty Ltd | - | 1,363 |

On 27 March 2019, TerraCom Limited completed the acquisition of 51.19% of Springsure Mining Pty Ltd. This acquisition increased TerraCom's ownership interest to 86.97% and on this date changed the accounting treatment to be a consolidated entity. The transaction was completed through the issue of 9,230,769 shares of TerraCom Limited at $0.65 per share, equating to $6,000,000. The purchase did not constitute a business combination, rather a purchase of the assets of Springsure. This has resulted in an increase in exploration assets of $8.819 million and working capital of $0.058 million on acquisition.

Refer to Note 17 for further information on interests in associates and Note 19 for acquired exploration and evaluation assets.

## Note 17. Interests in associates

Interests in associates are accounted for using the equity method of accounting. Information relating to associates that are material to the consolidated entity are set out below:

| Name | Principal place of business / Country of incorporation | Ownership interest 2019 % | Ownership interest 2018 % |
|---|---|---|---|
| Springsure Mining Pty Limited | Queensland / Australia | 86.97% | 35.78% |

## Note 17. Interests in associates (continued)

*Summarised financial information*

| | Springsure Mining Pty Limited | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| *Summarised statement of financial position* | | |
| Current assets | - | 58 |
| Non-current assets | - | 3,764 |
| Total assets | - | 3,822 |
| Current liabilities | - | 13 |
| Total liabilities | - | 13 |
| Net assets | - | 3,809 |
| *Summarised statement of comprehensive income* | | |
| Expenses | (119) | (38) |
| Loss before income tax | (119) | (38) |
| Other comprehensive income | - | - |
| Total comprehensive income | (119) | (38) |
| *Reconciliation of the consolidated entity's carrying amount* | | |
| Opening carrying amount | 1,363 | 1,377 |
| Share of loss after income tax | (42) | (14) |
| Recognition of interest in subsidiary | (1,321) | - |
| Closing carrying amount | - | 1,363 |

Following the acquisition of an additional 51.19% of Springsure Mining Pty Ltd on 4 March 2019, Springsure Mining Pty Ltd is now consolidated and is no longer considered an associate.

*Commitments*

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | - | 759 |
| One to five years | - | 1,255 |
| Total | - | 2,014 |





## Note 18. Non-current assets - Property, plant and equipment

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Land and buildings - at cost | 6,230 | 5,913 |
| Plant and equipment - at cost | 20,787 | 18,854 |
| Less: Accumulated depreciation | (4,584) | (2,585) |
| | 16,203 | 16,269 |
| Capital works in progress | 474 | 80 |
| Mine development - at cost | 300,516 | 261,098 |
| Less: Accumulated amortisaton (and impairment) | (69,638) | (40,228) |
| | 230,878 | 220,870 |
| | 253,785 | 243,132 |

*Reconciliations*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Capital works in progress $'000 | Land and buildings $'000 | Plant and equipment $'000 | Mine development $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2017 | 12,263 | 511 | 12,903 | 172,458 | 198,135 |
| Additions | 69 | 5,409 | 2,928 | 39,219 | 47,625 |
| Exchange differences | (39) | 20 | 667 | 5,937 | 6,585 |
| Transfers in/(out) | (12,213) | (27) | 812 | 20,392 | 8,964 |
| Depreciation and amortisation expense | - | - | (1,041) | (17,136) | (18,177) |
| Balance at 30 June 2018 | 80 | 5,913 | 16,269 | 220,870 | 243,132 |
| Additions | 477 | - | 1,263 | 26,108 | 27,848 |
| Disposals | (6) | - | - | (418) | (424) |
| Exchange differences | (77) | 317 | 670 | 9,342 | 10,252 |
| Transfers in/(out) | - | - | - | 4,386 | 4,386 |
| Depreciation and amortisation expense | - | - | (1,999) | (29,410) | (31,409) |
| Balance at 30 June 2019 | 474 | 6,230 | 16,203 | 230,878 | 253,785 |

*Property, plant and equipment secured under finance leases*
Refer to note 40 for further information on property, plant and equipment secured under finance leases.

*Impairment*
At each reporting period, the Company assesses whether there are indicators of impairment or impairment reversal with respect to its mining assets. When indicators of impairment or impairment reversal are identified, impairment testing is performed to determine their recoverable amount. If the carrying value of the assets exceeds this recoverable amount, an impairment loss is charged to the Statement of Comprehensive Income with a corresponding reduction in the asset value. If the recoverable amount exceeds the carrying value for an asset which was previously impaired a partial or full reversal is recorded.

There has been no impairment recorded or reversed during the year ended 30 June 2019 (30 June 2018: nil).

## Note 19. Non-current assets - Exploration and evaluation

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Exploration and evaluation - at cost | 113,867 | 106,615 |
| Less: Impairment | (65,836) | (65,836) |
| | 48,031 | 40,779 |

*Reconciliations*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | $'000 |
|---|---|
| Balance at 1 July 2017 | 47,764 |
| Additions | 2,357 |
| Exchange differences | (194) |
| Write off of assets | (184) |
| Transfers in/(out) | (8,964) |
| Balance at 30 June 2018 | 40,779 |
| Additions | 2,500 |
| Exchange differences | 576 |
| Write off of assets | (257) |
| Transfers in/(out) | (4,386) |
| Acquisition of subsidiary | 8,819 |
| Balance at 30 June 2019 | 48,031 |

The recoverability of the carrying amounts of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. The CGUs of the exploration assets are determined on a geographical basis, with the Australian exploration assets being considered a separate CGU. The South Gobi exploration assets form part of the South Gobi mining CGU described above.

The Company is focused on developing two priority projects in Australia, being the large thermal coal Northern Galilee Project and the high energy prime thermal coal Springsure Project. The Company has previously written off some of its early stage exploration projects that are not imminent, although they are still prospective, such that the exploration balance carried relates primarily to the priority projects.





## Note 19. Non-current assets - Exploration and evaluation (continued)

| Tenement number | Location | 2019 % | 2018 % |
|---|---|---|---|
| EPC 1250 | Charters Towers, Queensland Australia | 64.40% | 64.4% |
| EPC 1260 | Charters Towers, Queensland Australia | 64.40% | 64.4% |
| EPC 1300 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| EPC 1394 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| EPC 1477 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| EPC 1478 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| EPC 1479 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| EPC 1641 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| EPC 2049 | Charters Towers, Queensland Australia | 100.00% | 100.00% |
| EPC 1822 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| EPC 1872 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| EPC 1890 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| EPC 1892 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| EPC 1893 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| EPC 1962 | Rockhampton, Queensland Australia | 100.00% | 100.00% |
| EPC 1964 | Rockhampton, Queensland Australia | - | - |
| EPC 1674 | Emerald, Queensland Australia | 86.97% | 35.78% |
| MDL 3002 | Emerald, Queensland Australia | 86.97% | 35.78% |
| EPC 1103 | Emerald, Queensland Australia | 100.00% | 100.00% |
| EPC 2256 | Emerald, Queensland Australia | - | 100.00% |
| EPC 2047 | Mount Isa, Queensland Australia | - | 100.00% |
| EPC 2105 | Charters Towers, Queensland Australia | - | 100.00% |
| ML1804 | Blair Athol, Queensland Australia | 100.00% | 100.00% |
| XV-12929 | Mid Gobi, Mongolia | 100.00% | 100.00% |
| MV-20800 | South Gobi, Mongolia | 100.00% | 100.00% |
| MV-19149 | South Gobi, Mongolia | 100.00% | 100.00% |
| XV-12600 | South Gobi, Mongolia | 100.00% | 100.00% |
| MV-16971 | South Gobi, Mongolia | 83.87% | 83.87% |
| MV-17162 | South Gobi, Mongolia | 100.00% | 100.00% |
| XV-17163 | South Gobi, Mongolia | 100.00% | 100.00% |
| MV-20803 | South Gobi, Mongolia | 100.00% | 100.00% |
| XV-18111 | South Gobi, Mongolia | 100.00% | 100.00% |
| XV-18513 | South Gobi, Mongolia | 100.00% | 100.00% |
| XV-20268 | South Gobi, Mongolia | 100.00% | 100.00% |
| XV-18142 | Uvs, Mongolia | 100.00% | 100.00% |
| XV-18797 | Uvs, Mongolia | 100.00% | 100.00% |
| XV-18802 | Uvs, Mongolia | 100.00% | 100.00% |
| XV-20281 | Uvs, Mongolia | 100.00% | 100.00% |
| XV-20539 | Uvs, Mongolia | 100.00% | 100.00% |
| XV-20139 | East Gobi, Mongolia | - | 100.00% |
| XV-20329 | East Gobi, Mongolia | - | 100.00% |

## Note 20. Non-current assets - Deferred tax

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| *Deferred tax asset comprises temporary differences attributable to:* | | |
| Amounts recognised in profit or loss: | | |
| Tax losses | 26,343 | 30,555 |
| Provision | 20,949 | 22,095 |
| Accrued expenses | 77 | 374 |
| Borrowings | 14,706 | 3,605 |
| Borrowing costs | 408 | 543 |
| Other | 250 | 502 |
| Offset of deferred tax liability (Note 30) | (53,444) | (55,289) |
| | 9,289 | 2,385 |
| Amounts recognised in equity: | | |
| Transaction costs on share issue | 1,402 | 345 |
| Deferred tax asset | 10,691 | 2,730 |

## Note 21. Current liabilities - Trade and other payables

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Trade payables and other payables | 91,786 | 75,044 |

Refer to note 36 for further information on financial instruments.

Due to the short term nature, the current trade and other payables have a carrying value which approximates their fair value.

## Note 22. Non-current liabilities - Trade and other payables

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Trade payables | 5,467 | 5,294 |

Refer to note 36 for further information on financial instruments.

The fair value of non-current trade and other payables is estimated by discounting future cash flows using rates currently available for payables on similar terms





## Note 23. Current liabilities - Borrowings

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Super senior note facility A | - | 10,147 |
| Working capital facilities | - | 1,015 |
| Fuel exclusivity facility | - | 402 |
| Finance costs accrued | - | 1,627 |
| Dragline facility | - | 2,479 |
| Finance leases | 150 | 5,291 |
| State Bank of India facility | 2,880 | 1,680 |
| Non-interest bearing loan | 4,276 | - |
| | 7,306 | 22,641 |

Refer to note 36 for further information on financial instruments.

Refer to note 24 for further information on borrowings.

The borrowings and facilities of the group, with the exception of the Dragline facility, Finance leases and State Bank of India, are denominated in USD and are subject to translation at the reporting date. The table below outlines the borrowings expressed in USD.

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| **Current Borrowings expressed in USD** | | |
| Super senior note facility A | - | 7,500 |
| Working capital facilities | - | 750 |
| Fuel exclusivity facility | - | 297 |
| Finance costs accrued | - | 1,202 |
| Dragline facility | - | 1,832 |
| Finance leases | 105 | 3,911 |
| State Bank of India facility | 2,020 | 1,242 |
| Non-interest bearing loan | 3,000 | - |
| Total | 5,125 | 16,734 |

## Note 24. Non-current liabilities - Borrowings

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Listed (Euroclear) Bond | 203,043 | 161,388 |
| Super senior note facility B | - | 4,228 |
| Working capital facilities | - | 12,177 |
| Dragline facility | - | 362 |
| Finance leases | - | 550 |
| Non-interest bearing loan | - | 4,042 |
| State Bank of India facility | 10,440 | 13,320 |
| | 213,483 | 196,067 |

## Note 24. Non-current liabilities - Borrowings (continued)

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| **Non-Current Borrowings expressed in USD** | | |
| Listed (Euroclear) Bond | 142,441 | 119,282 |
| Super senior note facility B | - | 3,125 |
| Working capital facilities | - | 9,000 |
| Dragline facility | - | 267 |
| Finance leases | - | 406 |
| Non-interest bearing loan | - | 3,000 |
| State Bank of India facility | 7,324 | 9,845 |
| | 149,765 | 144,925 |

**Listed (Euroclear) Bond, Super Senior Note A and Super Senior Note B**

On 30 June 2016, the Company entered into 3 new facilities (Listed Bond, Super Senior Note A and Super Senior Note B). The proceeds from these facilities were used to extinguish the Company's existing facilities except for the Fuel Exclusivity and non-interest bearing loan acquired as part of the acquisition of Enkhtunkh Orchlon LLC.

*Super Senior Note A*

On 9 August 2018 the Company repaid this facility and accrued interest in full.

*Super Senior Note B*

On 9 August 2018 the Company converted the balance as at 30 June 2018 of US$3.125 million into the Listed (Euroclear) Bond facility and repaid all accrued interest in full.

*Listed (Euroclear) Bond*

The Listed (Euroclear) Bond was fully drawn down on 30 June 2019 for the amount of US$97 million (purchase price of the bonds) and an initial redemption value of US$124 million. The facility bears a cash interest rate of 12.5% per annum, payable 6 monthly in arrears. In accordance with the deed, the Company can elect to pay in kind (PIK) 50% of the interest repayments which are added to the redemption value of the bonds.

The maturity date of the facility is 30 June 2021 at which point the redemption value of the Listed (Euroclear) bond including the, PIK interest and converted Super Senior note, as calculated on 30 June 2019 is for the amount of US$142.441 million. The value uplift applied between the initial redemption value and purchase price, along with the interest, implies an annual cumulative interest rate of 19.51%.

This facility includes a special interest component which has been treated as a separate non-derivative financial liability (refer notes 27 and 28). This instrument, which represents an incremental cost that is directly attributable to the issue of the bond, has been treated as a transaction cost and offset against the fair value on initial recognition.

The facilities are subject to debt covenants and obligations to make interest and principal payments on set dates. Should these terms not be met by the Company an event of default may eventuate.





## Note 24. Non-current liabilities - Borrowings (continued)

**Working capital facilities**

On 13 September 2016, the Company entered into a Blair Athol Prepayment Facility Agreement with Noble Resources International Pte Limited (Noble) for US$12 million comprising of Facility A (US$3 million) and Facility B (US$9 million). These facilities were fully drawn down in the prior financial year. Interest is accrued at a rate of 9% per annum on each facility.

As at 30 June 2019, both Facility A and Facility B were fully repaid. Facility A was fully repaid on 21 September 2018. On 21 December 2018 the Group and Noble agreed on a debt to equity swap to convert US$9 million of Facility B into 16,666,667 fully paid ordinary shares of TerraCom Limited. At that time, the carrying value of the Facility was US$9 million, which resulted in a gain of US$1.7 million (AU$ 2.6 million, Note 31) on the conversion, with the remaining accrued interest on the facility fully repaid on 17 January 2019.

**Fuel exclusivity agreement:**

On 24 August 2018, the remaining balance of US$0.297 million on this facility was repaid.

**Non-Interest bearing loan**

This amount relates to US$3 million due by the Group to Noble and is payable by the wholly owned subsidiary Enkhtunkh Orchlon LLC. This amount is due for repayment on 19 June 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. No asset has been recognised in respect of this amount.

**Dragline facility**

Upon completion of the Blair Athol Coal Mine acquisition the Group met the conditions precedent which triggered a $3 million drawdown of the loan with a related party of Link Mining Services Pty Limited. On 29 August 2017 the Company drew down a further $900,000 for the commissioning of the Dragline located at Blair Athol Coal Mine. The total facility is for $3.9 million.

The facility was for 26 months from commencement date, bears an interest rate of 12% per annum with an original maturity date of August 2019. The Company repaid this facility on 5 February 2019.

**Accrued finance costs**

Accrued finance costs relate to interest accrued on the Blair Athol working capital facilities. This amount was fully paid in January 2019.

**Finance leases**

*CHPP*

Upon completion of the Blair Athol Coal Mine acquisition the Group met the conditions precedent for the acquisition of the onsite CHPP from Sedgman Pty Ltd for $3 million. The acquisition of the CHPP has been funded by Link Mining Services Pty Ltd. During the period the Company drew down $0.5 million for the upgrade and $1 million for the commissioning of the CHPP located at the Blair Athol Coal Mine. The total finance lease is for $4.5 million.

The transaction is a sale and leaseback arrangement whereby at the end of the term the Company has the option to acquire the CHPP from Link Mining Services Pty Ltd for $1. The residual value of the CHPP at the end of the lease period is assessed to be nil. On this basis the Company has determined the arrangement to constitute a finance lease.

The facility was for 28 months from commencement date, bears an interest rate of 12% per annum with an original maturity date of October 2019. The Company repaid this facility on 5 February 2019 at which point the Company exercised its option to acquire the CHPP for $1.

## Note 24. Non-current liabilities - Borrowings (continued)

*Mobile Equipment*

Upon completion of the Blair Athol Coal Mine acquisition the Group met the conditions precedent which triggered a $3.210 million drawdown of a facility with Link Mining Services Pty Ltd. The total finance lease is for $3.210 million.

The transaction is a sale and leaseback arrangement whereby at the end of the term the Company has the option to extend the lease period by a further period linked to the mining and rehabilitation contract with Link Mining Services Pty Ltd for a payment of $1. At the end of the term the Company has the option to purchase the equipment at market value. The Group has assessed the market value of the equipment at the end of the term will have a negligible value.

The facility is for 25 months from commencement date, bears an interest rate of 12% per annum with an expiry date of July 2019.

**State Bank of India**

On 7 June 2018, the State Bank of India, Sydney Branch (SBI) and Orion Mining Pty Limited (a wholly owned subsidiary of TerraCom Limited) entered into a facility agreement for $15 million. The proceeds were used to complete the acquisition of 41 properties in Clermont and the balance for working capital including the completion of the Blair Athol Train Load Out facility.

Monthly principal repayments of $240,000 commenced in December 2018 and continue until November 2021. The monthly principal repayments will then change to $370,000 from December 2021 to April 2023. A final principal of $70,000 will be made in May 2023.

The facility is for 60 months from commencement date, currently bears an interest rate of 1 month BBSW plus a margin of 5.75%. The BBSW rate for June 2019 was 1.515% (June 2018: 1.9996%).

Under the agreement the Company is required maintain a Term Deposit with SBI. The term deposit currently bears an interest rate of 2.4% per annum. The balance of the term deposit as at 30 June 2019 was $2.0 million (2018: $2.0 million) and is included in Non-Current Assets Restricted Cash (Note 14).

## Note 25. Current liabilities - Provisions

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Annual leave | 474 | 347 |

## Note 26. Non-current liabilities - Provisions

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Mine rehabilitation and closure | 71,072 | 74,165 |





## Note 26. Non-current liabilities - Provisions (continued)

*Environmental*
The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites, which are expected to be incurred over the life of the estimated life of the mine (7-15 years), which is when the producing mine properties are expected to cease operations. These provisions have been created based on the Group's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary rehabilitation works required that will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future coal prices, which are inherently uncertain.

*Movements in provisions*
Movements in mine closure and rehabilitation provision during the current financial year are set out below:

| Consolidated - 2019 | Mine rehabilitation and closure $'000 |
|---|---|
| Carrying amount at the start of the year | 74,165 |
| Additional provisions recognised | 2,583 |
| Amounts used | (2,223) |
| Release of provision due to change in cost estimate | (4,187) |
| Unwinding of discount | 558 |
| Exchange differences | 176 |
| Carrying amount at the end of the year | 71,072 |

## Note 27. Current liabilities - Financial liabilities

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Special interest liability | 1,140 | 1,805 |
| Mongolia royalty | 2,330 | - |
| | 3,470 | 1,805 |

## Note 28. Non-current liabilities - Financial liabilities

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Special interest liability | 3,059 | 3,808 |
| Mongolia royalty | 9,070 | - |
| | 12,129 | 3,808 |

*Special Interest Liability*

The Special Interest Liability is part of the Listed (Euroclear) Bond which is denominated in USD and is subject to translation at every reporting date, refer to Note 23 and 24.

## Note 28. Non-current liabilities - Financial liabilities (continued)

In connection with the issuance of the Listed (Euroclear) Bond, a special interest instrument was granted to the bond holders. This instrument requires the Company to pay a non-refundable payment equal to 0.75% to 1.75% of mine gate revenues for the duration of the bond (5 years). The key terms include:

- Special interest is payable at a rate of 1.75% of mine gate revenue until the Company acquired the Blair Athol Coal Mine in Queensland;
- As the Blair Athol Coal Mine was acquired on 31 May 2017, the special interest rate has decreased to 0.75% of total mine gate revenue generated by the Company from 1 July 2017; and
- The special interest is payable on 30 June 2017 and every 6 months subsequent, up to the maturity date of the Bonds (30 June 2021).

This special interest has been treated as a cost of issuing the Listed (Euroclear) bond and is being amortised over the life of the bond.

*Mongolia Royalty*

The Mongolia Royalty was issued to OCP Asia. The key terms include a royalty of US$2 per tonne of coking coal sold from MV-17162 in Mongolia for the period 1 October 2018 to 30 September 2023.

## Note 29. Current liabilities - Deferred revenue

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Deferred revenue | 16,614 | 13,031 |

Due to the short term nature, the deferred revenue has a carrying value which approximates their fair value.

Deferred revenue is recognised when a customer pays consideration before the consolidated entity has transferred the goods or services to the customer. The liability is the consolidated entity's obligation to transfer goods or services to a customer from which it has received consideration.

## Note 30. Non-current liabilities - deferred tax

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| *Deferred tax liability comprises temporary differences attributable to:* | | |
| Amounts recognised in profit or loss: | | |
| Property, plant and equipment | 22,759 | 24,465 |
| Exploration and evaluation | 8,937 | 8,545 |
| Secured deposits | 21,748 | 22,279 |
| Offset of deferred tax asset (note 20) | (53,444) | (55,289) |
| Deferred tax liability | - | - |





## Note 31. Equity - Issued capital

| | Consolidated | | | |
|---|---|---|---|---|
| | 2019 Shares | 2018 Shares | 2019 $'000 | 2018 $'000 |
| Ordinary shares - fully paid | 467,152,735 | 377,835,413 | 277,662 | 227,804 |

*Movements in ordinary share capital*

| Details | Date | Shares | Issue price | $'000 |
|---|---|---|---|---|
| Balance | 1 July 2017 | 3,013,244,790 | | 212,062 |
| Ordinary share capital consolidation (10:1 basis) | 14 December 2017 | (2,711,919,957) | $0.0000 | - |
| Ordinary shares issued to Wallace King as a share-based payment at an issue price of $0.2575 per share | 29 December 2017 | 776,698 | $0.2575 | 200 |
| Ordinary shares issued under the pro rata accelerated non renounceable entitlement offer at an issue price of $0.215 per share | 5 February 2018 | 14,377,559 | $0.2150 | 3,091 |
| Ordinary shares issued under the pro rata accelerated non renounceable entitlement offer at an issue price of $0.215 per share | 16 February 2018 | 59,990,323 | $0.2150 | 12,898 |
| Ordinary shares issued from a debt to equity swap at an issue price of $0.215 per share | 23 March 2018 | 616,000 | $0.2150 | 132 |
| Ordinary shares issued on the exercise of options at an issue price of $0.30 per share | 7 June 2018 | 750,000 | $0.3000 | 225 |
| Share issuance expenses (net of tax) | | - | $0.0000 | (804) |
| Balance | 30 June 2018 | 377,835,413 | | 227,804 |
| Ordinary shares issued on the exercise of options at an issue price of $0.30 per share | 3 July 2018 | 750,000 | $0.3000 | 225 |
| Ordinary shares issued on the exercise of options at an issue price of $0.45 per share | 28 August 2018 | 1,500,000 | $0.4500 | 675 |
| Ordinary shares issued from a debt to equity swap at an issue price of $0.75 per share | 21 December 2018 | 16,666,667 | $0.7500 | 12,500 |
| Fair value adjustment from debt to equity swap | 21 December 2018 | - | $0.0000 | (2,565) |
| Ordinary shares issued to Wallace King as a share-based payment at an issue price of $0.6344 per share | 24 December 2018 | 236,450 | $0.6344 | 150 |
| Ordinary shares issued for the acquisition of 51% of issued capital in Springsure Mining Pty Limited at an issue price of $0.65 per share | 27 March 2019 | 9,230,769 | $0.6500 | 6,000 |
| Ordinary shares issued to the terms of the pro-rata non-renounceable entitlement offer announced on the ASX on 10 May 2019 at an issue price of $0.58 per share. | 5 June 2019 | 60,933,436 | $0.5800 | 35,341 |
| Share issuance expenses (net of tax) | | - | $0.0000 | (2,468) |
| Balance | 30 June 2019 | 467,152,735 | | 277,662 |

*Ordinary shares*
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

## Note 31. Equity - Issued capital (continued)

*Share buy-back*
There is no current on-market share buy-back.

*Capital risk management*
The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 2018 Annual Report.

## Note 32. Equity - Reserves

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Foreign currency translation reserve | 1,843 | (1,639) |
| Share-based payments reserve | 11,667 | 11,130 |
| Acquisition reserve | (37,357) | (36,685) |
| | (23,847) | (27,194) |

*Foreign currency translation reserve*
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

*Share-based payments reserve*
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

*Acquisition reserve*
Acquisition reserve records the difference between consideration paid and the proportionate book value of the non-controlling interest acquired by the Company.





## Note 32. Equity - Reserves (continued)

*Movements in reserves*
Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Foreign currency reserve $'000 | Share-based payments reserve $'000 | Acquisition reserve $'000 | Total $'000 |
|---|---|---|---|---|
| Balance at 1 July 2017 | (2,264) | 11,053 | (36,685) | (27,896) |
| Foreign currency translation | 625 | - | - | 625 |
| Share-based payments expense during the year | - | 77 | - | 77 |
| Balance at 30 June 2018 | (1,639) | 11,130 | (36,685) | (27,194) |
| Foreign currency translation | 3,482 | - | - | 3,482 |
| Acquisition of a subsidiary | - | - | (672) | (672) |
| Share-based payments expense during the year | - | 537 | - | 537 |
| Balance at 30 June 2019 | 1,843 | 11,667 | (37,357) | (23,847) |

## Note 33. Equity - Accumulated losses

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Accumulated losses at the beginning of the financial year | (176,526) | (158,127) |
| Loss after income tax benefit for the year | (11,229) | (18,399) |
| Accumulated losses at the end of the financial year | (187,755) | (176,526) |

## Note 34. Equity - Non-controlling interest

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Non-controlling interest | 4,387 | 3,289 |

## Note 35. Equity - Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

## Note 36. Financial instruments

***Financial risk management objectives***
The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

## Note 36. Financial instruments (continued)

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| **Financial assets - amortised cost** | | |
| Cash and cash equivalents | 57,201 | 13,874 |
| Trade and other receivables | 26,328 | 23,350 |
| Restricted cash | 74,493 | 74,263 |
| Other assets | 4,679 | 3,751 |
| | 162,701 | 115,238 |
| **Financial liabilities - amortised cost** | | |
| Trade and other payables | 97,253 | 80,338 |
| Deferred revenue | 16,614 | 13,031 |
| Borrowings | 220,789 | 218,708 |
| Other financial liabilities | 15,599 | 5,613 |
| | 350,255 | 317,690 |

***Market risk***

*Foreign currency risk*
The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The United States Dollar (USD) is the functional currency of the group except for the Australian exploration subsidiaries. As a result, currency exposure exists arising from the transaction and balances in currencies other than USD (Australian Dollars and Mongolian Tugrik to USD). On 1 July 2016 the Group changed the functional currency of the operating entities (Orion Mining Pty Limited from 31 May 2017) within the Group which has de-risked the Group from foreign currency risk with respect to coal sales. The Group still has an exposure with respect to purchases not denominated or determined by USD – as at reporting date the Group operates in Australia and Mongolia and therefore has determined its two largest currency risk exposures are to the Australian Dollar (AUD) and Mongolia Tugrik (MNT). The Group closely monitors its foreign exchange risk in Australia and Mongolia to ensure it is at an acceptable level of risk.

The Group also has an additional presentation currency exposure as the presentation currency of the financial statements for the Group is in Australian Dollar (AUD). Movements between the functional currency and presentation currency of the Group is recognised in the Foreign Currency Translation Reserve at each reporting date.

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments.





## Note 36. Financial instruments (continued)

| | USD strengthened | | | USD weakened | | |
|---|---|---|---|---|---|---|
| **Consolidated - 2019** | % change | Effect on profit before tax | Effect on equity | % change | Effect on profit before tax | Effect on equity |
| Cash & cash equivalents | 1% | 184,521 | 184,521 | (1%) | (188,248) | (188,248) |
| Trade debtors | 1% | 112 | 112 | (1%) | (114) | (114) |
| Restricted cash | 1% | 717,756 | 717,756 | (1%) | (732,256) | (732,256) |
| Accounts payable | 1% | (340,206) | (340,206) | (1%) | 347,079 | 347,079 |
| Borrowings | 1% | (133,363) | (133,363) | (1%) | 136,057 | 136,057 |
| | | 428,820 | 428,820 | | (437,482) | (437,482) |

| | USD strengthened | | | USD weakened | | |
|---|---|---|---|---|---|---|
| **Consolidated - 2018** | % change | Effect on profit before tax | Effect on equity | % change | Effect on profit before tax | Effect on equity |
| Cash & cash equivalents | 1% | 24,376 | 24,376 | (1%) | (24,868) | (24,868) |
| Trade debtors | 1% | 3,330 | 3,330 | (1%) | (3,397) | (3,397) |
| Restricted cash | 1% | 735,272 | (735,272) | (1%) | (750,126) | (750,126) |
| Accounts payable | 1% | (432,575) | (432,575) | (1%) | 441,314 | 441,314 |
| Borrowings | 1% | (234,471) | (234,471) | (1%) | 93,030 | 93,030 |
| | | 95,932 | (1,374,612) | | (244,047) | (244,047) |

*Price risk*
Commodity price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

The Group is continuing to monitor its exposure to commodity price risk. As at reporting date thermal coal and coking coal prices are significantly up since their low in January 2016. There is still uncertainty in the market and the cost to implement an effective hedging strategy to manage the commodity price risk is quite substantial compared to the hedging prices available make this strategy ineffective. On this basis the Group has decided to not implement strategies to reduce its exposure to downside in prices. As commodity prices stabilise and market uncertainty is reduced the Group will consider strategies to manage this risk.

*Interest rate risk*
The consolidated entity's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the consolidated entity to interest rate risk. Borrowings obtained at fixed rates expose the consolidated entity to fair value interest rate risk.

As at the reporting date, the consolidated entity had the following variable rate borrowings outstanding:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Consolidated** | Weighted average interest rate % | Balance $'000 | Weighted average interest rate % | Balance $'000 |
| State Bank of India | 7.67% | 13,320 | 7.17% | 15,000 |
| Net exposure to cash flow interest rate risk | | 13,320 | | 15,000 |

An analysis by remaining contractual maturities in shown in 'liquidity and interest rate risk management' below.

## Note 36. Financial instruments (continued)

***Credit risk***
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis.

***Liquidity risk***
Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

*Remaining contractual maturities*
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Consolidated - 2019 | Within 1 year $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|
| **Non-derivatives** | | | | |
| *Non-interest bearing* | | | | |
| Trade payables | 91,786 | 5,467 | - | 97,253 |
| *Interest-bearing - fixed rate* | | | | |
| Borrowings (excluding finance lease) | 33,939 | 240,639 | - | 274,578 |
| Finance lease | 151 | - | - | 151 |
| Other financial liabilities (1)(2) | 3,470 | 12,129 | - | 15,599 |
| Total non-derivatives | 129,346 | 258,235 | - | 387,581 |





## Note 36. Financial instruments (continued)

| Consolidated - 2018 | Within 1 year $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|
| **Non-derivatives** | | | | |
| *Non-interest bearing* | | | | |
| Trade payables | 75,044 | 5,294 | - | 80,338 |
| *Interest-bearing - fixed rate* | | | | |
| Borrowings (excluding finance lease) | 43,705 | 249,665 | - | 293,370 |
| Finance lease | 8,395 | 940 | - | 9,335 |
| Other financial liabilities (1)(2) | 1,805 | 3,808 | - | 5,613 |
| Total non-derivatives | 128,949 | 259,707 | - | 388,656 |

(1) Future contractual interest payments included are variable based on revenue generated and have been recorded based on expected future cash flows. Expected future cash flows are management's best estimate at 30 June 2019 and therefore actual interest payments may vary.

(2) Mongolian Royalty which is included in Other Financial Liabilities includes payments which are variable based on tonnes of coal sold and have been recorded based on expected sales. Expected future sales are management's best estimate at 30 June 2019 and therefore actual interest payments may vary.

The Group is currently undergoing a refinance of the long term borrowings, as at the date of this report there is no contractual agreement in place. The table above reflects current contractual obligations however the Group may settle these long term borrowings sooner as a result of a refinance. Interest is not included in the above amounts.

***Fair value of financial instruments***
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## Note 37. Fair value measurement

*Fair value hierarchy*
The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value (at 30 June 2019 and 30 June 2019, no assets or liabilities are measured at fair value), using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

| Consolidated - 2019 | Amortised cost $'000 | Fair Value through profit or loss $'000 | Fair value through OCI $'000 |
|---|---|---|---|
| *Assets* | | | |
| Cash and cash equivalents (Note 9) | 57,201 | - | - |
| Trade and other receivables (Note 10 and 11) | 26,328 | - | - |
| Restricted cash (Note 13 and 14) | 74,493 | - | - |
| Other assets (Note 15) | 4,679 | - | - |
| Total assets | 162,701 | - | - |
| *Liabilities* | | | |
| Trade and other payables (Note 21 and 22) | 97,253 | - | - |
| Borrowings (Note 23 and 24) | 220,789 | - | - |
| Financial liabilities (Note 27 and 28) | 15,599 | - | - |
| Total liabilities | 333,641 | - | - |

| Consolidated - 2018 | Amortised cost $'000 | Fair value through profit or loss $'000 | Fair value through OCI $'000 |
|---|---|---|---|
| *Assets* | | | |
| Cash and cash equivalents (Note 9) | 11,874 | - | - |
| Trade and other receivables (Note 10 and 11) | 23,350 | - | - |
| Secured deposit (Note 13 and 14) | 76,263 | - | - |
| Other assets (Note 15) | 3,751 | - | - |
| Total assets | 115,238 | - | - |
| *Liabilities* | | | |
| Trade and other payables (Note 21 and 22) | 80,338 | - | - |
| Borrowings (Note 23 and 24) | 218,708 | - | - |
| Financial Liabilities (Note 27 and 28) | 5,613 | - | - |
| Total liabilities | 304,659 | - | - |

The Group does not have any Level 1, Level 2 or Level 3 financial instruments as at 30 June 2019 or 30 June 2018.





## Note 38. Key management personnel disclosures

*Directors*
The following persons were directors of TerraCom Limited during the financial year:

| | |
|---|---|
| Mr Wallace (Wal) King AO | Non-Executive Chairman, Independent Director |
| The Hon. Craig Wallace | Non-Executive Deputy Chairman, Independent Director |
| Mr Michael Avery | Executive Director; and<br>Vice President - Corporate Development (resigned 27 November 2018) |
| Mr Tsogt Togoo | Non-Executive, Independent Director |
| Mr Philip Forrest | Non-Executive, Independent Director |
| Mr James (Jim) Soorley | Non-Executive, Independent Director |
| Mr Matthew Hunter | Non-Executive Director |
| Mr Paul Anderson | Non-Executive Director |

*Other key management personnel*
The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

| | |
|---|---|
| Mr Danny McCarthy | Chief Executive Officer (commenced 1 December 2018) |
| Mr Nathan Boom | Company Secretary; and<br>Chief Financial Officer |

*Compensation*
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Short-term employee benefits | 1,899,028 | 1,623,536 |
| Post-employment benefits | 79,642 | 81,809 |
| Share options | 100,497 | - |
| Issued shares | 120,510 | 163,107 |
| | 2,199,677 | 1,868,452 |

For further detail on the directors and key management personnel remuneration, refer to the Remuneration Report in the Director's Report.

## Note 39. Contingent liabilities

The Group had the following contingent liabilities at the end of the financial year:

**Springsure Mining Pty Limited**

The Springsure Mining Pty Limited (Springsure) Share Sale and Purchase Agreement entered into (for the Group's original 52.52% interest in Springsure) included contingent payments to be made by TerraCom upon each 10Mt of Joint Ore Reserves Committee (JORC) Indicated Resource recorded on the tenement. A partial payment of this amount was made in 2013 upon a JORC Indicated Resource of 43Mt being recorded. An additional $1,800,000 is payable by the Group for every further 10Mt recorded (up to 50Mt more). This amount can be settled in cash or shares.

**Terra Energy LLC**

As announced on 5 April 2011, TerraCom granted a call option with respect to its now wholly owned subsidiary Terra Energy LLC. The Call Option Deed provides the counterparty with the right to acquire a 25% equity interest in Terra Energy LLC for AU$25 million, with the option expiring immediately prior to a qualifying IPO, otherwise there is no expiration date.

## Note 40. Capital and leasing commitments

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| *Lease commitments - operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 8,418 | 64 |
| One to five years | 15,272 | 11 |
| | 23,690 | 75 |
| *Lease commitments - finance* | | |
| Committed at the reporting date and recognised as liabilities, payable: | | |
| Within one year | 151 | 5,291 |
| One to five years | - | 998 |
| Total commitment | 151 | 6,289 |
| Less: Future finance charges | - | (448) |
| Net commitment recognised as liabilities | 151 | 5,841 |
| *Exploration and evaluation commitments* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 1,384 | 3,311 |
| One to five years | 3,808 | 5,721 |
| | 5,192 | 9,032 |

Operating lease commitments includes contracted amounts for various offices and plant and equipment under non-cancellable operating leases expiring within 1 to 4 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of $2.74 million (2018: $7.25 million) under finance leases expiring within 1 year. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

The original maturity of the CHPP finance lease was October 2019, the Company repaid this facility on 5 February 2019.

The exploration and evaluation commitments for Exploration Permits for Coal (EPCs) are to the Department of Natural Resources, Mines and Energy (Queensland) and Mongolian authorities.

## Note 41. Related party transactions

*Parent entity*
TerraCom Limited is the parent entity.

*Subsidiaries*
Interests in subsidiaries are set out in note 43.

*Associates*
Interests in associates are set out in note 17.

*Key management personnel*
Disclosures relating to key management personnel are set out in note 38 and the remuneration report included in the directors' report.





## Note 41. Related party transactions (continued)

*Transactions with related parties*
The following transactions occurred with related parties:

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Issued 236,450 fully paid ordinary shares at an issue price of $0.6344 to Point Road Investments Pty Ltd - Wallace King AO | 150,000 | - |
| Issued 776,698 fully paid ordinary shares at an issue price of $0.2575 to Point Road Investments Pty Ltd - Wallace King AO | - | 200,000 |
| Services from The Maji Trust (directors fees) - James Soorley | 120,000 | 200,000 |
| Services from Tarva Investments and Advisory LLC - Cameron McRae | - | 79,975 |

*Receivable from and payable to related parties*
The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | Consolidated 2019 $ | Consolidated 2018 $ |
|---|---|---|
| Current payables: | | |
| Trade payables to The Maji Trust - James Soorley | 10,000 | 121,000 |

**Point Road Investments Pty Ltd (Point Road)**

The issue of fully paid ordinary shares to Point Road were part of Wallace King AO's Non-Executive Chairman remuneration package. These fully paid ordinary shares were approved by the shareholders at the Annual General Meeting on 27 November 2018 (30 June 2018: ordinary shares were approved by the shareholders at the Annual General Meeting on 30 November 2017) .

**The Maji Trust (Maji)**

The payments made by the company to Maji are for the services of Mr James Soorley acting as Non-Executive, Independent Director. Mr Soorley was appointed to this role on 8 March 2017. The amount payable to Maji on 30 June 2019 is made up of director fees of $10,000 (30 June 2018: $33,000). The prior period included $88,000 for consulting services provided prior to when Mr Soorley was appointed as a director.

**Tarva Investments and Advisory LLC (Tarva)**

The payments made by the company to Tarva are for the services of Mr Cameron McRae acting as the Executive Chairman. Mr McRae resigned from the position of Director on 21 November 2017.

*Loans to/from related parties*
There were no loans to or from related parties at the current and previous reporting date.

*Terms and conditions*
All transactions were made on normal commercial terms and conditions and at market rates.

## Note 42. Parent entity information

Set out below is the supplementary information about the parent entity.

*Statement of comprehensive income*

| | Parent | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Loss after income tax | (52,725) | (39,259) |
| Other comprehensive income for the year, net of tax | (3,589) | (2,777) |
| Total comprehensive income | (56,314) | (42,036) |

*Statement of financial position*

| | Parent | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Total current assets | 48,207 | 4,991 |
| Total non-current assets | 242,184 | 254,989 |
| Total assets | 290,391 | 259,980 |
| Total current liabilities | 3,346 | 16,027 |
| Total non-current liabilities | 206,102 | 164,267 |
| Total liabilities | 209,448 | 180,294 |
| Net assets | 80,943 | 79,686 |
| Equity | | |
| Issued capital | 277,662 | 227,804 |
| Foreign currency translation reserve | 3,398 | (190) |
| Share-based payments reserve | 11,667 | 11,130 |
| Accumulated losses | (211,784) | (159,058) |
| Total equity | 80,943 | 79,686 |

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2019 and 30 June 2018.

*Contingent liabilities*
The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

*Capital commitments - Property, plant and equipment*
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.





## Note 42. Parent entity information (continued)

*Significant accounting policies*
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

## Note 43. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in Note 1:

| Name | Principal place of business / Country of incorporation | Ownership interest 2019 % | Ownership interest 2018 % |
|---|---|---|---|
| FTB (QLD) Pty Limited | Australia | 100.00% | 100.00% |
| Sierra Coal Pty Limited | Australia | 100.00% | 100.00% |
| Orion Mining Pty Limited | Australia | 100.00% | 100.00% |
| Clermont Logistics Pty Limited | Australia | 100.00% | 100.00% |
| Terra Energy Pty Limited | Australia | 100.00% | 100.00% |
| Clyde Park Coal Pty Limited * | Australia | 64.40% | 64.40% |
| Guildford Coal (Mongolia) Pty Limited * | Australia | 83.87% | 83.87% |
| Guildford Infrastructure (Mongolia) Pty Limited | Australia | 100.00% | 100.00% |
| Terra Mining Services Pty Ltd | Australia | 100.00% | - |
| Springsure Mining Pty Ltd*** | Australia | 86.97% | 35.78% |
| Tellus Commodities Pte Limited | Singapore | 100.00% | 100.00% |
| Tellus Marketing Pte Limited * | Singapore | 83.87% | 83.87% |
| Terra Infrastructure Pte Limited | Singapore | 100.00% | 100.00% |
| Alag Tvesh LLC * | Mongolia ** | 83.87% | 83.87% |
| Terra Energy LLC | Mongolia ** | 100.00% | 100.00% |
| Enkhtunkh Orchlon LLC | Mongolia ** | 100.00% | 100.00% |
| Tsagaan Uvuljuu LLC | Mongolia ** | 100.00% | 100.00% |
| Terra Coal Processing LLC | Mongolia ** | 100.00% | 100.00% |

* Percentage of voting power is in proportion to ownership.
** Mongolian entities have a 31 December year end for statutory purposes to comply with local laws and regulations.
*** On 27 March 2019, TerraCom Limited completed the acquisition of an additional 51.19% of Springsure Mining Pty Ltd. This acquisition increased TerraCom's ownership interest to 86.97% and on this date changed the accounting treatment to be a consolidated entity.

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries with non-controlling interests in accordance with the accounting policy described in Note 1:

| Name | Principal place of business / Country of incorporation | Principal activities | Parent Ownership interest 2019 % | Parent Ownership interest 2018 % | Non-controlling interest Ownership interest 2019 % | Non-controlling interest Ownership interest 2018 % |
|---|---|---|---|---|---|---|
| Clyde Park Coal Pty Limited | Australia | Exploration | 64.40% | 64.40% | 35.60% | 35.60% |
| Guildford Coal (Mongolia) Pty Limited | Australia | Holding Company | 83.87% | 83.87% | 16.13% | 16.13% |
| Tellus Marketing Pte Limited | Singapore | Holding Company | 83.87% | 83.87% | 16.13% | 16.13% |
| Alag Tvesh LLC | Mongolia | Exploration | 83.87% | 83.87% | 16.13% | 16.13% |
| Springsure Mining Pty Ltd (1) | Australia | Exploration | 86.97% | 35.78% | 13.03% | 64.22% |

(1) Refer to Note 16 regarding additional interest acquired in Springsure Mining Pty Ltd





## Note 43. Interests in subsidiaries (continued)

*Summarised financial information*
Summarised financial information of subsidiaries with non-controlling interests that are material to the consolidated entity are set out below:

| | Clyde Park Coal Pty Limited 2019 $'000 | Clyde Park Coal Pty Limited 2018 $'000 | Springsure Mining Pty Ltd 2019 $'000 | Springsure Mining Pty Ltd 2018 $'000 | Guildford Coal (Mongolia) Pty Limited * 2019 $'000 | Guildford Coal (Mongolia) Pty Limited * 2018 $'000 |
|---|---|---|---|---|---|---|
| *Summarised statement of financial position* | | | | | | |
| Non-current assets | 3,723 | 3,732 | 780 | - | 1,598 | 969 |
| Total assets | 3,723 | 3,732 | 780 | - | 1,598 | 969 |
| Current liabilities | 420 | 418 | (157) | - | 482 | 1,896 |
| Total liabilities | 420 | 418 | (157) | - | 482 | 1,896 |
| Net assets/(liabilities) | 3,303 | 3,314 | 937 | - | 1,116 | (927) |
| *Summarised statement of comprehensive income* | | | | | | |
| Expenses | (1) | (1) | - | - | (176) | (770) |
| Loss before income tax expense | (1) | (1) | - | - | (176) | (770) |
| Income tax expense | - | - | - | - | - | - |
| Loss after income tax expense | (1) | (1) | - | - | (176) | (770) |
| Other comprehensive income | - | - | - | - | - | 35 |
| Total comprehensive income | (1) | (1) | - | - | (176) | (735) |
| *Statement of cash flows* | | | | | | |
| Net cash used in operating activities | (1) | (1) | (159) | - | (10) | (14) |
| Net cash from financing activities | 1 | 1 | 153 | - | 10 | 14 |
| Net decrease in cash and cash equivalents | - | - | (6) | - | - | - |
| *Other financial information* | | | | | | |
| Loss attributable to non-controlling interests | (1) | (1) | - | - | (176) | (770) |
| Accumulated non-controlling interests at the end of reporting period | 2,946 | 2,947 | - | - | 166 | 377 |

* The financial information above for Guildford Coal (Mongolia) Pty Limited includes its wholly owned subsidiaries of Tellus Marketing Pte Limited and Alag Tvesh LLC

## Note 44. Earnings per share

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Loss after income tax | (11,305) | (19,135) |
| Non-controlling interest | 76 | 736 |
| Loss after income tax attributable to the owners of TerraCom Limited | (11,229) | (18,399) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 395,500,789 | 330,000,992 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 409,631,622 | 330,000,992 |
| | **Cents** | **Cents** |
| Basic earnings per share | (2.84) | (5.58) |
| Diluted earnings per share | (2.84) | (5.58) |

## Note 45. Share-based payments

**Foster Stockbroking Pty Ltd**

29 August 2016 – 3,000,000 unlisted options issued to Foster Stockbroking Pty Ltd for the provision of institutional research coverage services. The options were issued in two tranches of 1,500,000 at a strike price of $0.30 and $0.45 respectively and an expiry date of 31 August 2018.

The remaining 750,000 options from tranche one were exercised as equity on 3 July 2018 at an exercise price of $0.30 and the 1,500,000 tranche two options were exercised as equity at an exercise price of $0.45 on 28 August 2018.

This transaction is a share based payment for services to be provided over a 12-month period from 28 August 2016. This share based payment has been prorated over the service period with the relevant portion expensed up to the 31 August 2017.

21 September 2018 - 1,500,000 unlisted options issued to Foster Stockbroking Pty Ltd for the provision of institutional research coverage services. The options were issued at a strike price of $0.60 and have an expiry date of 31 August 2020.

The cost of these options are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the consultant to receive payment. Key inputs to the valuation model are:

- Grant date – 21 September 2018
- Share price - $0.65 as on 21 September 2018
- Exercise price – $0.60
- Risk free rate – 1.795%
- Volatility – 118.47% based on the historical TerraCom Limited volatility as at the Grant Date

This transaction is a share based payment that will be equity settled for services to be provided over a 12-month period from 20 September 2018. This share based payment has been prorated over the service period and vesting is not subject to any other conditions. An expense of $467,695 (2018: $77,000) has been recognised within administration expenses in the income statement.





## Note 45. Share-based payments (continued)

**Point Road Investments Pty Ltd**

24 December 2018 – 236,450 fully paid ordinary shares were issued to Point Road Investments Pty Ltd at an issue price of $0.6344. The issue of fully paid ordinary shares was part of Wallace King AO's Non-Executive Chairman remuneration package. These fully paid ordinary shares were approved by the shareholders at the Annual General meeting on 27 November 2018.

**OCP Asia**

26 February 2016 - 12,603,833 detachable warrants were issued to replace the warrants issued to OCP Asia as part of the debt facility entered into on 8 January 2014. The principle terms of the warrants are:

- 12,603,833 detachable warrants.
- Expiry date: five years from the date of issue, being 26 February 2016 (the "warrant maturity date")
- Exercise price is: $0.0262 per share, unless a cross listing on the SGX has completed, in which case the exercise price is the lower of the Cross Listing price and the Market Price.
- Fully transferrable (either in whole or part) to another sophisticated or professional investor.
- Exercisable at holder's option in exchange for shares in the company.

**Directors**

27 November 2018 - 647,777 unlisted options granted to the directors of TerraCom Limited at the AGM as part of the LTIP. The options were granted at a strike price of $0.415 and have an expiry date of 27 November 2023. The vesting of these awards are subject to the director's continuous engagement with the Company and the performance of TerraCom's share price in comparison to the ASX 200 over the three year vesting period (1 July 2018 to 1 July 2021).

The cost of these options are measured at fair value on grant date. Fair value is independently determined using the Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution, market performance conditions, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. Key inputs to the valuation model are:

- Grant date – 27 November 2018
- Share price - $0.510 as on 27 November 2018; $0.415 as on 1 July 2018
- Index Values – 5,728 ASX200 Index as on 27 November 2018; 6,195 ASX200 as on 1 July 2018
- Risk Free Rate – 2.20%
- Volatility – 70% based on the historical TerraCom Limited share price volatility as at the Grant Date; 10% based on the historical ASX200 index value volatility as at the Grant Date
- Exercise price - $0.415

This share based payment has been prorated over the service period. An expense of $38,725 (2018: $nil) has been recognised within administration expenses in the income statement. As at the date of this report, these options have not been issued (only approved by shareholders).

## Note 45. Share-based payments (continued)

**Key Management Personnel**

20 March 2019 - 400,000 unlisted options granted to both Mr Danny McCarthy (Chief Executive Officer) and Mr Nathan Boom (Chief Financial Officer and Company Secretary) under the LTIP. The options were granted at a strike price of $0.595 and $0.415 respectively and have an expiry date of 20 March 2024. The vesting of these awards are subject to the key management personnel's continuous engagement with the Company and the performance of TerraCom's share price in comparison to the ASX 200 over the three year vesting period (1 July 2018 to 1 July 2021).

The cost of these options are measured at fair value on grant date. Fair value is independently determined using the Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution, market performance conditions, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment.

Key inputs to the valuation of Mr Danny McCarthy's options are:
- Grant date – 20 March 2019
- Share price - $0.665 as on 20 March 2019; $0.595 as on 1 December 2018
- Index Values – 6,165 ASX200 Index as on 20 March 2018; 5,667 ASX200 as on 1 December 2018
- Risk Free Rate – 1.53%
- Volatility – 65% based on the historical TerraCom Limited share price volatility as at the Grant Date; 11% based on the historical ASX200 index value volatility as at the Grant Date
- Exercise price - $0.595

Key inputs to the valuation of Mr Nathan Boom's options are:
- Grant date – 20 March 2019
- Share price - $0.665 as on 20 March 2019; $0.415 as on 1 July 2018
- Index Values – 6,165 ASX200 Index as on 20 March 2018; 6,195 ASX200 as on 1 July 2018
- Risk Free Rate – 1.53%
- Volatility – 65% based on the historical TerraCom Limited share price volatility as at the Grant Date; 11% based on the historical ASX200 index value volatility as at the Grant Date
- Exercise price - $0.415

This share based payment has been prorated over the service period. An expense of $61,774 (2018: $nil) has been recognised within administration expenses in the income statement. As at the date of this report, these options have not been issued.

Set out below are the options granted by the Company:

**2019**

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 20/03/2019 | 20/03/2024 | $0.5950 | - | 400,000 | - | - | 400,000 |
| 20/03/2019 | 20/03/2024 | $0.4150 | - | 400,000 | - | - | 400,000 |
| 27/11/2018 | 27/11/2023 | $0.4150 | - | 647,777 | - | - | 647,777 |
| 26/02/2016 | 26/02/2021 | $0.2620 | 12,630,833 | - | - | - | 12,630,833 |
| 21/06/2018 | 31/08/2020 | $0.6000 | - | 1,500,000 | - | - | 1,500,000 |
| 29/08/2016 | 31/08/2018 | $0.3000 | 750,000 | - | (750,000) | - | - |
| 29/08/2016 | 31/08/2018 | $0.4500 | 1,500,000 | - | (1,500,000) | - | - |
| | | | 14,880,833 | 2,947,777 | (2,250,000) | - | 15,578,610 |
| Weighted average exercise price | | | $0.2829 | $0.5336 | $0.4000 | $0.0000 | $0.3134 |





## Note 45. Share-based payments (continued)

**2018**

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 26/02/2016 | 26/02/2021 | $0.2620 | 12,630,833 | - | - | - | 12,630,833 |
| 29/08/2016 | 31/08/2018 | $0.3000 | 1,500,000 | - | (750,000) | - | 750,000 |
| 29/08/2016 | 31/08/2018 | $0.4500 | 1,500,000 | - | - | - | 1,500,000 |
| 30/11/2016 | 30/11/2017 | $0.0818 | 7,331,874 | - | - | (7,331,874) | - |
| | | | 22,962,707 | - | (750,000) | (7,331,874) | 14,880,833 |
| Weighted average exercise price | | | $0.2192 | $0.0000 | $0.3000 | $0.0818 | $0.2829 |

## Note 46. Cash flow information

*Reconciliation of loss after income tax to net cash from operating activities*

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Loss after income tax benefit for the year | (11,305) | (19,135) |
| Adjustments for: | | |
| Depreciation and amortisation | 35,473 | 18,177 |
| Write off of non-current assets | 257 | 184 |
| Write off of intangibles | - | 95 |
| Share of loss - associates | 42 | 14 |
| Share-based payments | 537 | 277 |
| Foreign exchange differences | 5,687 | (1,403) |
| Unwinding of the discount on secured deposit | (668) | - |
| Gain on debt to equity conversion | (2,565) | - |
| Income tax expense / (benefit) | (6,904) | (6,601) |
| Non-cash interest expense | 27,250 | 15,984 |
| Fair value discounting | - | 2,184 |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | (7,042) | (13,424) |
| Increase in inventories | (707) | (13,876) |
| Decrease in secured deposit | 2,437 | 3,368 |
| Decrease/(increase) in other operating assets | 134 | (3,367) |
| Increase in trade and other payables | 16,916 | 37,617 |
| Decrease in other provisions | (2,967) | (1,698) |
| Increase in deferred revenue | 3,582 | 11,656 |
| Increase in financial liabilities | 11,401 | - |
| Increase/(decrease) in other operating liabilities | (4,551) | 4,229 |
| Net cash from operating activities | 67,007 | 34,281 |

## Note 47. Events after the reporting period

Following working with financial institutions and advisors for more than 12 months, on 1 July 2019 the Company announced on the ASX that it had executed a binding term sheet with OCP Asia (Singapore) Pte. Limited to fully underwrite a US$80 million term loan facility. This facility will have a three year term, repayable in instalments, and includes an interest rate of 8.5% per annum (payable semi-annually).

On 3 July 2019, the Company announced on the ASX that is had engaged its advisors (PwC and Ashurst) to advise on a restructuring of the Mongolia business. The restructuring is expected to be either a demerger of 100% of Mongolia (subject to its approval by shareholders) or a divestment of at least 51% of Mongolia. The Company's intention is to maintain management and marketing rights for the Mongolia business.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.





In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Wallace Macarthur King
Non-Executive Chairman

Danny McCarthy
Chief Executive Officer

30 August 2019
Sydney

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# Independent Auditor's Report to the Members of TerraCom Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of TerraCom Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.







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## 1. Measurement and Classification of Financial Liabilities

| Why significant | How our audit addressed the key audit matter |
|---|---|
| At 30 June 2019, the Group had $220.8 million of borrowings and $15.6 million of other financial liabilities. Of these amounts, $213.5 million and $12.1 million were classified as non-current liabilities (respectively).<br><br>The structure of the Group's borrowing arrangements changed significantly during the year due to significant repayments and non-cash settlements agreed with the lenders. Subsequent to balance date, the Group also entered a binding term sheet that will enable restructuring of the Group's borrowing arrangements. These changes increased the complexity of the Group's borrowings with respect to classification and valuation. Details of the Group's borrowings are disclosed in Note 23.<br><br>The valuation of other financial liabilities is highly judgmental due to the valuation of the instruments being dependent on the timing and volume of future coal sales. Details of these other financial liabilities are disclosed in note 27.<br><br>Accordingly, we consider the measurement and classification of financial liabilities as a key audit matter. | In completing our audit procedures on borrowings, we:<br><br>- Confirmed outstanding borrowings balances at 30 June 2019 directly with external counterparties. Where confirmation replies were not received, we recalculated the outstanding borrowings using the contractual terms of the agreement and repayments made.<br>- Agreed cash drawdowns, principal and interest repayments made during the period to bank statements. Agreed all non-cash settlements to share issuances and contractual terms of the settlements.<br>- Assessed any borrowings classification impacts arising from the execution of the binding term sheet entered by the Group subsequent to balance date.<br>- Remeasured the valuation of existing borrowings to ensure future estimated cash flows and amortised cost valuation assumptions were consistent with the timing of the Group's proposed debt restructure.<br>- Assessed compliance of the Group's financial and non-financial covenants with reference to contract terms, the Group's financial performance, compliance certificates and debt waivers received from counterparties.<br>- Assessed the completeness and adequacy of the associated disclosures in the financial report.<br><br>In completing our audit procedures on other financial liabilities, we have:<br><br>- Assessed the accounting treatment adopted by the Group upon initial recognition of these instruments in accordance with the Australian Accounting Standards.<br>- Recalculated the carrying value of other financial liabilities at 30 June 2019 with reference to the terms of the underlying liability agreements and forecast future coal sales.<br>- Assessed the completeness and adequacy of the associated disclosures in the financial report. |

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## 2. Carrying Value of Mongolian (South Gobi Desert) Cash Generating Unit

| Why significant | How our audit addressed the key audit matter |
|---|---|
| At 30 June 2019, the Group's Mongolian (South Gobi Desert) cash generating unit (CGU) had total assets of $142.8 million.<br><br>Australian Accounting Standards require the Group to assess at the end of each reporting period whether there is any indication that an asset may be impaired or whether the reversal of a previously recognised impairment charge may be required. If any such indicator exists, the group is required to estimate the recoverable amount of the CGU.<br><br>There is significant judgment involved in considering whether indicators of impairment are present, and the determination of a recoverable amount is highly judgmental.<br><br>The recoverable amount computation is based on modelling a range of forecast assumptions and estimates which are inherently difficult to determine with precision. Such forecasts include future coal prices, production and development costs and reserves and resources.<br><br>Accordingly, we consider this a key audit matter. | In completing our audit procedures, with the assistance of our valuation specialists, we:<br><br>- Assessed the Group's consideration of potential impairment indicators including, foreign exchange and forward commodity price assumptions, coal reserves, contractual obligations and the mines operating performance.<br>- Considered the relationship between asset carrying values and the Group's market capitalisation.<br>- Evaluated the competency, independence and objectivity of the external valuation specialists engaged by the Group to determine recoverable amount, by considering their professional qualifications and experience.<br>- Evaluated whether the modelling methodology applied by the external valuation specialists complied with the requirements of Australian Accounting Standards.<br>- Compared key modelling assumptions such as commodity prices, discount rates, inflation rates, country risk rates and foreign exchange rates to external market data.<br>- Agreed reserves and resources used by the expert in the valuation report to the Group's most recent JORC reserve and resource statements.<br>- Compared forecast operating cost data used by the expert in the valuation report to the most recent actual operating cost information.<br>- Evaluated the competency, independence and objectivity of the experts who produced the Group's JORC reserve and resource statements by considering their objectivity, professional qualifications and experience.<br>- Assessed the adequacy of the associated disclosures in the financial report. |







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## 3. Carrying Value of Exploration and Evaluation Assets

| Why significant | How our audit addressed the key audit matter |
|---|---|
| At 30 June 2019, the Group had Exploration and Evaluation ("E&E") assets of $50.6 million, relating to projects in the South Gobi region of Mongolia and in Queensland, Australia. The carrying value of these E&E assets is impacted by the Group's ability and intention to continue to explore these areas of interest.<br><br>The result of exploration work completed during the year also informs the Group's judgements as to what extent the mineral reserves and resources may or may not be commercially viable for extraction. This impacts the ability of the Group to recover the carrying value of the E&E assets either through the successful development or sale. The Group is required at the end of each reporting period to assess whether any indicators of impairment are present.<br><br>Given the size of the balance and the judgmental nature of impairment indicator assessments associated with exploration and evaluation activities, we consider this a key audit matter. | In completing our audit procedures, we:<br><br>- Tested the Group's right to explore in the relevant exploration areas by obtaining and assessing relevant documentation such as license agreements.<br>- Evaluated the Group's ability and intention to carry out significant exploration and evaluation activity in the relevant exploration areas by reviewing the Group's exploration budgets, and relevant enquiries of senior management within the Group as to their intentions and exploration strategy.<br>- Examined the Group's analysis of exploration and evaluation results relating to activities carried out in the relevant license areas, including an evaluation of drilling results and updates to the Group's reported JORC reserve and resources.<br>- Considered whether any other data or information available indicated the carrying amount of the E&E assets is unlikely to be recovered in full, from either successful development or by sale.<br>- Compared the carrying value of each area of interest at 30 June 2019 to external valuation reports engaged by the Group and recent comparable market transaction resource multiples, with the assistance of EY's valuation specialists.<br>- Compared resource data used by the external valuation specialists engaged by the Group to the most recent JORC reserve and resource statements.<br>- Assessed the adequacy of the associated disclosures in the financial report. |

### Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2019 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.







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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 23 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of TerraCom Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

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## Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Anthony Jones
Partner
Sydney
30 August 2019



# Shareholder Information (As at 1 October 2019)

### DISTRIBUTION OF SHAREHOLDINGS

| Range | Securities | % | No. of holders | % |
|---|---|---|---|---|
| 100,001 and Over | 448,821,253 | 96.08 | 121 | 6.26 |
| 10,001 to 100,000 | 14,984,352 | 3.21 | 465 | 24.04 |
| 5,001 to 10,000 | 1,560,084 | 0.33 | 202 | 10.44 |
| 1,001 to 5,000 | 1,542,143 | 0.33 | 584 | 30.20 |
| 1 to 1,000 | 244,903 | 0.05 | 562 | 29.06 |
| **Total** | **467,152,735** | **100.00** | **1,934** | **100.00** |

### UNMARKETABLE PARCELS

The number of shareholders holding less than a marketable parcel is 637 (330,867 ordinary shares).

### TWENTY LARGEST SHAREHOLDERS (As at 1 October 2019)

| Rank | Name | 1 Oct 2019 | %IC |
|---|---|---|---|
| 1 | CS THIRD NOMINEES PTY LIMITED | 93,040,135 | 19.92 |
| 2 | BONYTHON COAL NO 1 PTY LTD | 78,819,723 | 16.87 |
| 3 | NATIONAL NOMINEES LIMITED | 69,566,369 | 14.89 |
| 4 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 34,085,528 | 7.30 |
| 5 | BNP PARIBAS NOMS PTY LTD | 27,681,224 | 5.93 |
| 6 | CITICORP NOMINEES PTY LIMITED | 24,827,457 | 5.31 |
| 7 | UBS NOMINEES PTY LTD | 19,197,023 | 4.11 |
| 8 | RASIA MANAGEMENT | 17,543,860 | 3.76 |
| 9 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 12,249,068 | 2.62 |
| 10 | CS FOURTH NOMINEES PTY LIMITED | 11,005,555 | 2.36 |
| 11 | SEA HONOUR LIMITED | 5,444,951 | 1.17 |
| 12 | MISTLAKE PTY LTD | 3,603,411 | 0.77 |
| 13 | HAYMAKER INVESTMENT PTY LTD | 3,137,011 | 0.67 |
| 14 | MRS SARAH HATHWAY | 2,999,946 | 0.64 |
| 15 | BOND STREET CUSTODIANS LIMITED | 2,640,000 | 0.57 |
| 16 | THE SUMMIT HOTEL BONDI BEACH PTY LTD | 2,070,994 | 0.44 |
| 17 | MR ALEX YUEN | 1,700,000 | 0.36 |
| 18 | QUOTIDIAN NO2 PTY LTD | 1,670,816 | 0.36 |
| 19 | MR SIMON ROBERT EVANS & MRS KATHRYN MARGARET EVANS | 1,411,707 | 0.30 |
| 20 | GLENEAGLE SECURITIES (AUST) PTY LTD | 1,400,000 | 0.30 |
| | | **414,094,778** | **88.64** |

### SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as disclosed in substantial notices given to the Company are as follows:

| Shareholder | Shares held | % of issued capital |
|---|---|---|
| OCP Asia (Hong Kong) Limited | 91,849,503 | 19.66% |
| Bonython Coal No 1 Pty Limited | 78,976,506 | 16.91% |
| Noble Resources International Pte Limited | 69,516,368 | 14.88% |
| Rasia | 32,500,000 | 6.96% |
| Springsure Investments Limited | 27,681,224 | 5.93% |

### VOTING RIGHTS

All issued shares carry voting rights on a one for one basis.

### UNLISTED SECURITIES

| Security type | Class | Number | Number of holders |
|---|---|---|---|
| Warrants | 1 | 12,630,833 | 1 |
| Options | 1 | 1,500,000 | 1 |