SUPPLEMENTAL RELEASE

Blair Athol - Coal Truck Being Loaded with Stockpile in view.

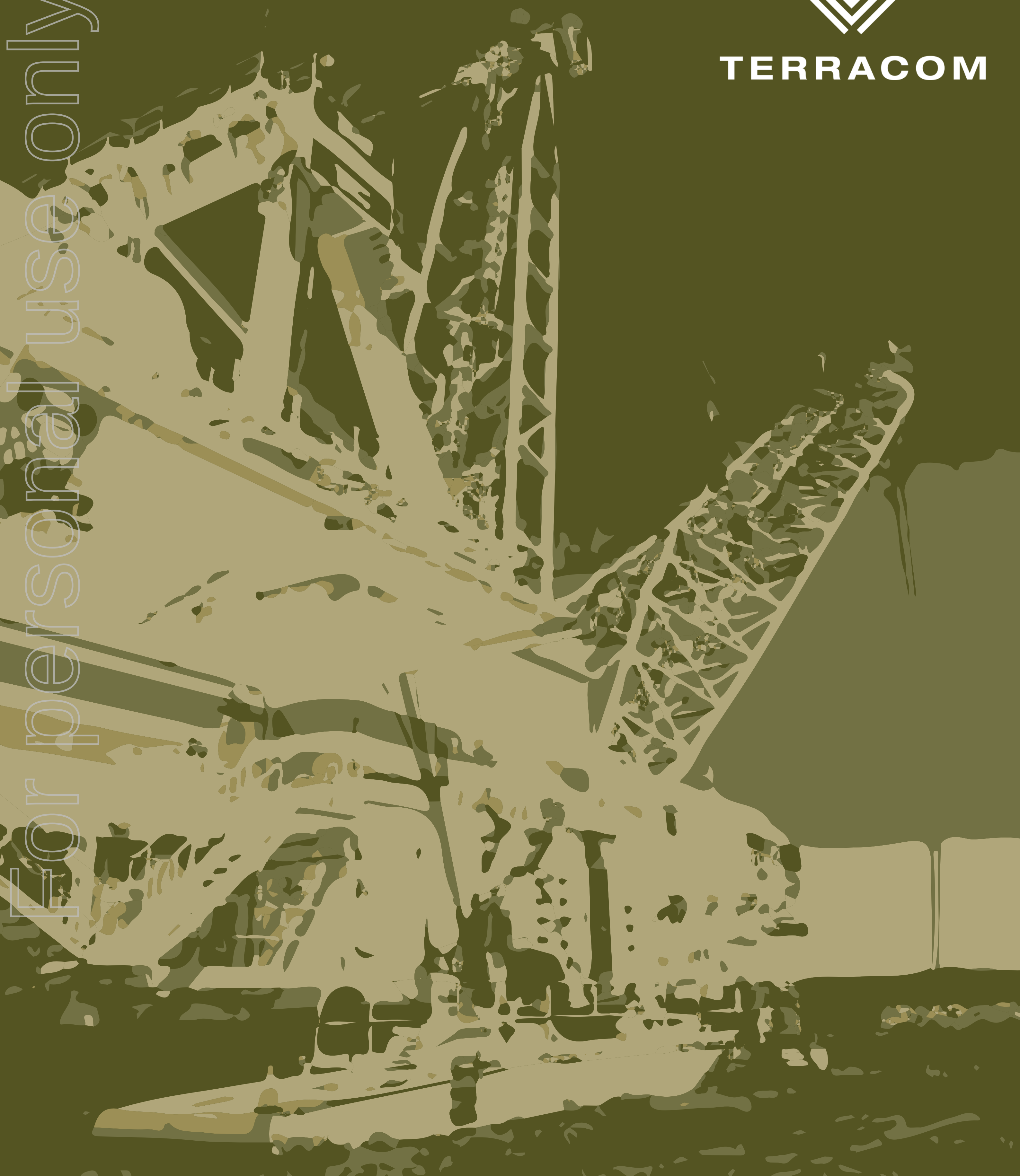
Blair Athol - Coal Truck Being Loaded with Stockpile in view.

SUPPLEMENTAL RELEASE

Blair Athol - Coal Truck Leaving Site.

Blair Athol - Coal Truck Leaving Site.

TERRACOM



ON THE COVER

Dragline, Blair Athol Operations, Clermont, Queensland

TerraCom's subsidiary Orion Mining Pty Limited acquired the Blair Athol Coal Mine, in May 2017.

CORPORATE DIRECTORY

PEOPLE

DIRECTORS
Wallace King AO
Hon. Craig Wallace
Michael Avery
Cameron McRae
Tsogt Togoo
Philip Forrest
Jim Soorley

COMPANY SECRETARY
Nathan Boom

CORPORATE INFORMATION

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Blair Athol Mine Access Road
Clermont, Queensland, 4721
Australia
Telephone: +61 7 4983 2038

INTERNET ADDRESS
terracomresources.com

COUNTRY OF INCORPORATION
Australia

AUSTRALIAN BUSINESS NUMBER
ABN 35 143 533 537

STOCK EXCHANGE LISTING
Australian Securities Exchange Ltd
ASX Code : TER

SERVICE PROVIDERS

SHARE REGISTRY
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Australia

SOLICITORS
Ashurst Australia
Level 26, 181 William Street
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Australia

BANKERS
Westpac Banking Corporation Ltd
Shop 6, 270 Princes Highway
Corrimal, New South Wales, 2518
Australia

AUDITORS
Ernst & Young
200 George Street
Sydney, New South Wales, 2000
Australia

TERRACOM

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COMPANY OVERVIEW

OPPOSITE PAGE *Blair Athol Operations, Queensland, Australia*

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) Annual Report for the year ended 30 June 2017.

The year has had many issues that required resolution and ended by being a trans-formative year for the Company, with the recommencement of mining operations in Mongolia in November 2016 and the completion of the Blair Athol Mine acquisition in Queensland in May 2017.

Since May 2017, the Blair Athol Mine has been progressively recommissioned and first coal was mined and placed into stockpile on 15 August 2017.

The first shipment of coal by truck to an alternate train loading facility has commenced in accordance with an interim plan based on trucking.

It is expected that a rail load out facility will be completed early in 2018 at the Blair Athol mine and this will allow a substantially better pathway to market. Road trucking operations will be terminated when the rail load out facility has been commissioned.

All major equipment at the Blair Athol Mine has been recommissioned and performance is broadly in line with budgeted expectation.

The Company has a number of options in respect of coal sales at Blair Athol and expects to be able to sell all coal produced to a range of customers.

OPPOSITE PAGE *Blair Athol Operations, Clermont, Queensland, Australia*

ABOVE

Pit 2, BNU Operations, South Gobi, Mongolia

TerraCom's wholly-owned Mongolian subsidiary continued to progress activities at the BNU Coking Coal Mine, with production increasing to around budgeted output.

In Mongolia, the Company has continued to diversify its position in respect of sales contracts and, amongst other things, concluded a 5.5 year off-take agreement with the Kingho Group, one of the largest private coal companies in China.

The predicted strength of the coking and thermal coal markets over the medium term should allow other Balance Sheet options to be considered.

During the year and in the period up to the end of September 2017, various changes were made to the Board and Senior Management, which has resulted in a more streamlined structure to be implemented.

Dave Stone resigned from the Company to allow changes to be made to the management structure. The Company appreciates the enormous effort Dave has made to the organisation.

Mr Neville McAlary has been appointed Head of the Australian Business Unit and is completely responsible for the operation of the Blair Athol Mine.

Mr Sam Bowles was appointed Head of the Mongolian Business Unit and is responsible for operations in that country.

Mr Nathan Boom was appointed Chief Financial Officer for the Company after the departure of Mr Karl Arnold.

I was appointed Non-Executive Chairman on 5 September 2017 taking over from Cameron McRae in his role as Executive Chairman. Cameron remains on the Board as Non-Executive Director.

Mr Jim Soorley joined the Board during the year and will, I am sure, be a great contributor.

In the year ahead, all efforts will be directed towards operational and financial performance to allow the Company to progress to being a profitable miner producing more than 3.5 million tonnes of coal per annum.

Together with my fellow Directors, I thank our staff and our subcontractors and suppliers for their patience and dedication.

Wal King AO
Chairman
TerraCom Ltd

BOARD MEMBERS

WALLACE KING AO
Non- Executive Chairman, Independent Director

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 Deputy Chairman of the UNSW Foundation Limited, is a Director of Kimberley Foundation Australia Limited; and was up until recently one of the longest serving Directors of Coca-Cola Amatil Limited.

He is a 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.

CRAIG WALLACE
Deputy Chairman, Independent Director

Mr 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.

BOARD MEMBERS

MICHAEL AVERY
Executive Director

Michael has been involved in the establishment and management of successful public and private companies in mining, exploration & development, mining consulting services and mining contractor services. Michael is a 30 year plus mining industry veteran with BE Mining (1st Class Honours) from UNSW and an MBA from Mt Eliza Business School.

Michael is a qualified Coal Mine Manager and a member of the Australasian Institute of Mining and Metallurgy. Michael has worked for blue-chip mining companies (mostly Rio Tinto and BHP Billiton) at operations in Australia and internationally. 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. Michael joined TerraCom in 2010.

CAMERON McRAE
Non-Executive Director

Mr McRae has had an extensive and distinguished career in the mining industry globally. Cameron has deep experience as a CEO, company director and Joint Venture representative on many large mining ventures across 3 continents.

He was born in Melbourne, Australia, was schooled in Australia and Africa and obtained an MBA (Monash University/ Mount Eliza) and a Bachelor of Financial Administration (University of New England).

Cameron was CEO-President of Oyu Tolgoi (OT) copper-gold business in Mongolia, CEO of Richards Bay Minerals in South Africa, Managing Director of Murowa Diamonds in Zimbabwe and Project Director for the Hail Creek Coal Mine Expansion Project in Central Queensland. In 1995 he was also a key member of the M&A team that brought RTZ plc and CRA Limited together to form the dual listed Rio Tinto.

JIM SOORLEY
Non-Executive,
Independent Director

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

TSOGT TOGOO
Non-Executive, Independent Director

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.

PHILIP FORREST
Non-Executive, Independent Director

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.

OPPOSITE PAGE

Equipment at the Blair Athol Operations

MANAGEMENT TEAM

MICHAEL AVERY
Vice President - Corporate Development

Michael has been involved in the establishment and management of successful public and private companies in mining, exploration & development, mining consulting services and mining contractor services. Michael is a 30 year plus mining industry veteran with BE Mining (1st Class Honours) from UNSW and an MBA from Mt Eliza Business School.

Michael is a qualified Coal Mine Manager and a member of the Australasian Institute of Mining and Metallurgy. Michael has worked for blue-chip mining companies (mostly Rio Tinto and BHP Billiton) at operations in Australia and internationally. 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. Michael joined TerraCom in 2010.

NATHAN BOOM
Chief Financial Officer & Company Secretary

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

His 12 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 consortium's, as well as 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.

MANAGEMENT TEAM

NEVILLE MCALARY
Australian Business Unit Head

Neville holds qualifications as a Mine Manager and Mining Engineer. He studied at the University of Wollongong and has formal Project Management qualifications. With over 35 years experience in the Coal Mining sector, he has worked at Senior Management and Executive level for Xstrata/Glencore and Peabody Energy. He has implemented acquisition plans at Open-cut and Underground Coal mine operations. Neville holds a 1st Class Mine Managers certificate and has been the driving force behind government and corporate approvals for new lease areas and mine expansion projects.

Neville has also held Global and National, Health and Safety positions with international mining companies and led change programs to bring about improved performance. He has gained operations and management experience in Australia, South Africa and the USA and been an active member of Mining Industry bodies and committees.

SAM BOWLES
Mongolian Business Unit Head

Since graduating from the University of New South Wales with a Bachelor of Engineering (Mining), Sam has worked for more than 15 years at coal mining operations in Australia and Mongolia. He is a member of the Australasian Institute of Mining and Metallurgy.

During this time, he has held technical, operational, managerial and executive roles within underground and open cut coal mining companies, and has worked for large multinational companies such as Anglo Coal Australia, Rio Tinto Coal Australia and Leighton Asia.

Prior to joining TerraCom, he was responsible for operation of Mongolia's largest coal mining, processing and export business as Chief Operating Officer of Mongolian Mining Corporation.

COMPANY UPDATE

AUSTRALIAN BUSINESS UNIT

ABOVE

First coal uncovered, Blair Athol Operations, Clermont, Queensland, Australia.

BLAIR ATHOL OPERATIONS

On 31 May 2017, TerraCom Limited acquired Blair Athol Coal Mine from the Blair Athol Coal Joint Venture through its wholly owned and operated subsidiary, Orion Mining Pty Ltd.

TerraCom acquired the Blair Athol Coal Mine for AUD$1 and the Queensland Government has received AUD$79.6m from the Blair Athol Coal Joint Venture (BACJV) to rehabilitate the Blair Athol Coal Mine. The acquisition included the mining lease, related licenses, land, site infrastructure, active contracts and all mining plant & equipment to deliver TerraCom's forecast production schedule and the progressive rehabilitation.

The acquisition of the Blair Athol Coal Mine is a significant milestone for TerraCom, bringing the following benefits:

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

TerraCom plans to commence over 50 hectares of site rehabilitation while bringing the mine back into production. The operation, under TerraCom management, is planned to deliver approx. 2Mtpa over 8 years and ongoing progressive rehabilitation.

During June 2017, the Blair Athol team submitted a revised Plan of Operations to the Queensland Government's Department of Environment and Heritage Protection (DEHP) outlining a return to operations in 2017-18 at a 2Mtpa mining rate. The Plan of Operations and associated Financial Assurance of AU$74.6 million has been subsequently approved by the DEHP. Subsequent to year end, the Company amended its plan of operations to accommodate the inclusion of the Coal Handling and Preparation Plant onsite at Blair Athol which resulted in the plan of operations for the period ending 21 June 2018 to be $74.9 million.

Since site handover on May 31, 2017, TerraCom has appointed Link Mining Services Pty Limited (Link Mining) as the Operator of Blair Athol. Link Mining have successfully completed the first phase of recommissioning works and commenced bulk shaping and dewatering works to deliver on TerraCom's plans to restart coal mining and complete over 50 hectares of site rehabilitation in 2017 calendar year.

The recommencement of mining at Blair Athol Coal mine is forecast to deliver TerraCom positive cash flow through a low overhead structure and operational efficiencies. This has been further bolstered by increased prices in the seaborne thermal coal markets which have remained buoyant during 2017 calendar year.

The recommissioning of the significant fixed infrastructure at Blair Athol also provides TerraCom with comprehensive mine facilities and an established mining operation as a regional hub in Queensland to support expansion plans through various acquisition and expansions plans.

SAFETY

TerraCom, with Link Mining, has successfully completed the first phase of recommissioning works, pit dewatering and initial overburden movement in June without incident. Link Mining have been appointed as the Operator under the Coal Mining Safety and Health Act (Qld), and have developed a site-specific Safety and Health Management System which encompasses all activity at Blair Athol. Link Mining and TerraCom have held positive discussions with the Queensland Mines Inspectorate to ensure full compliance and safe operations as Blair Athol is brought back to production.

OPERATIONS

In November 2016, TerraCom announced the reinstatement of the Blair Athol Coal JORC Reserves which totaled 13.5Mt. Further work since TerraCom acquired Blair Athol, which included the detailed assessment of all boreholes using historical data on site has enabled Xenith Consulting to extend the Reserves by 2.1Mt adding one extra year to mine life, which now totals 8 years based on 2 Mtpa.

The JORC Reserve has also improved in confidence with the Proved Reserve increasing 4.2Mt from 9.8Mt to 14Mt. The JORC resources have improved in confidence with the JORC Measured Resource increasing 9.5Mt from 12.4Mt to 21.9Mt.

The coal reserves and resources have been estimated in accordance with the standards outlined in the JORC Code (JORC, 2012) and the Coal Guidelines 2014.

The total open cut coal reserves for Blair Athol Mine are presented in the table below.

Table 1 - Blair Athol Mine Open Cut Reserves Estimate

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

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

OPPOSITE

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


B
BUCYRUS-ERIE
E

ABOVE

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

LEFT

Dewatering of coal pits and mobile fleet recommissioning commenced in June 2017

RECOMMISSIONING

Link Mining, under the 5 year Mining and Rehabilitation contract delivered on the first 30 days of the Blair Athol Mobilisation and Commissioning plan without incident. In addition to the key safety, health and environment compliance activities, Link Mining have successfully recommissioned the Dozer fleet and pit dewatering equipment, commenced recommissioning of the truck and excavator fleet and dragline and have commenced the first overburden movement toward coal uncovery.

LEFT

Initial Overburden push for first coal uncovery at Blair Athol

TerraCom completed the Sale and Purchase Agreement with Sedgman Pty Limited (Sedgman), a member of the CIMIC group, to acquire the Coal Preparation Plant currently located on site at the Blair Athol Coal Mine. Link Mining have commenced the recommissioning process in June 2017 of this 300 tonne per hour coal processing plant which will enable TerraCom to fulfill customer requirements in various segments of the thermal coal market to maximize value at the Blair Athol Mine.

Subsequent to year end, the Blair Athol mine has met a number of significant milestones including :

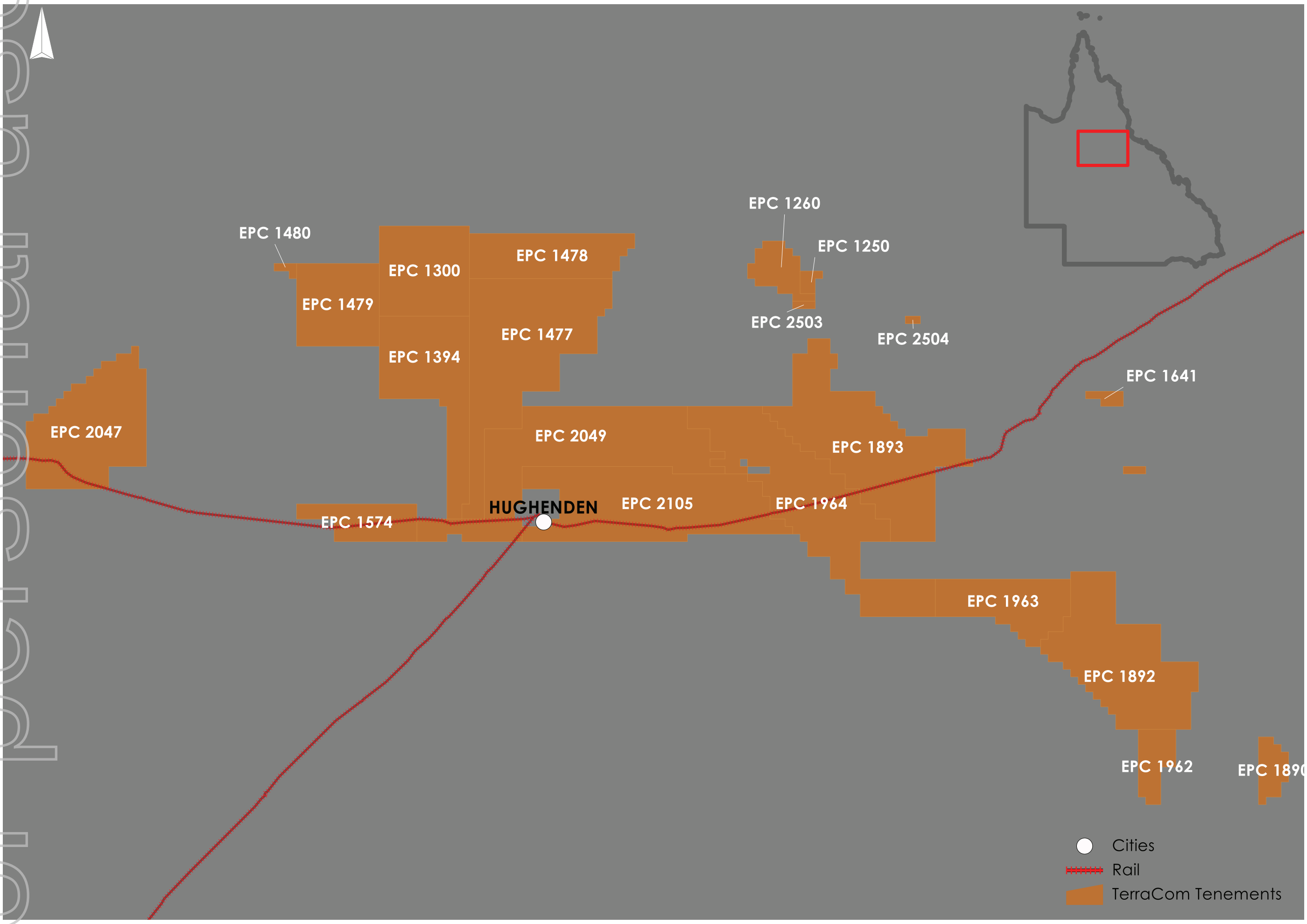
- First Coal Mined - 13 August 2017
- First Product Coal Crushed - 25 August 2017
- First Dragline Swing - 26 August 2017
- First Product Coal Washed - 10 October 2017.

LEFT

First Dragline Swing.

BELOW

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 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 133 Mt Indicated; 1,076 Mt Inferred
COAL TYPE & QUALITY	Thermal
LOCATION	Galilee Basin Hughenden, Queensland
TENEMENTS	EPC 1300, EPC 1394 EPC 1477, EPC 1478 EPC 1479, EPC 1480 EPC 1574, EPC 2047 EPC 2049, EPC 2105 EPC 1641 (currently being acquired)
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 most recent geological model.

Eight coal seams and their seam splits have been intersected. Coal quality analysis for three main seams showing a moderate ash (15% adb), moderate calorific value (5,800 kcal/kg adb) and low sulphur (0.5% adb) suggesting export thermal coal potential.

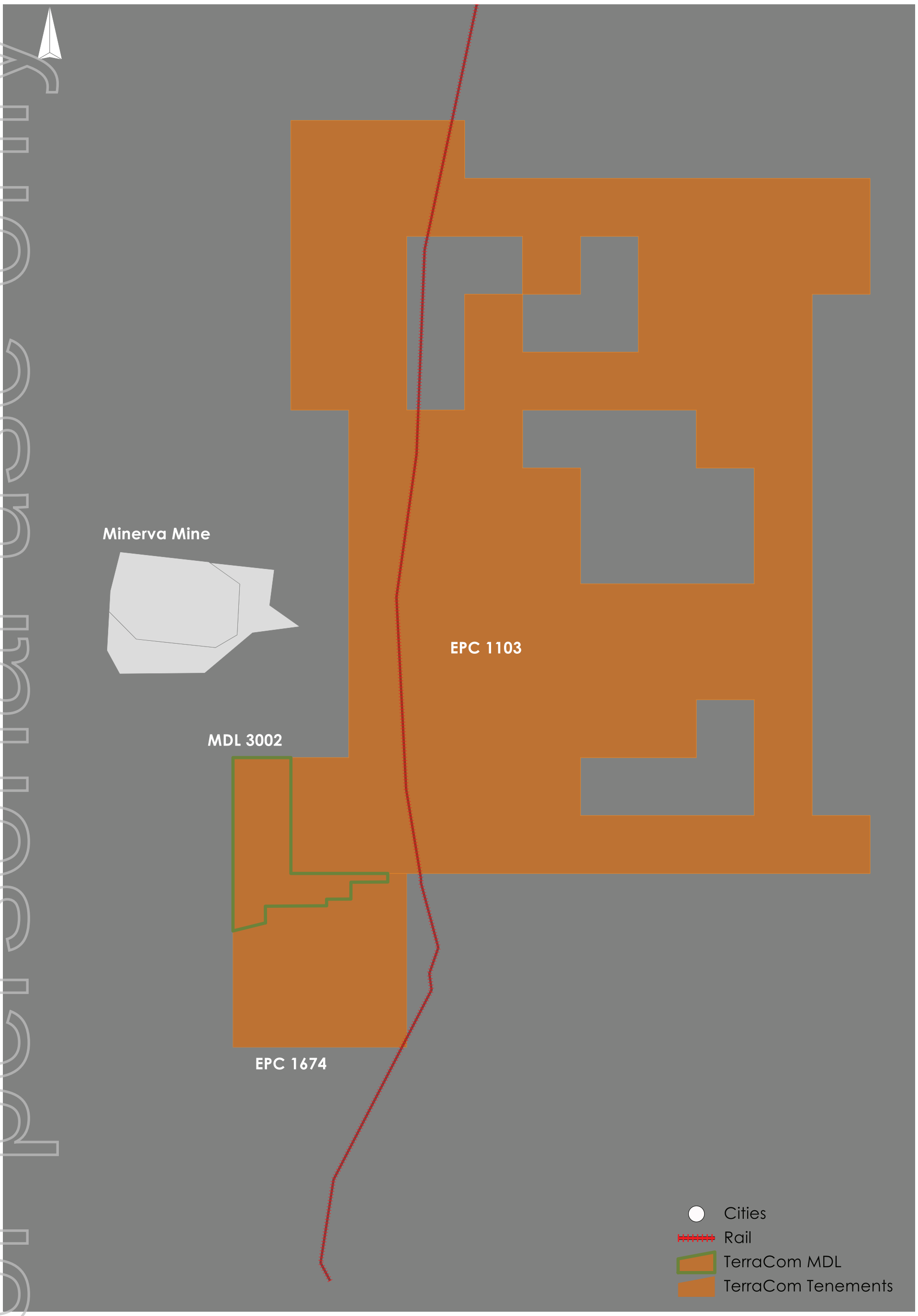
PROJECT NAME	Clyde Park Project
JORC 2004 RESOURCE	728 Mt 51 Mt Indicated; 677 Mt Inferred
COAL TYPE & QUALITY	Thermal
LOCATION	North Eastern Galilee Basin Hughenden, Queensland
TENEMENTS	EPC 2503 EPC 2504 EPC 1250 EPC 1260
OWNERSHIP	EPC 2503 & EPC 2504 wholly owned by TerraCom Limited EPC 1250 & EPC 1260 wholly owned by Clyde Park Coal Pty Ltd. TerraCom Limited owns 64.4% of Clyde Park Coal Pty Ltd.
AREA	366.6 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 Exploration Target estimate of 0.3 Bt to 2.9 Bt
COAL TYPE & QUALITY	Thermal
LOCATION	Northern end of the Eromanda and Galilee Basins Pentland, Queensland
TENEMENTS	EPC 1890, EPC 1892, EPC 1893, EPC 1962, EPC 1963, EPC 1964
OWNERSHIP	Orion Mining Pty Ltd, a wholly owned Subsidiary of TerraCom Limited
AREA	3,441.2 Kms^2



ABOVE

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 34.2km2 and is made up of 11 sub-blocks approximately 8km north of the town of Springsure on the Gregory Highway in the Springsure Region. TerraCom Limited is a 36% shareholder in Springsure Mining Pty Ltd.

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. The Minerva rail spur line traverses across the south east corner of the Springsure Project.

The proposed exploration plan for MDL 3002 consists of 5 partially cored boreholes and 2 fully cored holes totalling 7 holes. The objective of this plan is to:

1. Delineate local structure complexities in MDL area, including gathering more information on the Minerva Hills Volcanics (Tertiary basalt) in the area which could potentially affect underground mining;
2. Establish a better understanding of the intruded coal within the area, at this moment in time its slightly sporadic, closer drilling spacing should assist modelling intrusions;
3. Update Coal Quality model and conduct Large Wash testings to better simulate the wash process, further understand coal product; and
4. Update the geological model and coal resource.

PROJECT NAME	Springsure Project
JORC 2004 RESOURCE	191Mt. 43 Mt Indicated; 148 Mt Inferred
COAL TYPE & QUALITY	Thermal PCI Coal. High volatile Thermal Coal (>30% VM)
LOCATION	Southern Bowen Basin Springsure, Queensland
TENEMENTS	EPC 1674, MDL 3002
OWNERSHIP	Wholly owned by Springsure Mining Pty Ltd. TerraCom Limited owns 35.78% of Springsure Mining Pty Ltd.
AREA	30.8 Kms²

FERNLEE PROJECT (ADJOINING SPRINGSURE PROJECT)

TerraCom, through its wholly owned subsidiary Sierra Coal Pty Limited, has executed an Asset Sale Agreement for EPC1103 - Fernlee Project from the Liquidators of Fernlee Coal Pty Limited (In Liquidation) and have applied for DNRM indicative approval for transfer of the tenement to TerraCom who will wholly own the tenement. Subsequent to year end, the Company received indicative approval for transfer from the DNRM in July 2017.

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

PROJECT NAME	Fernlee Project Not calculated to date
COAL TYPE & QUALITY	Thermal
LOCATION	Southern Bowen Basin Springsure, Queensland
TENEMENTS	EPC 1103 (Being acquired)
OWNERSHIP	Once completion occurs, the Fernlee Project will be owned by Sierra Coal Pty Ltd, a wholly owned subsidiary of TerraCom Limited.
AREA	246.4 Kms^2

MONGOLIAN BUSINESS UNIT

ABOVE

Mining Trucks, Terra Energy, South Gobi, Mongolia.

ABOVE

Overview of Terra Energy's Mongolian Operations and Projects.

BARUUN NOYON UUL (BNU) COAL MINE

Mining operations at BNU coal mine recommenced 18 November 2016, following execution of a 5.5 year offtake agreement with a wholly owned subsidiary of the Kingho Group, one of the largest private coal companies in China, which provides for an estimated 7.5Mt of coal sales.

First coal production following recommencement of operations was achieved without incident 10 days ahead of schedule on 22 January 2017. Since first coal production, operation has continued to ramp-up in 2017, with ROM coal mined and sold safely increasing month-on-month to meet offtake obligations.

Mining activity in 2017 was focused on uncovery and extraction of coal from Pit 2 and mining commencement in Pit 3 with positive results observed in terms of reconciliation of both quantity and quality of coal mined, which have continued post end of period.

OWNERSHIP	100% TerraCom Limited through Mongolian Subsidiaries
LOCATION	Umnugovi aimag, Noyon soum (southern Gobi desert)
TENEMENTS	MV-17162
JORC RESOURCES	83 MT (42 Mt JORC 2012 and 31 Mt JORC 2004) - BNU 15 Mt Measured, 9 Mt Indicated and 3 Mt Inferred (JORC 2012) - KS North 15 Mt Inferred (JORC 2012) - Huvguun 41 Mt Inferred (JORC 2004)
STATUS	Operational
EMPLOYEES	353 FTE (210 employees; 143 contractors)

PRODUCTION

Coal export resumed from 10 February 2017, and following initial steady monthly volumes exported for February through April, began to increase as per offtake requirements from May and into June. Additional thermal coal tonnes were also exported opportunely under contracts separate to the main offtake agreement with the Kingho Group.

The annual production results from the BNU operation are highlighted in the table below.

	2016/17 Q1	2016/17 Q2	2016/17 Q3	2016/17 Q4	2016/17 TOTAL
RAW COAL MINED (ROM TONNES)	0	0	97,870	246,408	344,278
OVERBURDEN MINED (BCM)	0	288,012	2,349,212	2,772,200	5,409,424
RAW COAL EXPORTED (ROM TONNES)	0	0	97,295	218,647	315,942
RAW COAL INVENTORY (ROM TONNES)	40,049	41,007	42,148	75,697	75,697

ABOVE

BNU Pit 2 in operation

ABOVE

BNU Pit 3 in operation

ABOVE

Coal being loaded for export under the Kingho offtake agreement

FURTHER 2017 HIGHLIGHTS

TerraCom has worked cooperatively with the Kingho Group to optimise their washplant performance when processing the BNU coal to maximise yield. Further cooperation has been extended to assist in understanding the unique and highly valued properties of the BNU coal that make it an exceptional feed blend for coke ovens.

As part of this, TerraCom commissioned a 'value-in-use' study of the BNU coal, prepared by a panel of independent, Chinese, coking coal, coke and steel making experts coordinated by SGS-CSTC Standards Technical Services Co., Ltd.

The report findings supported TerraCom's view that the coal mined at BNU is a rare and exceptional product on market. Under the Chinese GB/T coal classification matrix, it is classifiable very uniquely as a 'Scarce Coal', exhibiting beneficial characteristics of JM and FM coals which are broadly apparent to high quality coking coal.

This classification places the BNU coal within a select group of coals globally that are highly sought after. The BNU coal is a very "friendly" match for a wide variety of other coals within the coke oven blend, and as such is a very desirable component within the coke oven blend. Of particular interest to coke manufacturers are the following properties:

- G Index. The G Index is a modified test developed in China based on the traditional Roga Index. It is a measure of coke cohesiveness and the Chinese classification system assigns higher value in use to coals with G Values greater than 85. BNU typically exhibits G index > 85 in washed product.
- Maximum Fluidity. The maximum fluidity value indicates the viscosity of the plastic material. High values indicate low fluid viscosity and ease of penetration through the coke blend, and thus its ability to coat those particles that have passed through their plastic range or that remain inert through the process. Upon solidification of the coke, this material produces a micro-pore mosaic with textures highly resistant to fracture. BNU washed product has high fluidity values (typically 6,500–14,000 ddpm). The other key parameter associated with the determination of maximum fluidity is just how long the plastic phase of the coke blend stays fluid. The ideal base blend coal will become fluid before the other blend components, and remain fluid after the other blend components have solidified to coke. This is known as the "plastic range". BNU washed product has a very wide plastic range (typically 105°C – 115°C).
- Sapozhnikov Indices. High Y index indicates that the coal will develop a high volume of fluid in the coke oven. When combined with high maximum fluidity, wide plastic range and high dilatation values, this ensures that the fluid is forced through the blend in the coke oven to encapsulate all elements of the blend. BNU washed product exhibits high Y index values, typically > 25.
- The X index is indicative of the final pressure drop as the coal solidifies to a coke and indicative the level of shrinkage of the coke, and thereby its ease of pushing out of the coke ovens. BNU washed product X values are typically between 20 – 30, which indicate easy removal of coke from the coke oven.
- Dilatation. The dilatation of a coal as it passes through the coke oven heating range is a measure of pressure of the plastic phase, and hence the ability of the plastic phase to penetrate the full blend and 'glue' the components of the blend together. BNU washed product typically have very high dilatation values of between 150 – 200, however occasionally results have occurred > 250. The Chinese classification assigns a higher value in use to metallurgical coals with dilatation values >150.

SAFETY & TRAINING

TerraCom is pleased to announce that the BNU coal mine reached the significant milestone of two million man-hours worked consecutively without Lost Time Injury in May 2017. By the end of June,

ABOVE

Operations at BNU, South Gobi, Mongolia

a total of 2.2 million man-hours have been worked without a single Lost Time Injury occurring to an employee, contractor or visitor of the project since commissioning of the BNU coal mine.
This achievement is testament to the commitment that the Company maintains to the health and safety of its employees and contractors, and to the training effort and behaviour of past and present management and employees. This milestone is particularly significant in consideration of the remoteness of the project, the high proportion of inexperienced and locally recruited workforce, and the rapid ramp up of operation in 2017.

ENVIRONMENT & COMMUNITY

A key element of the Company's community engagement and support is the establishment of a Community Development Agreement (CDA), which was very close to being finalised by end of the financial period. This Agreement is tri-partite between the people of Noyon Soum (as represented by the Noyon Governor), Umnugovi Aimag (as represented by the Dalanzadgad Governor) and the Company.

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, strategic investment in social infrastructure and fostering of community cohesion.

As evidence of the Company's commitment to these concepts, much progress has been made prior to execution of this CDA. Examples of this include that:

- As at end of 2016/2017, approximately 49% of our workforce is employed from the South Gobi region against a target of 50%, and increasing.
- Since resumption of operation there has been focus on providing opportunities to local businesses, as evident through the engagement of multiple local contractors providing equipment for road and mine dust suppression activities; and
- The Company's financial and in kind support of the 60th anniversary of Ganzagh Bagh, an important milestone for the people of Noyon Soum.

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.

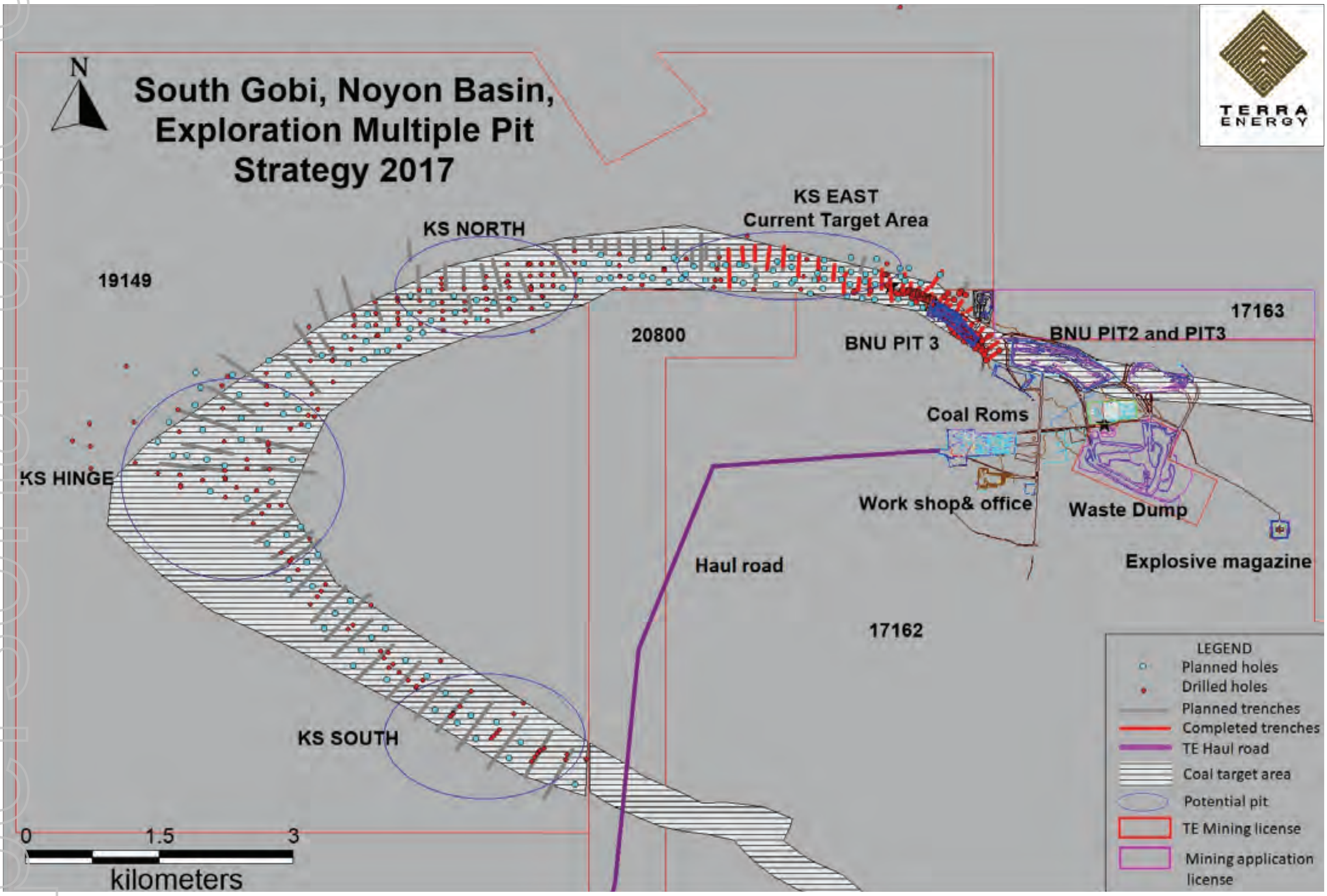
STRATEGIC DIRECTION – SOUTH GOBI OPERATIONS

TerraCom's strategy with regard to the South Gobi operations revolves around establishing multiple operating pits producing coal to be processed at a centrally located washplant facility. This Multi Pit strategy aims to provide opportunity, flexibility and stability of operation.

Delivery of this strategy focuses on selective regional expansion of Mongolian assets based upon the following objectives:

- Continual application and bidding for exploration licenses as they are released by the Mineral Resource and Petroleum Agency of Mongolia (MRPAM).
- Investigation and evaluation of strategic acquisitions that complement the existing portfolio that are accretive to shareholders.
- Continued staged development of assets optimising the best value verse results from exploration, including whole or partial relinquishment of licenses deemed not to be sufficiently prospective.

BUSINESS DEVELOPMENT
MONGOLIA



ABOVE

South Gobi Exploration Development Noyon Basin

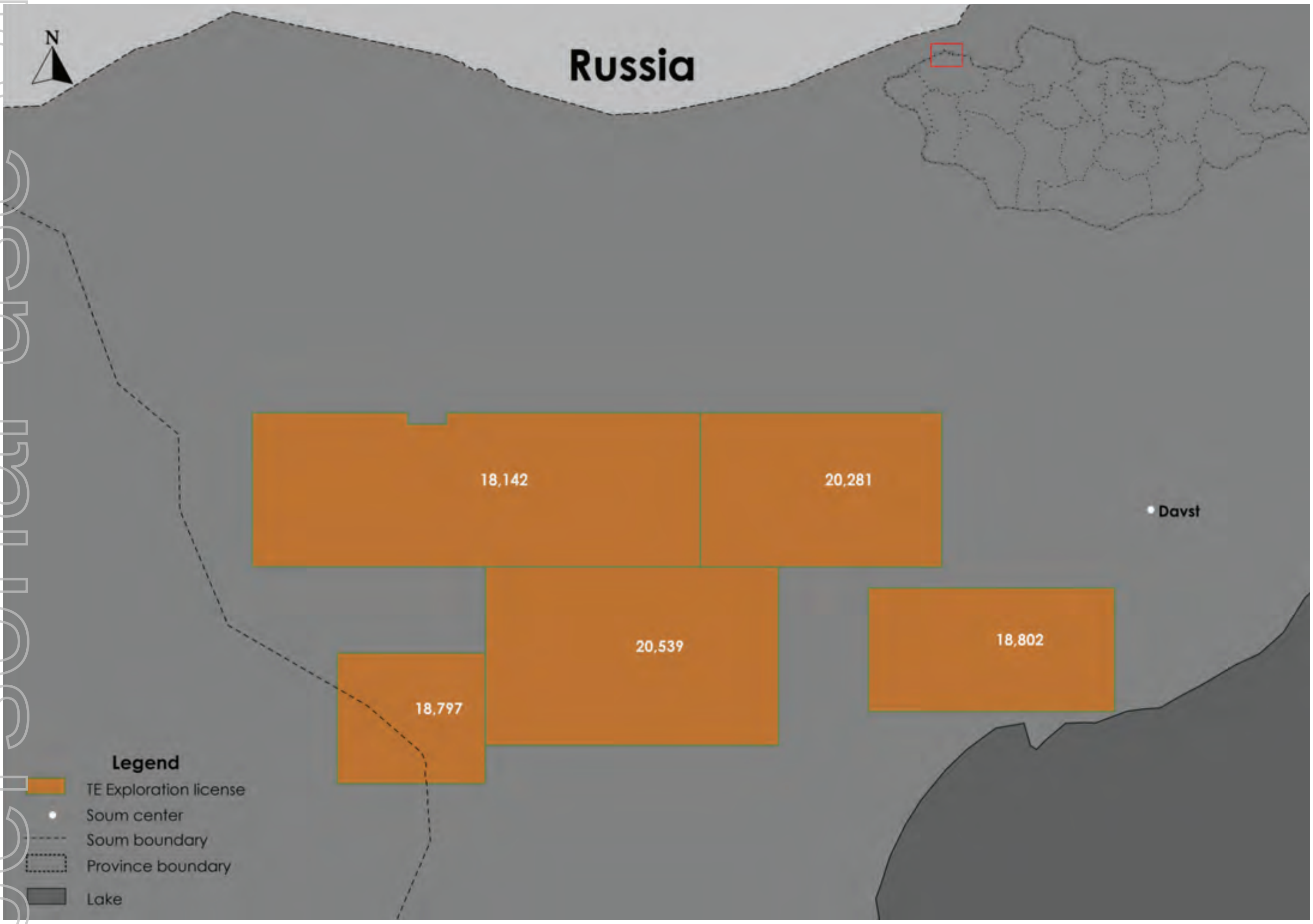
Exploration in 2016/2017 has focused on the definition and modelling required to develop BNU Pit 3. The target resource is west along strike from the existing operations at BNU Pit 1 and Pit 2, and part of the same stratigraphy. Following a successful initial low cost trenching and blast hole drilling program, higher resolution PCD and PQ core drilling program was conducted to enable detailed modelling of the target coal resource. A detailed geological model for BNU Pit 3 was completed across the full stratigraphy of the western end of the license, and this detailed model used for updating pit optimisation and design for BNU Pit 3.

Following successful determination of coal resource to support establishment of Pit 3, exploration has continued further west along strike. This work is intended to define further coal resources to support establishment of Pit 4, in line with TerraCom's Multi Pit Strategy. Initial results from exploration are positive, having determined that the resource is continual along strike from BNU Pit 3. The resource has been determined up to the license boundary of MV-17162 (BNU) with MV-19149 (KS), both held by TerraCom subsidiaries.

Detailed exploration planning targeting continual pit development across the whole of the Noyon Basin has been completed during the year. Exploration planning for all Mongolian Licenses held for implementation in 2017 was completed, submitted to and approved by MRPAM, including exploration planning for the prospective Uvs basin.

ABOVE

Geologists Logging Bore Cases



ABOVE

Map of Project Uvs.

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-018142; XV-018797; XV-018802; XV-20281; XV-20539
OWNERSHIP	100% TerraCom Ltd through Mongolian Subsidiary
AREA	340.65 Kms^2

BNU COAL HANDLING & PREPARATION PLANT

PROJECT NAME	Mongolian CHPP
LOCATION	BNU coal mine, Umnugovi aimag, Noyon soum, southern Mongolia
OWNERSHIP	100% TerraCom Ltd through Mongolian Subsidiary

In June 2017, through a wholly owned subsidiary in Mongolia, the Company executed long form contracts with Beijing Guohua Technology Co., Ltd. (BGTC), to design and construct a Coal Handling & Processing Plant (CHPP) which will serve as a core component of its Mongolian business development plans. The CHPP will be located within the established Customs Bonded Yard onsite at BNU coal mine, with ready access to water sufficient for the coal processing from the mine operations.

BGTC is a well-known, competent and competitive CHPP provider from Tangshan, China, who acquired The Daniels Company of the United States in 2012. BGTC have designed and built more than 500 coal beneficiation plants in China, and currently have more than 10 patented technologies that are widely accepted within the Chinese coal processing industry. At the time of contract signing, the design was well advanced, and construction is expected to commence in December 2017, for commissioning within Q1 2018.

Investment in this CHPP is aligned with the Company's strategy of Multi Pit operation based around existing infrastructure at the BNU coal mine. The processing of coal mined from BNU and surrounding licenses in future offers the following main advantages:

- Transportation costs will be reduced on basis of approximately half the volume of ash being removed from the coking product coal shipped, allowing for improvement to margin on minegate sales;
- Improved product yield will be achievable based upon the advanced and customized plant design engineered by BGTC, which will allow for greater conversion from coal resource to coking coal product; and
- More stringent control of the quality of washed coking coal produced ROM coal, which should assist branding and thus pricing of coal produced.

Several of BGTC's patented technologies have been incorporated into the CHPP design, including the "gravity fed three product heavy media cyclone", the "fine coal heavy media cyclone", inline analysis and control systems and their patented flotation cell technology.

BGTC's three product cyclone allows for much more flexibility in the blending of raw coal prior to processing, and when coupled with BGTC's fine coal heavy media cyclone, reduces reject material from reporting to flotation and thus providing for lower reagent costs as well as better coal yields.

Overall, this technology is expected to result in lower capital and operating costs compared to conventional dense medium cyclone plants, and will results in significantly lower water consumption. The plant will produce dry rejects and tailings slime, alleviating the need for a tailings storage facility with associated complex management systems. Reduction in water consumption is important consideration in the arid South Gobi region where the mine is located.

The CHPP Project contributes significant value to the BNU product, with a sharp return on the additional capital to be invested and a short payback period. It will only be the second coal processing plant built in Mongolia, and with its modular configuration and patented and proven technology, it will be an asset to TerraCom and the coal business in Mongolia for many years to come.

OTHER INFORMATION

Disclaimer

Forward Looking Statements

This report includes various forward looking statements which are identified by the use of forward looking words such as "may", "could", "will", "expect", "believes", "intend", "plan", "estimate", "anticipate", "continue", and "guidance", or other similar words and may include, without limitation statements regarding plans, strategies and objectives of management, anticipated production or construction commencement dates and expected costs or production outputs. Statements other than statements of historical fact may be forward looking statements. TerraCom believe that it has reasonable grounds for making all statements relating to future matters attributed to it in this presentation.

Forward looking statements inherently involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance and achievements to differ materially from any future results, performance or achievements. Relevant factors may include, but are not limited to, changes in commodity prices, foreign exchange fluctuations and general economic conditions, increased costs and demand for production inputs, the speculative nature of exploration and project development, including the risks of obtaining necessary licences and permits and diminishing quantities or grades of resources or reserves, political and social risks, changes to the regulatory framework within which the Company operates or may in the future operate, environmental conditions including extreme weather conditions, recruitment and retention of personnel, industrial relations issues and litigation. Investors should note that any reference to past performance is not intended to be, nor should it be, relied upon as a guide to any future performance.

Forward looking statements are based on the Company and its good faith assumptions relating to the financial, market, regulatory and other relevant environments that will exist and affect the Company's business and operations in the future. The Company does not give any assurance that the assumptions on which forward looking statements are based will prove to be correct, or that the Company's business or operations will not be affected in any material manner by these or other factors not foreseen or foreseeable by the Company or management or beyond the Company's control. Although the Company attempts to identify factors that would cause actual actions, events or results to differ materially from those disclosed in forward looking statements, there may be other factors that could cause actual results, performance, achievements or events not to be anticipated, estimated or intended, and many events are beyond the reasonable control of the Company. Accordingly, readers are cautioned not to place undue reliance on forward looking statements. Actual results, values, performance or achievements may differ materially from results, values, performance or achievements expressed or implied in any forward looking statement. None of TerraCom, its officers or any of its advisors make any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any results, values, performance or achievements expressed or implied in any forward looking statement except to the extent required by law.

Forward looking statements in this report are given as at the date of issue only. Subject to any continuing obligations under applicable law or any relevant stock exchange listing rules, in providing this information the Company does not undertake any obligation to publicly update or revise any of the forward looking statements or to advise of any change in events, conditions or circumstances on which any such statement is based.

Competent Persons Statement

Blair Athol – Reserves

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

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

Blair Athol – Resources

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

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

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 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.

FINANCIAL REPORT

The Directors present their report together with the consolidated financial report of TerraCom Limited (the "Company" or "TerraCom" or the "Group") being the Company and its subsidiaries for the financial year ended 30 June 2017 and the auditor's report thereon.

1 PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were:

I. continuing the process of moving from developer to producer in Mongolia (including production recommencement following the successful implementation of the alternate supply chain);

II. implementation of the Company's strategic direction of completing the acquisition of the brownfield Blair Athol Thermal Coal Mine to provide an 8-year mine life. In addition, the mine provides infrastructure to expand in the region and a regional hub for development of other exploration assets in Queensland; and

III. mineral exploration in a number of mining tenements held across Australia and Mongolia.

In the opinion of the directors, there were no significant changes in the state of affairs of the Group that occurred during the financial year that have not been noted in the review of operations. All significant changes in the state of affairs of the Group that occurred after the financial year have been included in the Events Subsequent to Reporting Date.

2 DIRECTORS

2 (a) Directors

The directors of the Company at any time during or since the end of the financial year are:

Names	Position	Appointed / Resigned
Mr Wallace King AO	Non-Executive Chairman, Independent Director Non-Executive, Independent Director	Effective 1 September 2017 Appointed 17 May 2017
The Hon Craig Wallace	Non-Executive Deputy Chairman, Independent Director	
Mr Cameron McRae	Executive Chairman Non-Executive Director	Resigned 1 September 2017 Appointed 1 September 2017
Mr Michael Avery	Executive Director	
Mr David Stone	Executive Director	Appointed 4 September 2016 Resigned 31 August 2017
Mr Tsogt Togoo	Non-Executive, Independent Director	
Mr James Soorley	Non-Executive, Independent Director	Appointed 8 March 2017
Mr Philip Forrest	Non-Executive, Independent Director	
Ms Hwee Fang Loo	Non-Executive, Independent Director	Resigned 8 March 2017

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Mr Wallace King AO	**Non-Executive, Independent Director** (appointed 17 May 2017) **Non-Executive Chairman, Independent Director** (effective 1 September 2017)
Qualifications	Honorary Doctorate of Science Master of Engineering Science Bachelor of Engineering
Experience	Mr King has been a highly successful leader in mining and construction industry successfully leading Leightons 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. Mr King began his career with Leighton 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 in February 1987, until his retirement on 31 December 2010. Mr King is Deputy Chairman of the UNSW Foundation Limited, is a Director of Kimberley Foundation Australia Limited; and was up until recently one of the longest serving Directors of Coca-Cola Amatil Limited. He is a 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 was the 2001 winner of the ICAA/Zurich Business Leader of the Year Award and was the winner of the 2008 ICAA/Perpetual Business Leader of the Year. He was also awarded the 2001 Peter Nicol Russell Memorial Medal – The Institution of Engineers Australia's highest award, and was presented Life Membership by the Tourism and Transport Forum for his contribution to the development of Australian transport infrastructure. He was awarded Property Person of the Year 2008 by the Urban Taskforce.
Interest in Contracts	Nil
Special Responsibilities	Member of Remuneration Committee (appointed 23 June 2017)
Directorships held in other listed entities during the three years prior to the current year	Director, Ausdrill Limited (retired October 2014) Chairman, Asia Resources Minerals plc (retired July 2015) Chairman, Sundance Resources Limited (retired December 2016) Director, Coca Cola Amatil Limited (retired May 2017)

The Hon Craig Wallace	**Non-Executive Deputy Chairman, Independent Director**
Qualifications	Bachelor of Arts
Experience	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 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.
Interest in Contracts	Nil
Special Responsibilities	Member of the Audit Committee Member of the Remuneration Committee (resigned 23 June 2017)

Directorships held in other listed entities during the three years prior to the current year	Nil
Mr Cameron McRae	**Executive Chairman** (prior to 1 September 2017) **Non-Executive Director** (effective 1 September 2017)
Qualifications	Masters of Business Administration Bachelor of Financial Administration
Experience	Mr McRae served a distinguished 28 year career at Rio Tinto, holding executive level positions in 5 countries. Cameron was CEO-President of Oyu Tolgoi (OT) copper-gold business in Mongolia, CEO of Richards Bay Minerals in South Africa, Managing Director of Murowa Diamonds in Zimbabwe and Project Director for the Hail Creek Coal Mine Expansion Project in Central Queensland. In 1995 he was also a key member of the M&A team that brought RTZ plc and CRA Limited together to form the dual listed Rio Tinto. Cameron's career highlight to date was leading the establishment of the OT business – Mongolia's world class mega project in the Gobi Desert. OT commenced construction in 2010 and the US$6 billion project was commissioned ahead of schedule and moved to full production before Cameron left in October 2013.
Interest in Contracts	Nil
Special Responsibilities	Nil
Directorships held in other listed entities during the three years prior to the current year	Nil
Mr Michael Avery	**Executive Director**
Qualifications	Masters of Business Administration Bachelor of Engineering (Mining) (First Class Honours)
Experience	Michael 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. Michael is a 30 year plus mining industry veteran with BE Mining (First Class Honours) from UNSW and an MBA from Mt Eliza Business School. Michael is also a qualified Coal Mine Manager and a member of the Australian Institute of Mining and Metallurgy. Michael 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.
Interest in Contracts	Nil
Special Responsibilities	Member of the Remuneration Committee (resigned 23 June 2017)
Directorships held in other listed entities during the three years prior to the current year	Nil

Mr David Stone	**Executive Director** (appointed 4 September 2016, resigned 31 August 2017)
Qualifications	Bachelor of Mining Engineering Diploma in Risk Management Diploma from the Australian Institute of Company Directors
Experience	David is a successful leader in mining businesses for global corporations. His career spans over 20 years with expertise in operating resources businesses, either in senior management, project development, operations or closure. He has repeatedly demonstrated transformational ability within these businesses with a sole focus of creating shareholder value and has operated successfully across diverse geographical locations and environments. He has progressed through the mining industry performing most roles within a business including, operations, technical and management. This is in conjunction with being appointed to numerous government and industry committees and boards. He also holds a Mine Managers, Senior Site Executive and statutory qualifications.
Interest in Contracts	Nil
Special Responsibilities	Nil
Directorships held in other listed entities during the three years prior to the current year	Nil

Mr Tsogt Togoo	**Non-Executive, Independent Director**
Qualifications	Masters of Business Administration Master of Economics Bachelor of Economics (First Class Honours)
Experience	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. 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. He 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.
Interest in Contracts	Nil
Special Responsibilities	Nil
Directorships held in other listed entities during the three years prior to the current year	Nil

Mr James Soorley	**Non-Executive, Independent Director** (appointed 8 March 2017)
Qualifications	Masters of Organisational Development Bachelor of Arts
Experience	Mr Soorley has been a highly successful leader in local government and business, which is demonstrated through Jim previously being Lord Mayor of the City of Brisbane for 12 years. Jim'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. Jim 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. Jim is also the 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.
Interest in Contracts	Nil
Special Responsibilities	Member of the Audit Committee (appointed 23 June 2017) Member of the Remuneration Committee (appointed 8 March 2017)
Directorships held in other listed entities during the three years prior to the current year	Nil
Mr Philip Forrest	**Non-Executive, Independent Director**
Qualifications	Fellow of the Australian Institute of Company Directors Certified Public Accountant Bachelor of Commerce (University of Queensland)
Experience	For over 33 years, Philip 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. Philip's current non-executive directorships include: EA Consulting, Voyager Estate (Singapore), Readymix Holdings International, Gemstar Technology Asia, Clocktower Wealth Fund SPC, and EVOLVE Agribusiness Pte Ltd. 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. 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.
Interest in Contracts	Nil
Special Responsibilities	Member of the Audit Committee Member of the Remuneration Committee
Directorships held in other listed entities during the three years prior to the current year	Nil

Ms Hwee Fang Loo	**Non-Executive, Independent Director** (resigned 8 March 2017)
Qualifications	University of Sheffield, England (LLB Hons) Barrister-at-law, Gray's Inn, England and Wales
Experience	Loo Hwee Fang is an experienced legal practitioner. She graduated from the University of Sheffield, England, with an LLB (Hons) Degree in 1996 and is also a qualified Barrister-at-Law. Ms Loo was Partner in Singapore law firm, Lee and Lee, specialising in corporate finance, capital markets and fund management. Since 2013, Ms Loo has been Group General Counsel of Yoma Strategic Holdings Ltd which is listed on the main board of the Singapore Exchange.
Interest in Contracts	Nil
Special Responsibilities	Member of the Audit Committee (resigned 8 March 2017)
Directorships held in other listed entities during the three years prior to the current year	HL Global Enterprises Limited (Singapore)

2 (b) Directors Interests

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

Director	Ordinary shares	Options over ordinary shares
Mr Wallace King AO	-	-
The Hon Craig Wallace[(1)]	-	-
Mr Michael Avery[(2)]	-	-
Mr Cameron McRae[(3)]	-	-
Mr Tsogt Togoo	-	-
Mr James Soorley[(4)]	-	-
Mr Philip Forrest	500,000	-

Notes:

(1) Craig Wallace is a 16.52% shareholder of C1 Commodities Pte Ltd, which holds 100,000,000 ordinary shares of the Company as at the date of this report.

(2) Michael Avery is a beneficiary of Omaroo Pty Ltd and Crem Pty Ltd who are trustee companies for Omaroo Family Trust and Crema Family Trust respectively. Omaroo Pty Ltd and Crem Pty Ltd hold 7,424,897 and 7,444,620 ordinary shares respectively as at the date of this report. In addition, Omaroo Pty Ltd as trustee for the Omaroo Family Trust has a 6.31% interest in C1 Commodities Pte Ltd, which holds 100,000,000 ordinary shares in the Company.

(3) At the Company's AGM held on 30 November 2016 shareholders approved a $600,000 sign-on bonus (fully paid ordinary shares for nil consideration) to Cameron McRae, through the Executive Chairman Consultancy Agreement with Tarva Investment and Advisory LLC (Tarva) a company which he controls, with a conditions precedent that shareholder approval be obtained before granting the bonus. At the time of agreeing this bonus, the average VWAP of TerraCom's shares were $0.008183 which entitled Mr McRae to 73,813,740 fully paid ordinary shares for nil consideration. For accounting standard purposes a share based payment expense of $2,712,793 was recognised in the profit and loss statement for the year ended 30 June

2017 as the grant date for the shares was not until 30 November 2016 (the date shareholder approval was obtained) and the fair value of the shares was determined using the market value of the shares as at 30 November 2016, which was $0.037 per fully paid ordinary share. As at 30 June 2017 (and on the date of this report) these shares have not yet been issued to Tarva.

(4) Jim Soorley is a director of the trustee company and a member of the Soorley and Philip Superannuation Fund which holds 2,920,000 ordinary shares of the Company as at the date of this report.

2 (c) Directors Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

	Directors' Meetings		Audit Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr Wallace King AO	3	2	NA	NA	-	-
The Hon Craig Wallace	29	28	5	5	4	4
Mr Cameron McRae	29	27	NA	NA	NA	NA
Mr Michael Avery	29	28	NA	NA	4	4
Mr David Stone	23	22	NA	NA	NA	NA
Mr Tsogt Togoo	29	29	NA	NA	NA	NA
Mr James Soorley	9	8	-	-	-	-
Mr Phillip Forrest	29	29	5	5	4	4
Ms Hwee Fang Loo	20	18	5	5	NA	NA

The Nomination Committee has all board of directors as members. Accordingly, this is dealt with at Board of Directors Meetings.

3 OTHER

3 (a) Dividends

No dividends were paid or declared for future payment during the financial year (2016: nil).

3 (b) Share options

Unissued shares and shares under options

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 facility with OCP Asia had 126,308,306 detachable warrants issued on 26 February 2016. Principle terms of the new warrants are:
  - Expiry date: five years from the date of issue;
  - 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 fully paid ordinary shares in the Company.

- On 6 September 2016 the Company issued unlisted ordinary share options ("Options") to Foster Stockbroking Pty Ltd as follows:
  - 15,000,000 ordinary share options at a strike price equal to $0.030 and with an expiry date of 31 August 2018, and
  - 15,000,000 ordinary share options at a strike price equal to $0.045 and with an expiry date of 31 August 2018.
- As outlined in section 2(b) of the Directors Report, Cameron McRae through his Consultancy Agreement with TerraCom had a sign-on bonus of 73,813,740 fully paid ordinary shares. As at 30 June 2017 (and on the date of this report) these shares have not yet been issued.

Other than as set out above, there have been no unissued shares or interests under option in the Company or a controlled entity during or since the reporting date.

3 (c) Indemnification and insurance of officers

Indemnification

The Company has executed deeds of access, indemnity and insurance with each of its directors and key management personnel which provide an indemnity for specified liabilities, costs or expenses including legal fees which they may become liable for while an officer of the Company or the Group.

Insurance premiums

The Company has paid premiums to insure each of the directors or officers against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director or officer of the Company, excluding conduct involving a wilful breach of duty in relation to the Company. The Company indemnifies the directors and officers to the full extent permitted by law. A condition of the contracts requires that the premium payable not be disclosed.

Proceedings on behalf of the Company

No person has applied for leave of Court 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 any part of those proceedings.

The Company was not a party to any such proceedings during the financial year.

3 (d) Indemnification of auditors

To the extent 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.

3 (e) Non-audit services

During the financial year Ernst & Young, the Company's auditor, has performed no other non-audit services in addition to their statutory duties.

3 (f) Auditors independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 30 June 2017 has been received and can be found on page 20 of the financial report.

4 OPERATING AND FINANCIAL REVIEW

INCOME STATEMENT ANALYSIS

The Group has registered a profit after tax for the year of $5.037 million (2016: loss of $51.786 million) and a comprehensive profit after tax for the year of $7.392 million (2016: loss of $53.068 million).

These results have been driven by a number of key items for the year:

I. $45.739 million gain on acquisition of Blair Athol Coal Mine. The Company acquired the mine for a $1 purchase price and the Queensland Government received $79.698 million in cash from the prior owners as TerraCom's financial assurance for the rehabilitation requirements of the site. The mine has JORC Reserves of 15.6mt which has been converted to a mine plan to produce ~2mtpa for 8 years. This equates to a $3 per tonne gain on acquisition per JORC Reserve tonne. Refer Note 8 Business Combination for further details.

II. $19.603 million income tax benefit recognised. As a result of the acquisition of Blair Athol, some of the Group's Australian carried forward tax losses not previously recognised have been recorded as a Deferred Tax Asset as at 30 June 2017.

III. $5.223 million gross profit from BNU Mine before government royalties, selling and distribution costs and depreciation and amortisation costs. Post recommencement of coal mining activities in November 2016, the BNU Mine sold 315,942 tonnes of coal.

IV. $32.507 million financial expense. Refer Note 3 Expenses for further details.

V. $21.631 million in other expenses driven by Mongolian transition costs on implementation of alternate supply chain, share based payments expense and write off of exploration tenement costs.

CAPITAL MANAGEMENT AND BALANCE SHEET COMMENTARY

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

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

I. $16.786 million fully paid ordinary share equity issued:
   a. $9.546 million issued to Noble. The 298,311,234 shares were issued at 3.2 cents, and was a debt for equity swap for the majority of the Fuel Exclusivity Facility.
   b. $7.441 million issued to strategic investors, including institutional and sophisticated investors based out of Australia, a Hong Kong based private investment company, and Eastern European based private investment companies.

II. $45.739 million gain on acquisition of Blair Athol Coal Mine. Refer 'Income Statement Analysis'.

III. $19.603 million income tax benefit recognised. Refer 'Income Statement Analysis'.

IV. $5.223 million gross profit from BNU Mine before government royalties, selling and distribution costs and depreciation and amortisation costs. Refer 'Income Statement Analysis'.

V. $32.507 million financial expense. Refer 'Income Statement Analysis'.

VI. In addition to this, the Company has continued strong support from its financiers. There has been US$24.186 million of additional borrowings throughout the year.

   a. US$7.750 million of interest capitalised to the Listed Euroclear Bond through the Company's election in June 2017 to capitalise 50% of the interest to the Redemption Value of the facility for the 2017 financial year.
   b. US$16.085 million in new facilities extended by Noble Resources International Pte Limited and Link Mining Services Pty Limited (and their related parties) with respect to the restart of the Blair Athol operations.

REVIEW OF OPERATIONS - MONGOLIA

Production for the year (noting mining activity recommenced in November 2016) from the BNU Mine in South Gobi, Mongolia is as follows:

	2016/17 Financial Year	2015/16 Financial Year
Overburden removed (BCM)	5,409,424	4,551,716
Rom coal production (tonnes)	344,278	368,773
Coal trucked to China (tonnes)	315,942	318,079
EOM ROM Stocks (tonnes)	75,697	40,049

In November 2016 the Company executed a 5.5 year offtake agreement with the Kingho Group. This Offtake Agreement was the final piece on the implementation of the alternate supply chain, which culminated in the recommencement of mining operations at BNU.

During Quarter 4 2017 financial year, the BNU site passed a significant safety milestone of 2 million man-hours worked without Lost Time Injury (LTI). The mine maintains its LTI free status since commencement of operation, with over 2.16 million man-hours worked LTI free at the end of the financial year.

The Company continues to conduct exploration activities (trenching and definition drilling) within the BNU Mining Licence, as well as along the sub-crop into KS North Mining Licence working along the estimated 500km of projected Noyon Basin sub crop contained under mining licence.

REVIEW OF OPERATIONS - AUSTRALIA

Acquisition of Blair Athol

TerraCom through its wholly owned subsidiary Orion Mining Pty Ltd, has acquired Blair Athol Coal Mine (Blair Athol) in Queensland, Australia from the Blair Athol Coal Joint Venture (BACJV). The sale and purchase agreement with the BACJV completed on 31 May 2017. Since site handover, TerraCom has appointed Link Mining Services Pty Limited (Link Mining) as the Operator of Blair Athol.

The acquisition for a consideration of AUD$1 included the mining lease, site infrastructure, related licenses, land, active contracts and all mining plant & equipment to deliver TerraCom's forecast production schedule and the progressive rehabilitation. In addition, AU$79,698,023 was paid by the BACJV to the Queensland Government which forms part of the financial assurance required for the mine.

During June 2017, the Blair Athol team submitted a revised Plan of Operations to the Queensland Government's Department of Environment and Heritage Protection (DEHP) outlining a return to operations in 2017-18 at a 2Mtpa mining rate. Subsequent to year end, the Plan of Operations and associated Financial Assurance of AU$74.6 million was approved by the DEHP.

Australia Exploration Assets

The Company made the decision to focus its resources on its Mongolian operation and strategic acquisition opportunities (including Blair Athol). Therefore, there has been reduced expenditure on the Queensland projects.

The Company is focussed on the Group's two priority projects within the Company's Queensland exploration asset portfolio – being the large thermal coal North Galilee project and the PCI/thermal coal Springsure project. The Company has developed a detailed exploration plan for future financial years. The management team operating Blair Athol will oversee and manage this program.

During the year, TerraCom, through its wholly owned subsidiary Sierra Coal Pty Limited, has executed an Asset Sale Agreement for EPC1103 - Fernlee Project from the Liquidators of Fernlee Coal Pty Limited (In Liquidation) and have applied for DNRM indicative approval for transfer of the tenement to TerraCom who will wholly own the tenement. 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. Subsequent to year end, the Company received indicative approval for transfer from the DNRM in July 2017.

EVENTS SUBSEQUENT TO REPORTING DATE

In the interval between the end of the financial year and the date of this report there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years other than the following:

- On 6 July 2017, the Company advised the market that it had paid the Super Senior Note A and Super Senior Note B facility interest for the period 1 July 2016 to 7 July 2017. The total interest paid was US$2,599,583.
- On 18 July 2017 the Company announced initial overburden has been removed to facilitate first coal extraction at Blair Athol;
- On 8 August 2017 the Company announced the following Blair Athol updates:
    - Overburden has been removed to facilitate the first coal extraction;

  - Production for first 6 months is forecasted to be 818kt, ramping up from August 2017 to 205kt in January 2018;
  - Purchase agreement signed for the sale of the first 6 months of production. For this period the coal will be transported to a nearby train loading facility to be loaded onto trains and transported to DBCT for export; and
  - Establishing Blair Athol's own train loading facility in the next 6 to 9 months (in conjunction with Aurizon) through recommissioning of the rail line that runs across the Blair Athol site which connects into the main Goonyella Rail Line which runs to DBCT.
- On 15 August 2017 the Company announced the following Blair Athol updates:
  - Coal production has commenced.
- On 4 September 2017 the Company announced:
  - Mr Wallace King AO appointed Non-Executive Chairman of the Company
  - Cameron McRae stepped down to Non-Executive Director
  - David Stone resigned from the Company as an Executive Director and Vice President - Operations.
  - Blair Athol mined 25,000 tonnes for the month of August and invoiced 9,000 tonnes.

OUTLOOK AND LIKELY DEVELOPMENTS

- The Company is developing a growth strategy which includes progressing cash generating acquisition options to augment and ensure the financial capacity to service the restructured debt requirements, continue the strategic development of the South Gobi Coking Coal region in Mongolia, create an operating presence in Australia through the strategic acquisition of Blair Athol and its own tenement development and integrate further operating jurisdictions into the Company's operating asset portfolio.
- Continued assessment of various options for optimising the Company's capital structure and assessing its future requirements. The Company is currently in advanced discussions with established financiers and considers additional and/or refinanced capital can be secured in a timely manner if required.

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 industry in both Mongolia and Australia. There are a number of factors, both specific to the Company and to the coal industry 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 of the control of the Company.

In relation to the recommencement of the Blair Athol mine, the currently envisaged timeframe or cost may be exceeded for a variety of reasons outside of the control of the Company. There are a number of milestones that need to be met in a timely manner for production to commence and there is a risk that circumstances (including unforeseen circumstances) may cause delay, resulting in the receipt of revenue at a later date than expected.

Country Risks
There is a risk that circumstances (including unforeseen circumstances) in either Mongolia or Australia 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 plans.

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
Potential investors should understand that 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
If the Company decides to develop and commission a mine, the operations of the Company including mining and processing may be affected by a range of factors. These include failure to achieve predicted grade in exploration, mining and processing, technical difficulties encountered in commissioning an 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.

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. As at the date of signing this report, the Company has not breached any environmental laws in jurisdictions in which it operates during the financial year and up to the date of signing this report.

Market Risks

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.

5 REMUNERATION REPORT - AUDITED

1. Individual directors and key management personnel (KMP)

Details of directors and key management personnel during the year and up to the date of this report are set out below:

Non-Executive Directors

Names	Position	Appointed/Resigned
Mr Wallace King AO	Non-Executive, Independent Director	Appointed 17/05/2017, Ceased 31/08/2017
	Non-Executive Chairman, Independent Director	Appointed 1/09/2017
The Hon Craig Wallace	Non-Executive Deputy Chairman, Independent Director	
Mr Cameron McRae	Non-Executive Director	Appointed 1/09/2017
Mr Tsogt Togoo	Non-Executive, Independent Director	
Mr James Soorley	Non-Executive, Independent Director	Appointed 8/03/2017
Mr Philip Forrest	Non-Executive, Independent Director	
Ms Hwee Fang Loo	Non-Executive, Independent Director	Resigned 8/03/2017

Executives

Names	Position	Appointed/Resigned
Mr Cameron McRae	Executive Chairman	Resigned 1/09/2017
Mr Michael Avery	Executive Director	
	Vice President – Corporate Development	
Mr David Stone	Executive Director	Appointed 4/09/2016, Resigned 31/08/2017
	Vice President – Operations	Resigned 31/08/2017
Mr Nathan Boom	Company Secretary	
	Financial Controller	Ceased 31/10/2016
	General Manager – Corporate Development	Appointed 1/11/2016, Ceased 14/03/2017
	Chief Financial Officer	Appointed 15/03/2017
Mr Julien Lawrence	Chief Development Officer	Resigned 15/12/2016
Mr Karl Arnold	Chief Financial Officer	Resigned 10/03/2017

2. Remuneration

This remuneration report for the year ended 30 June 2017 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Company.

For the purposes of this report, the term "executive" includes Executive Chairman, Executive Directors, the Group Managing Director, Chief Financial Officer (CFO), Company Secretary, Chief Development Officer, Vice President – Corporate Development, Vice President – Operations and the term "director" refers to non-executive directors only.

3. Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for directors, the executives and other key staff. The Remuneration Committee uses its broad economic, business and industry experience to assess the nature and amount of remuneration of all staff including directors and the executives by reference to relevant employment market conditions and will when necessary seek independent expert advice.

The Remuneration Committee met on four occasions during the year.

4. Remuneration policy

The remuneration policy of the Group has been designed to align the remuneration available to directors and executives with shareholders' interests by providing a fixed remuneration component and the Board may also elect from time to time to pay a cash performance bonus to the Executives linked to the successful performance of the individual and the Group based on key performance indicators. The overall objective of this policy is the retention and attraction of a high quality Board and executive. The Board believes the remuneration policy to be appropriate and effective to attract and retain the best key management personnel to manage the Group as well as to create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

Key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits and other performance incentives.

Performance incentives are generally only paid once predetermined key performance indicators have been met.

The Remuneration Committee reviews key management personnel packages annually by reference to the Group's performance, individual performance and comparable information from industry sectors.

Key management personnel receive, where applicable, the superannuation guarantee contribution required by law and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Upon termination, retirement or resignation; key management personnel are paid employee benefit entitlements accrued to the date of retirement. All remuneration paid to key management personnel is valued at the cost to the Group and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

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

5. Equity instruments performance based remuneration

The Board may also elect from time to time to pay a non-cash performance bonus to the Executives linked to the successful performance of the individual and the Group based on key performance indicators.

During the financial year, no equity instruments performance based remuneration were granted. As outlined in section 2(b) of the Directors Report, Cameron McRae through his Consultancy Agreement with TerraCom had a sign-on bonus of fully paid ordinary shares to the amount of 73,813,740. As at 30 June 2017 (and on the date of this report) these shares have not yet been issued to Tarva.

6. Relationship between performance conditions and Company performance

A snapshot of key Company performance measures for the past five years is set out below:

	2017	2016	2015	2014	2013
Profit/(Loss) attributable to the Group ($000's)	5,037	(51,786)	(43,326)	(65,593)	(1,452)
Share price at year end	0.027	0.008	0.030	0.060	0.130
Basic EPS (cents per share)	0.20	(3.14)	(4.57)	(9.21)	(0.06)
Diluted EPS (cents per share)	0.19	(3.14)	(4.57)	(9.21)	(0.06)

As per the remuneration policy, the Board can elect from time to time to pay a cash bonus. During the financial year, no bonuses were paid.

The Board and the Remuneration Committee have resolved that future executive remuneration outcomes would be based on an appropriate incentive plan for a company moving into production. The terms and conditions of any such incentive plan are under development.

7. Employment details of directors and key management personnel

The following table provides employment details of persons who were, during the financial year, key management personnel of the Group. The table also illustrates the proportion of remuneration that was performance and non-performance-based and the proportion of remuneration received in the form of options.

For year ended 30 June 2017

	Salary, non-cash based incentives	Non-salary, cash based incentives	Non salary, non-cash based incentive	Fixed Salary/fees	Share Based Payment	Total
	%	%	%	%	%	%
Non-Executive Directors						
Mr Wallace King AO (1)	-	-	-	100	-	100
The Hon Craig Wallace	-	-	-	100	-	100
Mr Philip Forrest	-	-	-	100	-	100
Mr Tsogt Togoo	-	-	-	100	-	100
Mr James Soorley (2)	-	-	-	100	-	100
Ms Loo Hwee Fang (3)	-	-	-	100	-	100
Executives						
Mr Cameron McRae (4)	-	-	-	13	87	100
Mr Michael Avery	-	-	-	100	-	100
Mr David Stone (5)	-	-	-	100	-	100
Mr Nathan Boom	-	-	-	100	-	100
Mr Julien Lawrence	-	-	-	100	-	100
Mr Karl Arnold (6)	-	-	-	100	-	100

(1) Appointed 17 May 2017.

(2) Appointed 8 March 2017.

(3) Resigned 8 March 2017.

(4) Resigned as Executive Chairman and appointed as Non-Executive Director 1 September 2017.

(5) Resigned 31 August 2017.

(6) Resigned 10 March 2017.

The employment terms and conditions of key management personnel and group executives are formalised in individual contracts of employment.

Terms of employment generally provide for three months' notice for executives and the Company in normal circumstances, one month's notice from the executive in cases of breach of contract by the Company and immediate termination in certain specified circumstances likely to prevent the discharging of the duties of his or her position. These notice periods can be amended by agreement.

8. Remuneration details for the year ended 30 June 2017

The following table of benefits and payment details, in respect to the financial year, the components of remuneration for directors and key management personnel of the Group.

	Short-term						
	Salary, fees and leave	Salary non-cash incentives	Non salary cash incentives	Non salary non-cash incentives	Pension and superannuation	Share based payments	Total
	$	$	$	$	$	$	$
For the year ended 30 June 2017							
Non-Executive Directors							
Mr Wallace King AO (1)	7,419	-	-	-	-	-	7,419
The Hon Craig Wallace	120,000	-	-	-	-	-	120,000
Mr Philip Forrest	58,800	-	-	-	-	-	58,800
Mr James Soorley	37,742	-	-	-	-	-	37,742
Mr Tsogt Togoo	116,032	-	-	-	-	-	116,032
Ms Loo Hwee Fang (2)	40,480	-	-	-	-	-	40,480
	380,473	-	-	-	-	-	380,473
Executives							
Mr Cameron McRae (3)	400,000	-	-	9,590	-	2,712,793	3,122,383
Mr Michael Avery	419,658	-	-	-	39,867	-	459,525
Mr David Stone (4)	419,041	-	-	-	39,809	-	458,850
Mr Nathan Boom	308,993	-	-	-	24,354	-	333,347
Mr Julien Lawrence (5)	230,344	-	-	-	-	-	230,344
Mr Karl Arnold (6)	308,762	-	-	-	-	-	308,762
	2,086,798	-	-	9,590	104,030	2,712,793	4,913,211
	2,467,271	-	-	9,590	104,030	2,712,793	5,293,684

Except as disclosed below, the directors and key management personnel of the Group were for the financial year:

(1) Appointed 17 May 2017.
(2) Resigned 8 March 2017.
(3) Executive Chairman for period 1 July 2016 to 30 June 2017, resigned as Executive Chairman and appointed as Non-Executive Director 1 September 2017.
(4) Executive Director and Member of Key Management Personnel for period 1 July 2016 to 30 June 2017, resigned as Executive Director and Vice President – Operations 31 August 2017.
(5) Member of Key Management Personnel for period 1 July 2016 to 15 December 2016, which coincides with resignation as Chief Development Officer.
(6) Member of Key Management Personnel for period 1 July 2016 to 10 March 2017, which coincides with resignation as Chief Financial Officer.

9. Remuneration details for the year ended 30 June 2016

	Short-term						
	Salary, fees and leave	Salary non-cash incentives	Non salary cash incentives	Non salary non-cash incentives	Pension and superannuation	Share based payments	Total
	$	$	$	$	$	$	$
For the year ended 30 June 2016							
Non-Executive Directors							
The Hon Craig Wallace	120,000	-	-	-	-	-	120,000
Mr Philip Forrest	60,905	-	-	-	-	-	60,905
Ms Loo Hwee Fang	60,905	-	-	-	-	-	60,905
Mr Tsogt Togoo	103,028	-	-	-	-	-	103,028
	344,838	-	-	-	-	-	344,838
Executives							
Mr Cameron McRac	16,112	-	-	812	-	-	16,924
Mr Michael Avery	448,973	-	-	-	42,652	-	491,625
Mr David Stone	419,041	-	-	-	39,809	-	458,850
Mr Mark Reynolds	320,000	-	-	-	19,308	-	339,308
Mr Julien Lawrence	682,383	-	-	-	-	-	682,383
Mr Tony Mooney	117,072	-	-	-	11,122	-	128,194
Mr Nathan Boom	93,730	-	-	-	8,904	-	102,634
Mr Karl Arnold	5,056	-	-	-	-	-	5,056
	2,102,367	-	-	812	121,795	-	2,224,974
	2,447,205	-	-	812	121,795	-	2,569,812

10. Loans to key management personnel and their related parties

During the current financial year, no loans were provided to key management personnel and their related parties.

11. Movement of equity instruments

As outlined in section 2(b) of the Directors Report, Cameron McRae through his Consulting Agreement with TerraCom had a sign on bonus of fully paid ordinary shares to the amount of 73,813,740. As at 30 June 2017, and at the date of this report, these shares had not yet been issued.

Other than disclosed above, during the current financial year there were no other share rights granted to executives as remuneration nor were there any rights that vested or lapsed.

Share rights do not carry any voting or dividend rights and will be granted if the vesting conditions have been met by the test date.

12. Additional disclosures relating to shares and options and rights over equity instruments

The movement during the year in the number of ordinary shares in the Company held directly, by each KMP, is as follows:

	Held at 1 July 2016	Received as remuneration	Other net change	Held at 30 June 2017
Non-Executive Directors				
Mr Wallace King	-	-	-	-
The Hon Craig Wallace(2)	-	-	-	-

Mr James Soorley (4)	-	-	-	-
Mr Tsgot Togoo	-	-	-	-
Mr Phillip Forrest	500,000	-	-	500,000
Ms Loo Hwee Fang	-	-	-	-
Executives				
Mr Cameron McRae (1)	-	-	-	-
Mr Michael Avery (3)	-	-	-	-
Mr David Stone	-	-	-	-
Mr Nathan Boom	-	-	-	-
Mr Karl Arnold	-	-	-	-
Mr Julien Lawrence (5)	2,129,395	-	(500,000)	1,629,395

The following ordinary shares in the Company were held indirectly by the KMPs, through related parties, during the year:

(1) At the Company's AGM held on 30 November 2016 shareholders approved a $600,000 sign-on bonus (73,813,740 fully paid ordinary shares for nil consideration) to Cameron McRae. As at 30 June 2017 these shares have not yet been issued to Tarva. Please refer to section 2(b) above for further details.

(2) Craig Wallace is a 16.52% shareholder of C1 Commodities Pte Ltd, which holds 100,000,000 ordinary shares of the Company as at the date of this report.

(3) Michael Avery is a beneficiary of Omaroo Pty Ltd and Crem Pty Ltd who are trustee companies for Omaroo Family Trust and Crema Family Trust respectively. Omaroo Pty Ltd and Crem Pty Ltd hold 7,424,897 and 7,444,620 shares respectively as at the date of this report. In addition, Omaroo Pty Ltd as trustee for the Omaroo Family Trust has a 6.31% interest in C1 Commodities Pte Ltd, which holds 100,000,000 ordinary shares in the Company.

(4) Jim Soorley is a director of the trustee company and a member of the Soorley and Philip Superannuation Fund which holds 2,920,000 ordinary shares of the Company as at the date of this report.

(5) Julien Lawrence holds these shares jointly with his spouse.

13. Securities received that are not performance related

At the Company's AGM held on 30 November 2016 shareholders approved a $600,000 sign-on bonus (fully paid ordinary shares for nil consideration) to Cameron McRae. Please refer to section 2(b) above for further details.

Other than as outlined above, there are no members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

End of remuneration report (audited)

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

....

Mr Wallace King AO

Non-Executive Chairman

Dated 29 September 2017

Building a better working world

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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 2017, 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
29 September 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Financial Year Ended 30 June 2017

	Note	2017 $	2016 $
Revenue	2	22,494,243	9,902,188
Cost of Goods Sold	3	(17,271,195)	(14,370,135)
Gross Profit/(Loss)		5,223,048	(4,467,947)
Gain on acquisition	8	45,739,430	-
Other operating expenses		(6,525,730)	(2,185,261)
Selling and distribution expenses		(2,370,256)	(1,244,684)
Government royalties		(1,685,299)	(812,411)
Impairment of assets	15	-	(36,808,252)
Administrative expenses	3	(14,210,107)	(10,659,418)
Exploration tenement write-off	15	(3,415,245)	(646,224)
Foreign Currency Gain/(Loss)	3	58,946	(3,311,870)
Share of (loss)/profit of an associate	16	(9,154)	(3,949)
Profit/(loss) before net financial expense and depreciation and amortisation		22,805,633	(60,140,016)
Depreciation and amortisation expense	3	(4,872,730)	(3,860,480)
Profit/(loss) before net financial expense		17,932,903	(64,000,496)
Financial income	2	8,771	39,667,411
Financial expense	3	(32,507,411)	(27,452,586)
Loss before income tax		(14,565,737)	(51,785,671)
Income tax benefit	6	19,602,613	-
Profit/(loss) from continuing operations		5,036,876	(51,785,671)
Profit/(loss) for the year		5,036,876	(51,785,671)
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translating foreign subsidiaries		2,354,859	(1,282,495)
Other comprehensive income/(loss) for the year, net of tax		2,354,859	(1,282,495)
Total comprehensive profit/(loss) for the year, net of tax		7,391,735	(53,068,166)
Profit/(loss) attributable to:			
Equity holders of the Company		5,257,149	(51,407,830)
Non-controlling interests		(220,273)	(377,841)
Total profit/(loss)		5,036,876	(51,785,671)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		7,609,991	(52,682,502)
Non-controlling interests		(218,256)	(385,664)
Total comprehensive profit/(loss)		7,391,735	(53,068,166)
Earnings per share			
Basic, profit/(loss) for the year attributable to equity holders of the Company (cents)	5	0.20	(3.14)
Diluted, profit/(loss) for the year attributable to equity holders of the Company (cents)	5	0.19	(3.14)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the Financial Year Ended 30 June 2017

	Note	2017 $	2016 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**8,586,623**	1,199,183
Inventory	**9**	**2,457,369**	539,220
Trade and other receivables	**10**	**5,159,270**	201,407
Secured deposit	**11**	**5,118,713**	-
Other assets	**12**	**90,912**	470,073
TOTAL CURRENT ASSETS		**21,412,887**	2,409,883
NON-CURRENT ASSETS			
Trade and other receivables	**10**	**4,766,616**	8,077,393
Secured deposit	**11**	**72,512,185**	-
Other assets	**12**	**292,828**	2,125,927
Property, plant and equipment	**13**	**177,198,712**	115,197,021
Intangible assets	**14**	**-**	761,860
Exploration and evaluation assets	**15**	**44,017,467**	49,351,960
Investment in an associate	**16**	**1,377,301**	1,386,455
TOTAL NON-CURRENT ASSETS		**300,165,109**	176,900,616
TOTAL ASSETS		**321,577,996**	179,310,499
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	**17**	**38,522,868**	26,915,749
Provisions	**20**	**435,844**	262,938
Borrowings	**18**	**28,407,401**	27,657,970
Other financial liabilities	**19**	**730,438**	-
TOTAL CURRENT LIABILITIES		**68,096,551**	54,836,657
NON-CURRENT LIABILITIES			
Trade and other payables	**17**	**5,569,530**	-
Borrowings	**18**	**157,970,984**	133,547,849
Other financial liabilities	**19**	**4,545,623**	7,880,454
Provision	**20**	**75,774,743**	696,190
TOTAL NON-CURRENT LIABILITIES		**243,860,880**	142,124,493
TOTAL LIABILITIES		**311,957,431**	196,961,150
NET ASSETS/(DEFICIENCY)		**9,620,565**	(17,650,651)
EQUITY			
Issued capital	**22**	**212,062,345**	195,276,818
Reserves	**21**	**(27,418,127)**	(32,864,923)
Accumulated losses		**(179,083,891)**	(184,341,040)
Total equity attributable to equity holders of the Company		**5,560,327**	(21,929,145)
Non-controlling interests		**4,060,238**	4,278,494
TOTAL EQUITY /(DEFICIENCY)		**9,620,565**	(17,650,651)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Financial Year Ended 30 June 2017

	Note	Issued capital	Accumulated losses	Acquisition reserve	Foreign currency translation reserve	Share based payments/Option reserve	Total, attributable to Equity holders of the Company	Non-controlling interests	Total equity
		$	$	$	$	$	$	$	$
Balance at 1 July 2016		195,276,818	(184,341,040)	(36,684,681)	(4,139,090)	7,958,848	(21,929,145)	4,278,494	(17,650,651)
Profit attributable to equity holders of the Company		-	5,257,149	-	-	-	5,257,149	-	5,257,149
Loss attributable to non-controlling interests		-	-	-	-	-	-	(220,273)	(220,273)
Other comprehensive income for the year		-	-	-	2,352,842	-	2,352,842	2,017	2,354,859
Unlisted options		-	-	-	-	381,161	381,161	-	381,161
Employee share based payment		-	-	-	-	2,712,793	2,712,793	-	2,712,793
Shares issued during the year	22 (a)	16,785,527	-	-	-	-	16,785,527	-	16,785,527
Balance at 30 June 2017		212,062,345	(179,083,891)	(36,684,681)	(1,786,248)	11,052,802	5,560,327	4,060,238	9,620,565
Balance at 1 July 2015		186,354,850	(132,933,210)	(36,684,681)	(2,864,418)	7,958,848	21,831,389	4,664,158	26,495,547
Loss attributable to equity holders of the Company		-	(51,407,830)	-	-	-	(51,407,830)	-	(51,407,830)
Loss attributable to non-controlling interests		-	-	-	-	-	-	(377,841)	(377,841)
Other comprehensive income for the year		-	-	-	(1,274,672)	-	(1,274,672)	(7,823)	(1,282,495)
Shares issued during the year	22 (a)	8,921,968	-	-	-	-	8,921,968	-	8,921,968
Balance at 30 June 2016		195,276,818	(184,341,040)	(36,684,681)	(4,139,090)	7,958,848	(21,929,145)	4,278,494	(17,650,651)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Financial Year Ended 30 June 2017

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		**$**	$
Receipts from customers		**18,560,578**	12,684,623
Payments to suppliers and employees		**(25,947,142)**	(27,622,118)
GST Receipts		**7,969,801**	-
Interest received		**5,097**	17,879
Interest paid		**(10,404,241)**	-
Net cash used in operating activities	**23(b)**	**(9,815,907)**	(14,919,616)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for consideration in business combination	8	**(1)**	-
Payments for property, plant and equipment		**(10,074,365)**	(3,734,802)
Payments for exploration and evaluation expenditure		**-**	(564,532)
Payments for acquisition of intangible assets		**(149,139)**	(307,798)
Receipts from sale of property plant and equipment		**6,210,000**	-
Net cash used in investing activities		**(4,013,505)**	(4,607,132)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuing of shares		**7,440,952**	-
Shares transaction costs		**(201,384)**	-
Repayment of borrowings		**(997,753)**	(140,056)
Proceeds from borrowings		**14,928,008**	20,190,051
Net cash provided by financing activities		**21,169,823**	20,049,995
Net increase/(decrease) in cash and cash equivalents held		**7,340,411**	523,247
Cash and cash equivalents at beginning of year		**1,199,183**	686,987
Net foreign exchange difference		**47,029**	(11,051)
Cash and cash equivalents at end of financial year	**23(a)**	**8,586,623**	1,199,183

The financial report of TerraCom Limited ('TerraCom' or 'Company') and its subsidiaries (collectively, the "Group") for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 29 September 2017. TerraCom Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the ASX. The address of the Company's registered office is Blair Athol Mine Access Road, Clermont Queensland, 4721, Australia. The Company is a for-profit entity, and the principal activities are mining and exploration activities across Australia and Mongolia.

The separate financial statements and notes of the parent entity, TerraCom Limited, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. The parent entity summary is included in Note 33.

Note 1 Corporate information, basis of preparation and summary of significant accounting policies

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the requirements of the *Corporations Act 2001*.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

The financial statements have been prepared on an accrual basis and are based on historical costs, except for the measurement at fair value of financial assets and financial liabilities.

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.

The directors believe the going concern basis of presentation is appropriate and, as detailed below, have operating and financing strategies in place to support the presentation of these accounts on this basis. Whilst there remains uncertainty with the execution of those plans, the directors believe such actions will be successful and additional funding required can be obtained.

In the event the entity is unable to continue as a going concern it may be required to realise assets and extinguish liabilities at amounts other than those recorded in the financial statements. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classifications of liabilities that might be necessary should the Parent and Group not continue as a going concern.

During the 2017 financial year the Group has continued to deliver on it's operating and financing strategies and:

- Completed the acquisition on 31 May 2017 of the Blair Athol Coal Mine (BA) from the Blair Athol Coal Joint Venture (BACJV).
- Re-commenced commercial operations at BNU North and signed a 5.5 year offtake agreement with the Kingho Group
- Renegotiated with its financiers the principal repayment of the Super Senior Note A facility of US$12,000,000, deferring this payment to October 2017 and January 2018
- Converted US$7,159,470 from the Noble Fuel Exclusivity Facility into 298,311,234 fully paid ordinary shares at a conversion price of 3.2 cents per share.

Whilst significant progress has been made by the Group during the year, as at 30 June 2017, the Group's current liabilities exceed current assets by $46,683,664 with trade and other payables of $38,522,868 and current debt obligations of $28,407,401.

The Directors believe that the Group has a strong platform from which to generate operating cash flows and ensure, if required, it can refinance its debt obligations or continue to raise additional debt or equity to meet its obligations when required. Whilst it is not the intention of the Group to sell core strategic exploration and production assets, such asset sales could generate additional cash if required.

Whilst the above events underpin the Directors confidence in the ability of the Group to continue as a going concern, in order for the Group to meet its ongoing debt repayment requirements, fund its exploration, development and administrative costs, settle its outstanding trade and other payable obligations and provide the necessary funding to the Group's operation to operate as a going concern, the following activities are required:

- Profitable mining activities at BNU North and Blair Athol, including achievement of the Blair Athol production milestones agreed under the working capital facility;

- Successful repayment of interest and principle amounts due on the Group's debt facilities in October 2017, December 2017, January 2018 and June 2018, or the continued co-operation of the debt holders to defer or re-negotiate these payments or refinance the debt facilities; and

- Continued co-operation of existing creditors to defer and manage payment obligations for the balances that remain outstanding at 30 June 2017.

The Group may be required to raise additional funds through debt, equity or asset sales to meet those debt repayments and existing creditor obligations.

Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Commercial production start date

The Group assesses the stage of each mine development to determine when a mine moves into the production phase. This being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine development project, such as the complexity of the project and its location. The Group considers various relevant criteria to assess when the production phase is considered to have commenced. Some of the criteria used to identify the production start date include, but are not limited to:

(i) Level of capital expenditure incurred compared with the original construction cost estimate;
(ii) Completion of a reasonable period of testing of the mine plant and equipment;
(iii) Ability to produce coal in saleable form (within specifications); and
(iv) Ability to sustain ongoing production of coal.

When a mine development moves into the production phase, the capitalisation of certain mine development ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation/amortisation commences.

Exploration and evaluation expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been identified, the directors are of the continued belief that such expenditure should not be written off since limited exploration and evaluation has been conducted to date and further exploration and evaluation activities in these areas is intended and feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period.

Impairment

The Group assesses the recoverable amount of its non-financial assets for impairment and impairment reversal whenever there are indicators impairment or impairment reversal might exist. When calculating recoverable amount, management makes various estimates and assumptions, including assumptions around recoverable reserves and resources, coal prices and costs of production. In addition, management considers any likely transactions to dispose of the assets subject to testing. Actual results may differ from such assumptions.

Recoverable reserves and resources

Estimated recoverable reserves and resources are used to determine the depreciation of mine production assets, in accounting for deferred stripping costs and in performing impairment testing. Estimates are prepared by appropriately qualified persons, but will be impacted by forecast commodity prices, exchange rates, production costs and recoveries amongst other factors. Changes in assumptions will impact the carrying value of assets and depreciation and impairment charges recorded in the Statement of Comprehensive Income.

Environmental rehabilitation costs

Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provisions at balance date represent management's best estimate of the present value of the future rehabilitation costs required.

Business combinations

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Taxes

Deferred tax assets, including those arising from unrecouped tax losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the consolidated statement of financial position and the amount of other tax losses and temporary differences not yet recognised which may require adjustment, resulting in a corresponding credit or charge to the consolidated statement of comprehensive income

Valuation of financial liabilities

Non-derivative financial liabilities, including the long-term borrowings and the special interest component of the long term bond facility, are recorded on initial recognition at fair value. When available, the fair values on initial recognition is measured based on quoted prices in active markets and observable market data. When not available, their fair value is measured with using valuation techniques, including present value income approaches. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The assumptions applied in the determination of the valuation of these financial instruments are described in more detail in Note 26.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate Australian Accounting Standard. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Where the net identifiable assets acquired and liabilities assumed are in excess of the aggregate of the consideration transferred, then a gain on bargain purchase is recognised. Prior to recognising a gain on bargain purchase the Group reassesses whether it has correctly identified all of the assets acquired and liabilities assumed and reviews the measurement procedure of amounts to be recognised at acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of 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 profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date, and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; or

- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

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

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. This requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received, and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with a maturity 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.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest bearing loans and borrowings in current liabilities on the Statement of Financial Position.

Secured deposits

Secured deposits in the Statement of Financial Position reflect cash amounts held in bank accounts controlled by the Queensland Department of Natural Resources, which relate to the financial assurance for the Blair Athol Coal Mine.

Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated, less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation

The depreciable amount of all property, plant and equipment, except for freehold land, is depreciated on a reducing balance method from the date that management determine that the asset is available for use.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class	Depreciation rate
Plant and equipment	ROM Production
Mine Development	ROM Production
Furniture, fixtures and fittings	10%
Office equipment	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Exploration and development expenditure

Direct and indirect costs attributable to finding mineral resources are allocated to the exploration and evaluation assets. General and administrative costs that are not related directly to operational activities in the areas of interest have been expensed as incurred. Exploration and development expenditure is stated at cost less impairment.

Exploration and evaluation assets are reclassified when technical feasibility and commercial viability has been established.

The exploration and evaluation assets are assessed against facts and circumstances to determine whether the carrying amount exceeds the recoverable amount. The facts and circumstances considered include whether the rights to explore are current, whether any area of interest has been removed from plans for substantive exploration, whether a decision has been taken to discontinue activities, whether data suggests that the carrying amounts are unlikely to be recovered from development or sale, and whether there are any facts or circumstances which could lead to licences not to be renewed.

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.

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 even, 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.

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 inventory, then subsequently in the consolidated statement of comprehensive income as inventory is sold

Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial instruments are subsequently measured at fair value or amortised cost using the effective interest rate method.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period (all other loans and receivables are classified as non-current assets).

Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held to maturity investments are included in non-current assets, except for those which are expected to mature within 12 months from the end of the reporting period (all other investments are classified as current assets).

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Financial liabilities

Non- derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment of financial assets

Objective evidence that a financial asset is impaired includes default by a debtor, evidence that the debtor is likely to enter bankruptcy or adverse economic conditions in the stock exchange. At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired through the occurrence of a loss event. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to indicate that an impairment has arisen.

Where a subsequent event causes the amount of the impairment loss to decrease (e.g. payment received), the reduction in the allowance account (provision for impairment of receivables) is taken through profit and loss.

However, any reversal in the value of an impaired available-for-sale asset is taken through other comprehensive income rather than profit and loss.

Impairment losses are recognised through an allowance account for loans and receivables in the statement of profit or loss and other comprehensive income.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire, or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled, or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Impairment of non-financial assets

Non-financial assets other than goodwill and indefinite life intangibles, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset’s carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Assets that suffered impairment are tested for possible reversal of the impairment where events or changes in circumstances indicate impairment may have reversed.

Foreign currency transactions and balances

Functional and presentation currency

Effective 1 July 2016, the Company changed functional currencies from Australian Dollars (AUD) and Mongolian Tugrik (MNT) to United States Dollars (USD) for the Parent entity (TerraCom Limited) and the Mongolian subsidiaries (respectively). Effective 31 May 2017 the Company changed functional currency from AUD to USD for Orion Mining Pty Limited. The change in functional currency has been accounted for prospectively from the dates of change.

The successful completion of the USD offtake agreement with Kingho in Mongolia, and the progress made on the Blair Athol acquisition were the key triggers for this change, as it was determined that USD is now the currency which mainly influences sales prices, labour, material and other costs of producing and selling coal.

The functional currency of the parent is now USD, whilst the presentation currency of the Company is AUD.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the statement of comprehensive income.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period where the average rate approximates the rate at the date of the transaction; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the Consolidated Statement of Financial Position. These differences are recognised in the Consolidated Statement of Comprehensive Income in the period in which the operation is disposed.

Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave, expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Equity-settled compensation

Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share based payments reserve. The number of shares expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial period, which are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Special Interest Liability

The special interest liability issued in connection with the Listed Bond is payable based on a fixed percentage of mine gate revenues. This value of this instrument is driven by non-financial variables, including production volume, and is therefore considered a non-derivative financial liability measured at amortised cost.

Revenue and other income

Revenue is measured at the fair value of consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

1. Sale of products

   Revenue from the sale of products is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, indicating that there has been a transfer of risks and rewards of ownership to the customer, no further work or processing is required by the Group, the quantity and quality of the products have been determined with reasonable accuracy, the price can be reasonably estimated and collectability is reasonably assured.

2. Interest income

   Interest income is accrued using the effective interest rate method.

All revenue is stated net of the amount of GST.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which it incurs them.

Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent Company, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent Company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); whose operating results are regularly reviewed by the entity's chief operating decision-makers to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available.

The operating segments have been identified based on the information provided to the chief operating decision-makers, the Board of Directors.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- nature of the products and services;
- nature of the production processes;
- type or class of customer for the products and services;

- methods used to distribute the products or provide the services and if applicable;
- nature of the regulatory environment; and
- operate in the same geographical area.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Adoption of new and revised accounting standards

Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2016 are outlined below:

AASB 9 Financial Instruments

A finalised version of AASB 9 which contains accounting requirements for financial instruments, replacing AASB 139 Financial Instruments: Recognition and Measurement. The standard contains requirements in the areas of classification and measurement, impairment, hedge accounting and derecognition. This standard applies to annual reporting periods beginning on or after 1 January 2018.

AASB 15 Revenue from Contracts with Customers

AASB 15 provides a single, principles-based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. This standard applies to annual reporting periods beginning on or after 1 January 2018.

AASB 16 Leases

IFRS 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. IFRS 16 contains disclosure requirements for lessees. This standard applies to annual reporting periods beginning on or after 1 January 2019.

Given the Company's priorities around funding, the Blair Athol acquisition and the BNU return to production, the Company has not specifically considered the impact of the new financial standards being AASB9: Financial Instruments, AASB15: Revenue from Contracts with Customers and AASB16: Leases. However, the following preliminary considerations made with respect to these new standards are as follows:

- Given the nature of revenue generated by the Company, being coal sales with recognition at bill of lading date, the Company does not believe there will be a significant impact on the presentation of these financial statements had the new revenue standard been applied.
- The Company's financial statements are expected to be impacted by the lease standard, as operating leases are brought on balance sheet with an increase to liabilities and right of use assets.
- Given the Company does not currently conduct hedging activity, the main impact of the financial instrument standard will relate to credit losses and impairment of trade receivables.

The Company will review the impact of these new standards in the next reporting period.

AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle

The subjects of the principal amendments to the Standards in respect to AASB 119 Employee Benefits can be described below:

- Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.

Note 2 Sales and Other Income

		2017 $	2016 $
Sales Revenue			
• Coal Sales		**22,494,243**	9,902,188
Financial Income			
• Interest received		**8,771**	13,415
• Interest, fees and penalties irrevocably waived	(a)	**-**	39,653,996
		8,771	39,667,411

(a)On 30 June 2016 the Company's financiers irrevocably waived all unpaid, outstanding interest, fees and expenses associated with the following facilities: Convertible Note, Amortising Note, Working Capital, Additional Working Capital, Debt Facility and Additional Debt Facility.

Note 3 Expenses

	2017 $	2016 $
Cost of goods sold	**17,271,195**	14,370,135
Financial expenses:		
▪ Interest expense on interest bearing loans	**24,551,263**	8,209,623
▪ Finance expense convertible notes and amortising notes	**-**	18,990,172
▪ Finance expense on amortisation of Listed (Euroclear) Bond	**6,157,319**	-
▪ Finance costs [(1)]	**1,798,829**	252,791
	32,507,411	27,452,586
[(1)] Finance costs include special interest amortisation and changes in amortised cost of financial instruments		
Administrative expenses:		
▪ Professional fees	**4,676,411**	5,234,602
▪ Exploration permits for coal rent	**886,610**	444,847
▪ Salaries and wages	**1,731,028**	1,145,445
▪ Directors and key management personnel	**2,580,891**	2,569,812
▪ Other expenses	**1,622,374**	1,264,712
▪ Share-based payments	**2,712,793**	-
	14,210,107	10,659,418

(a) As outlined in section 2(b) of the Directors Report, Cameron McRae through his Consulting Agreement with TerraCom had a sign on bonus of fully paid ordinary shares to the amount of 73,813,740. As at 30 June 2017 (and at the date of this report) these shares had not yet been issued.

For accounting standard purposes, a share based payment expense of $2,712,793 was recognised in the profit and loss statement for the year ended 30 June 2017 as the grant date for the shares was not until 30 November 2016 (the date shareholder approval was obtained) and the fair value of the shares was determined using the market value of the shares as at 30 November 2016, which was $0.037 per fully paid ordinary share.

	2017	2016
	$	$
Depreciation and amortisation expense:	**4,872,730**	3,860,480
Foreign Currency (Gain)/Loss	**(58,946)**	3,311,870

Note 4 Remuneration of auditors

	2017	2016
	$	$
Remuneration of the auditor of the parent entity for:		
▪ Auditing or reviewing the financial statements	**281,600**	225,736
▪ Other assurance services	**206,000**	-
	487,600	225,736

Note 5 Earnings per share

a) Reconciliation of earnings to profit or loss from continuing operations

	2017	2016
	$	$
Profit/(Loss) after income tax	**5,036,876**	(51,785,671)
Loss attributable to non-controlling equity interest	**(220,273)**	(377,841)
Profit/(Loss) after income tax attributable to equity holders of the Company	**5,257,149**	(51,407,830)

Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	2017	2016
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**2,627,289,559**	1,638,320,013
Adjustments for calculation of diluted EPS	**199,627,046**	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**2,826,916,605**	1,638,320,013
Earnings per share		
Basic, profit/(loss) for the year attributable to equity holders of the Company (cents)	**0.20**	(3.14)
Diluted, profit/(loss) for the year attributable to equity holders of the Company (cents)	**0.19**	(3.14)

Note 6 Income tax expense

	2017	2016
	$	$
Current tax (expense)/benefit		
Income tax benefit	4,603,269	-
Deferred tax benefit/(expense)		
Movements in deferred tax	(2,105,702)	
Recognition of tax losses	14,999,344	-
Income tax benefit reported in the consolidated statement of comprehensive income	19,602,613	-

	2017	2016
	$	$
Reconciliation between tax expense and loss before tax		
Loss before tax	(14,565,737)	(51,785,671)
Tax at the domestic rates applicable to losses in the countries where the Group operates	3,445,345	13,099,361
Add (less) tax effect of:		
▪ Non-deductible expenses	12,409,468	16,563,295
▪ Income not subject to tax	(13,721,829)	(10,853,448)
▪ Deferred tax assets recognised	19,602,613	-
▪ Deferred tax assets not recognised	(2,499,661)	(18,809,208)
▪ Other	366,677	-
Income tax attributable to the entity	19,602,613	-

Deferred income tax assets are attributable to the following	**Assets**		**Liabilities**	
	2017	**2016**	**2017**	**2016**
Property, plant and equipment	-	-	18,199,249	-
Exploration and evaluation	-	-	10,291,443	10,549,230
Secured deposits	-	-	23,909,407	-
Deferred stripping	-	-	2,075,751	-
Provisions	22,506,043	287,738	-	-
Tax losses	31,969,807	10,261,492	-	-
Other items	-	-	-	-
Tax assets /(liabilities)	54,475,850	10,549,230	54,475,850	10,549,230
Set off of tax(liabilities)/assets	(54,475,850)	(10,549,230)	(54,475,850)	(10,549,230)
Net tax assets	-	-	-	-

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

The Australia, Singapore and Mongolia corporate tax rates were 30% (2016: 30%), 17% (2016: 17%) and 25% (2016: 25%) respectively for the year ended 30 June 2017.

Accumulated tax losses

The Group had accumulated tax losses as at 30 June 2017 of $106,566,023 and $54,866,317 for Australia and Mongolia respectively (2016: Australia - $84,202,787 and Mongolia - $44,867,672). Of these accumulated tax losses nil remain unrecognised for Australia (2016: $49,997,814) and $54,866,317 remain unrecognised for Mongolia (2016: 44,867,672).

Australian carried forward tax losses have been recognised to offset any tax impact resulting from the acquisition of the Blair Athol Coal Mine as well as offset deferred tax liabilities where appropriate.

Note 7 Operating Segments

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision-makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on a geographic basis. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments, where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the geographical location of the segment; and
- any external regulatory requirements.

Performance is measured based on segment profit before income tax, as included in the internal financial reports.

Types of products and services by reportable segment

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

Segment	Activities
Australia	Coal exploration and development activities within Australia, including recommencement activities for the Blair Athol Coal Mine.
Mongolia	Coal exploration and extraction activities within Mongolia including the transition from developer to producer during the financial year.

Basis of accounting for purposes of reporting by operating segments

a) Accounting policies adopted

All amounts reported to the Board of Directors, being the chief operating decision-makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

A number of inter-segment transactions, receivables, payables or loans occurred during the period, or existed at balance date. In addition, corporate re-charges were allocated to the reporting segments.

b) Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

c) Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables, and certain direct borrowings.

d) Segment performance

	Australia		Mongolia		Unallocated		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$	**$**	$
Reconciliation of segment net loss to consolidated net loss after tax:								
Revenue	**-**	-	**22,494,243**	9,902,188	**-**	-	**22,494,243**	9,902,188
Cost of Goods Sold	**-**	-	**(17,271,195)**	(14,370,135)	**-**	-	**(17,271,195)**	(14,370,135)
Gain on acquisition	**45,739,430**	-	**-**	-	**-**	-	**45,739,430**	-
Selling and distribution expenses	**-**	-	**(2,370,256)**	(1,244,684)	**-**	-	**(2,370,256)**	(1,244,684)
Government royalties	**-**	-	**(1,685,299)**	(812,411)	**-**	-	**(1,685,299)**	(812,411)
Exploration tenement write-off	**(1,229,663)**	(646,224)	**(2,185,582)**	-	**-**	-	**(3,415,245)**	(646,224)
Other costs	**(3,625,333)**	(2,929,914)	**(9,224,816)**	(2,578,534)	**(12,699,472)**	(14,508,581)	**(25,549,621)**	(20,017,029)
Impairment of exploration and evaluation assets	**-**	(13,360,444)	**-**	(23,447,808)	**-**	-	**-**	(36,808,252)
Share of profit of associated company	**(9,154)**	(3,949)	**-**	-	**-**	-	**(9,154)**	(3,949)
Finance income	**4,509**	6,881	**4,262**	6,534	**-**	39,653,996	**8,771**	39,667,411
Finance Cost	**-**	-	**-**	-	**(32,507,411)**	(27,452,586)	**(32,507,411)**	(27,452,586)
Income taxes	**19,602,613**	-	**-**	-	**-**	-	**19,602,613**	-
Net loss after tax per Statement of Comprehensive Income	**60,482,402**	(16,933,650)	**(10,238,643)**	(32,544,850)	**(45,206,883)**	(2,307,171)	**5,036,876**	(51,785,671)

e) Segment assets and liabilities

	Australia		Mongolia		Unallocated		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$	**$**	$
Segment assets								
Cash and cash equivalents	**7,280,348**	723,526	**1,306,275**	475,657	**-**	-	**8,586,623**	1,199,183
Inventory	**-**	-	**2,457,369**	539,220	**-**	-	**2,457,369**	539,220
Trade and other receivables	**964,956**	392,968	**8,960,930**	7,885,832	**-**	-	**9,925,886**	8,278,800
Secured deposit	**77,630,898**	-	**-**	-	**-**	-	**77,630,898**	-
Other assets	**105,336**	495,380	**278,404**	2,100,620	**-**	-	**383,740**	2,596,000
Plant and equipment	**62,205,553**	131,075	**114,993,159**	115,065,946	**-**	-	**177,198,712**	115,197,021
Exploration and evaluation assets	**34,617,391**	35,164,100	**9,400,076**	14,187,860	**-**	-	**44,017,467**	49,351,960
Intangible assets	**-**	30,116	**-**	731,744	**-**	-	**-**	761,860
Investment in an associate	**1,377,301**	1,386,455	**-**	-	**-**	-	**1,377,301**	1,386,455
Total assets per Statement of Financial Position	**184,181,783**	38,323,620	**137,396,213**	140,986,879	**-**	-	**321,577,996**	179,310,499
Segment Liabilities								
Trade and other payables	**12,647,792**	2,210,745	**31,444,606**	24,705,004	**-**	-	**44,092,398**	26,915,749
Borrowings	**-**	-	**-**	-	**186,378,385**	161,205,819	**186,378,385**	161,205,819
Other financial liabilities	**-**	-	**-**	-	**5,276,061**	7,880,454	**5,276,061**	7,880,454
Provisions	**75,358,407**	211,425	**852,180**	747,703	**-**	-	**76,210,587**	959,128
Total liabilities per Statement of Financial Position	**88,006,199**	2,422,170	**32,296,786**	25,452,707	**191,654,446**	169,086,273	**311,957,431**	196,961,150

f) Cash flow information

	Australia		Mongolia		Total	
	2017	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$
Payments for acquisition of property, plant and equipment	**(3,056,131)**	-	**(7,018,235)**	(3,734,802)	**(10,074,366)**	(3,734,802)
Receipts from sale of property plant and equipment	**6,210,000**	-	**-**	-	**6,210,000**	-
Total	**3,153,869**	-	**(7,018,235)**	(3,734,802)	**(3,864,366)**	(3,734,802)

g) Other Segment Information

Revenue from external customers is attributed to the location based on the point where ownership of the goods is transferred to the final customer
Revenue by geographic location

	2017	**2016**
	$	**$**
Mongolia	**22,494,243**	9,902,188
Total Revenue	**22,494,243**	9,902,188

h) Major Customers

The Group has one major customer in Mongolia which accounts for 98.7% (2016: 93.7%) of revenue.

Note 8 – Business Combination

Acquisition of Blair Athol Mine

On 31 May 2017, Orion Mining Pty Limited (Orion), being a TerraCom wholly owned subsidiary, completed the acquisition of the Blair Athol Coal Mine (Blair Athol) from the Blair Athol Coal Joint Venture. The acquisition of the Mine includes the Mining Lease 1804, related licenses (including Environmental Authority EPML00876713), land, site infrastructure, active contracts and all mining plant & equipment, including a dragline, to deliver TerraCom's forecast production schedule and progressive rehabilitation.

Orion acquired the Mine for $1 and the Queensland Government received AUD$79,698,023 from the Blair Athol Coal Joint Venture prior to Orion taking control of the business. This money was set aside by the Queensland of Department of Natural Resources and Mines to meet the Mine's rehabilitation obligations and can be drawn down by Orion to fund that rehabilitation.

Orion acquired Mining Lease 1804, known as the Blair Athol Coal Mine, due to its high strategic importance to the Group. It provides:

- a second mining operation for a nominal purchase price, whilst significantly reducing the operating risk from being a singular revenue source (BNU Mine in Mongolia);
- a 15 million tonne JORC Reserve to be mined at ~2mtpa over 8 years; and
- an organic expansion potential with neighbouring undeveloped properties. The Mine's infrastructure is capable of supporting a 12Mtpa operation.

The fair value of identifiable assets and liabilities of the Blair Athol Coal Mine as at the date of acquisition were:

	AUD$	AUD$
Assets		
Secured Deposit		79,698,023
Secured deposit - Current	*5,118,713*	
Secured deposit - Non Current	*74,579,310*	
Property, Plant & Equipment		60,664,164
Dragline	*3,000,000*	
Other Plant & Equipment	*3,210,000*	
Land	*500,000*	
Infrastructure	*794,580*	
Mining Lease/Reserves	*53,159,584*	
Total Assets		140,362,187
Liabilities		
Rehabilitation		(75,020,143)
Deferred Tax Liability		(19,602,613)
		(94,622,756)
Total Identifiable Net Assets at Fair Value		45,739,431
Purchase Consideration		1
Gain on Acquisition		45,739,430

The fair values disclosed are provisional at 30 June 2017. This is because the acquisition only occurred on 31 May 2017, and due to the complexity of the acquisition and the nature of the mining sector, further work will be required to confirm the final fair values. If new information is obtained within one year from the acquisition date about facts and circumstances that existed at acquisition date and such information identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the accounting for the acquisition will be revised. The finalisation of the valuation work required to determine the fair values of the assets and liabilities acquired will be completed within 12 months of the acquisition date at the latest.

The fair value of the Blair Athol Mine's assets has been undertaken using a Discounted Cash Flow methodology conducted by an external independent expert (Xenith Consulting Pty Limited). This has been provisionally measured at $60,664,164, including Property Plant and Equipment and other mining reserves.

Secured deposits represent the cash provided to the Queensland Government as financial assurance for the Blair Athol mine rehabilitation. Following submission of a revised Plan of Operation and financial assurance calculation to the Queensland Government the financial assurance has been re-assessed down to $74,579,310. The difference between the financial assurance held $79,698,023 and the amended financial assurance has been classified as Secured Deposit - Current, with the balance being classified as Secured Deposit - Non Current.

The Closure Cost Provision has been calculated to be $75,020,143 after applying the applicable discount and inflation rates. The difference between this and the financial assurance held by the Queensland Government ($4,677,880) has been included within the gain on acquisition in the consolidated statement of comprehensive income.

With an acquisition price for the mine site of $1, the fair values noted above have generated a gain on acquisition $45,739,430. This gain has been classified as Gain on Acquisition within the consolidated statement of comprehensive income.

From the date of acquisition, the Blair Athol Mine has contributed NIL revenue and $916,000 of loss before tax, arising predominantly out of pre-production activity costs. If the business combination had taken place at the beginning of the year, adjustments to revenue from continuing operations and impacts to loss before tax would be unknown as TerraCom would have commenced full mining operations. Transaction costs of $705,864 were expensed and are included in other operating expenses in the statement of comprehensive income.

Note 9 - Inventory

	2017	2016
	$	$
Total inventory	**2,457,369**	539,220

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

Note 10 Trade and other receivables

		2017	2016
		$	$
CURRENT			
Trade receivable	(a)	**4,175,397**	-
Other receivables	(a)	**983,873**	201,407
Total		**5,159,270**	201,407
NON-CURRENT			
Other receivable	(b)	**4,766,616**	8,077,393
Total		**4,766,616**	8,077,393

The following table details the Group's trade and other receivables exposure to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid to the Group.

At 30 June 2017, the ageing analysis of receivables is as follows:

	Gross amount	< 30 days	31-60 days	>61 days and impaired	>61 days and not impaired
	$	$	$	$	$
2017					
CURRENT					
Trade receivable	**4,175,397**	**-**	-	-	4,175,397
Other receivables	**983,873**	**983,873**	**-**	**-**	**-**
Total	**5,159,270**	**983,873**	**-**	**-**	**4,175,397**
NON-CURRENT					
Other receivables	**4,766,616**	**-**	**-**	**-**	**4,766,616**
Total	**4,766,616**	**-**	**-**	**-**	**4,766,616**
2016					
CURRENT					
Other receivables	201,407	201,407	-	-	-
Total	201,407	201,407	-	-	-
NON-CURRENT					
Other receivables	8,077,393	-	-	-	8,077,393
Total	8,077,393	-	-	-	8,077,393

(a) Due to the short term nature of these receivables, their carrying value is assumed to approximate 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.

(b) Please refer to Note 26 for fair value disclosure of non-current other receivables.

Note 11 Secured deposit

		2017	2016
		$	$
CURRENT			
Secured deposit	(a)	**5,118,713**	-
Total		**5,118,713**	-
NON-CURRENT			
Secured deposit	(a)	**72,512,185**	-
Total		**72,512,185**	-

(a) On 31 May 2017 the Company's wholly owned subsidiary Orion Mining Pty Limited (Orion) completed the Sale and Purchase Agreement for the acquisition of the Blair Athol Coal Mine. As part of the acquisition the prior owner paid AU$79,698,023 to the Queensland Government's Department of Environment and Heritage Protection which represents the Financial Assurance required to be paid by Orion for Environmental Authority EPML00876713.

The non-current secured deposit has been discounted to reflect its amortised cost at balance date.

Note 12 Other assets

	2017	2016
	$	$
CURRENT		
Prepayments	**85,681**	393,544
Deposits	**5,231**	76,529
Total	**90,912**	470,073
NON-CURRENT		
Deposits	**292,828**	2,125,927
Total	**292,828**	2,125,927

Note 13 Property, plant and equipment

	2017	2016
	$	$
LAND AND BUILDINGS		
At cost	**648,259**	165,128
Accumulated depreciation	**(136,879)**	(126,107)
	511,380	39,021
CAPITAL WORKS IN PROGRESS		
At cost	**12,263,271**	12,436,420
PLANT AND EQUIPMENT		
At cost	**14,448,280**	5,580,036
Accumulated depreciation	**(1,545,014)**	(1,084,642)
	12,903,266	4,495,394
MINE DEVELOPMENT		
At cost	**174,612,327**	116,986,544
Accumulated impairment (see note 15)	**(15,476,581)**	(15,476,581)
Accumulated depreciation	**(7,614,951)**	(3,283,777)
	151,520,795	98,226,186
TOTAL	**177,198,712**	115,197,021

Movements in carrying amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Capital works in progress	Land and Buildings	Plant and equipment	Mine development	Total
	$	$	$	$	$
Balance at 1 July 2016	12,436,420	39,021	4,495,394	98,226,186	**115,197,021**
Additions from acquisition of BA	-	500,000	6,210,000	53,954,164	**60,664,164**
Additions	93,954	-	9,271,242	6,919,171	**16,284,367**
Effects of foreign exchange	(267,103)	(16,869)	(342,428)	(5,015,080)	**(5,641,480)**
Disposal	-	-	(6,270,570)	-	**(6,270,570)**
Transfer from exploration assets	-	-	-	1,767,528	**1,767,528**
Depreciation expense	-	(10,772)	(460,372)	(4,331,174)	**(4,802,318)**
Balance at 30 June 2017	12,263,271	511,380	12,903,266	151,520,795	**177,198,712**

The assets identified above are secured to the Borrowings as outlined in Note 18(h).

	Capital works in progress	Buildings	Plant and equipment	Mine development	Total
	$	$	$	$	$
Balance at 1 July 2015	12,328,921	62,159	3,730,916	113,018,553	129,140,549
Additions	28,725	-	251,462	2,653,543	2,933,730
Effect of foreign exchange	247,608	-	65,846	1,314,448	1,627,902
Acquisition of Subsidiary	-		781,470	-	781,470
Disposal	-	-	(684)	-	(684)
Transfer from other assets	(168,834)		168,834	-	-
Impairment Expense	-	-	-	(15,476,581)	(15,476,581)
Depreciation expense	-	(23,138)	(502,450)	(3,283,777)	(3,809,365)
Balance at 30 June 2016	12,436,420	39,021	4,495,394	98,226,186	115,197,021

Note 14 Intangible Assets

	2017	2016
	$	$
Computer software		
Cost	**134,289**	490,963
Accumulated amortisation	**(134,289)**	(117,502)
	-	373,461
Other intangible assets		
Cost	**59,826**	394,600
Accumulated amortisation	**(59,826)**	(6,201)
	-	388,399
Total	**-**	761,860

Movements in carrying amounts of intangible assets

Movement in the carrying amount for each class of intangible assets between the beginning and the end of the current financial year:

	Computer software	Other	Total
	$	$	$
Balance at 1 July 2016	**373,461**	**388,399**	**761,860**
Additions	**3,614**	**145,525**	**149,139**
Disposal	**-**	**(3,361)**	**(3,361)**
Write off	**(344,636)**	**(464,462)**	**(809,098)**
Amortisation	**(19,786)**	**(50,626)**	**(70,412)**
Effect of foreign exchange on opening balance	**(12,653)**	**(15,475)**	**(28,128)**
Balance at 30 June 2017	**-**	**-**	**-**
Balance at 1 July 2015	391,128	26,128	417,256
Additions	21,050	286,748	307,798
Acquisition of subsidiary	-	78,105	78,105
Amortisation	(47,914)	(3,201)	(51,115)
Effect of foreign exchange on opening balance	9,197	619	9,816
Balance at 30 June 2016	373,461	388,399	761,860

Note 15 Exploration and evaluation assets

	2017	2016
	$	$
Exploration and evaluation assets - at cost	109,853,763	115,188,256
Accumulated impairment	(65,836,296)	(65,836,296)
	44,017,467	49,351,960

The assets identified above are secured to the Borrowings as outlined in Note 18(h).

a) Movements in carrying amounts of exploration and evaluation assets

During the year ended 30 June 2017, the Group capitalised $335,054 (2016: $564,532) worth of expenditure as exploration expenditure. These costs relate to the acquisition and evaluation of mining tenements, including drilling, consulting and rent. A summary of movements for capitalised exploration and valuation expenditure is as follows:

	2017	2016
	$	$
Balance at 1 July	**49,351,960**	58,573,488
Exploration expenditure	**335,054**	564,532
Acquisition of 12600	**-**	12,005,190
Transfer to development assets	**(1,767,528)**	-
Write-off	**(3,415,245)**	(646,224)
Impairment losses (refer below)	**-**	(21,331,671)
Effects of foreign exchange on opening balance	**(486,774)**	186,645
Balance at 30 June	**44,017,467**	49,351,960

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.

(i) Mining Assets

The South Gobi mining and exploration assets are considered one cash generating unit (CGU) for the purposes of impairment testing. Recoverable amount has been determined based on an Independent Technical Specialist's Report (ITSR) prepared by Xenith Consulting Pty Ltd. The valuations were determined on both a market multiple and on a discounted cash flow basis, at a discount rate the Company would expect a market participant to apply to such cash flows. In the current period there has been no impairment or impairment reversal recorded (At 31 December 2015 the Company recognised a non-cash impairment expense of $15,476,581).

(ii) Exploration Assets

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 and Mid Gobi exploration assets being considered separate CGUs. The South Gobi exploration assets form part of the South Gobi mining CGU described above.

During the current period the Company has assessed its intended short term activity on its non-core exploration assets. Post this review the Company has recognised an Exploration Deposit Write Off of $3,415,245. The Company is focussed on developing two priority projects in Australia, being the large thermal coal Northern Galilee Project and the high energy prime thermal coal Springsure Project. As a consequence the development of early stage exploration projects that have been written off are not imminent, although they are still prospective.

(iii) Summary

	2017 $	2016 $
Impairment Losses		
▪ South Gobi CGU	-	19,701,150
▪ Mid Gobi	-	3,746,658
▪ Australian Tenements	-	13,360,444
	-	36,808,252

The historical non-cash impairment expense is made up as follows:

	Mining Assets	Exploration Assets	Total
South Gobi	15,476,581	4,224,569	19,701,150
Mid Gobi	-	4,594,459	4,594,459
Australia	-	57,017,268	57,017,268
	15,476,581	65,836,296	81,312,877

Interest in mining tenements

Tenure number	Location	2017	2016
1250	Charters Towers, Queensland Australia	64.40%	64.40%
1260	Charters Towers, Queensland Australia	64.40%	64.40%
1300	Charters Towers, Queensland Australia	100%	100%
1394	Charters Towers, Queensland Australia	100%	100%
1477	Charters Towers, Queensland Australia	100%	100%
1478	Charters Towers, Queensland Australia	100%	100%
1479	Charters Towers, Queensland Australia	100%	100%
1480	Mount Isa, Queensland Australia	100%	100%
1574	Charters Towers, Queensland Australia	100%	100%
1674	Emerald, Queensland Australia	35.78%	35.78%
MDL 3002	Emerald, Queensland Australia	35.78%	35.78%
1822	Rockhampton, Queensland Australia	100%	100%
1872	Rockhampton, Queensland Australia	100%	100%
1890	Charters Towers, Queensland Australia	100%	100%
1892	Charters Towers, Queensland Australia	100%	100%
1893	Charters Towers, Queensland Australia	100%	100%
1962	Charters Towers, Queensland Australia	100%	100%
1963	Charters Towers, Queensland Australia	100%	100%
1964	Charters Towers, Queensland Australia	100%	100%
2047	Mount Isa, Queensland Australia	100%	100%
2049	Charters Towers, Queensland Australia	100%	100%
2105	Charters Towers, Queensland Australia	100%	100%
2256	Emerald, Queensland Australia	100%	100%
2503	Charters Towers, Queensland Australia	100%	100%
2504	Charters Towers, Queensland Australia	100%	100%

ML1804	Blair Athol, Queensland Australia	100%	-
XV-12929	Mid Gobi, Mongolia	100%	100%
XV-13780	South Gobi, Mongolia	-	100%
MV-020800	South Gobi, Mongolia	100%	-
MV-19149	South Gobi, Mongolia	100%	100%
XV-12600h	South Gobi, Mongolia	100%	100%
XV-15466	Mid Gobi, Mongolia	-	100%
MV-16971	South Gobi, Mongolia	83.87%	83.87%
MV-17162	South Gobi, Mongolia	100%	100%
XV-17163	South Gobi, Mongolia	100%	100%
XV-5264	South Gobi, Mongolia	-	100%
MV-020803	South Gobi, Mongolia	100%	-
XV-18111	South Gobi, Mongolia	100%	100%
XV-18513	South Gobi, Mongolia	100%	100%
XV-20268	South Gobi, Mongolia	100%	100%
XV-18142	Uvs, Mongolia	100%	100%
XV-18797	Uvs, Mongolia	100%	100%
XV-18802	Uvs, Mongolia	100%	100%
XV-20281	Uvs, Mongolia	100%	100%
XV-20539	Uvs, Mongolia	100%	100%
XV-20139	East Gobi, Mongolia	100%	100%
XV-20329	East Gobi, Mongolia	100%	100%
14522X	South Gobi, Mongolia	-	100%
13352X	Mid Gobi, Mongolia	-	100%
5262X	South Gobi, Mongolia	-	83.87%
25374NE	Baruun Termes, Mongolia	-	100%

Note 16 Investment in an associate

The Group has a 35.78% interest in Springsure Mining Pty Ltd ("Springsure"), which is involved in exploration for minerals in Australia. The Group's interest in Springsure is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information of the Group's investment in Springsure:

	2017	2016
	$	$
Current assets	**878**	1,549
Non-current assets	**3,853,432**	3,997,103
Current liabilities	**(4,950)**	(123,702)
Net assets	**3,849,360**	3,874,950
Summarised consolidated statement of profit or loss and other comprehensive income		
Revenue	**-**	-
Expenses	**(25,585)**	(11,031)
Total comprehensive loss	**(25,585)**	(11,031)

Movement in the carrying amount of investment in an associate

As at 1 July	**1,386,455**	1,390,404
Share of loss of an associate	**(9,154)**	(3,949)
As at 30 June	**1,377,301**	1,386,455

The associate requires the shareholder's consent to distribute its profits. The Group does not foresee the shareholders giving such consent at the reporting date.

The exploration commitments that the associate has at 30 June 2017 are tabulated below.

	2017	2016
	$	$
Payable:		
- not later than one year	**237,073**	-
- later than one year, not later than five years	**27,132**	-
	264,205	-

Note 17 Trade and other payables

		2017	2016
		$	$
CURRENT			
Trade payables and accruals	(a)	**38,522,868**	26,915,749
NON-CURRENT			
Trade payables and accruals	(b)	**5,569,530**	-

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

(b) Please refer to Note 26 for fair value disclosure of non-current trade and other payables.

Note 18 Borrowings

		2017	2016
		$	$
CURRENT			
Super senior note facility A	(a)	**15,600,624**	16,159,439
Working capital facilities	(b)	**2,925,117**	-
Fuel exclusivity facility	(c)	**2,046,106**	11,449,927
Finance costs accrued	(f)	**3,759,134**	48,604
Dragline Facility	(e)	**1,137,655**	-
Finance leases	(g)	**2,938,765**	-
Total		**28,407,401**	27,657,970
NON-CURRENT			
Listed (Euroclear) bond	(a)	**134,636,676**	122,741,684
Super senior note facility B	(a)	**6,500,260**	6,733,100
Working capital facilities	(b)	**7,800,312**	-
Non-interest bearing loan	(d)	**3,900,156**	4,073,065
Dragline Facility	(e)	**1,862,345**	-
Finance leases	(g)	**3,271,235**	-
Total		**157,970,984**	133,547,849
Total borrowings		**186,378,385**	161,205,819

The above borrowings and facilities except for the Dragline facility and Finance leases are denominated in USD and are subject to translation at every reporting date. The table below outlines the nominal USD borrowings amount.

Amount expressed in USD			
CURRENT			
Super senior note facility A	(a)	**12,000,000**	12,000,000
Working capital facilities	(b)	**2,250,000**	-
Fuel exclusivity facility	(c)	**1,573,865**	8,502,716
Finance costs accrued	(f)	**2,891,526**	36,093
Dragline Facility	(e)	**875,084**	-
Finance leases	(g)	**2,260,498**	-
Total		**21,850,973**	20,538,809
NON-CURRENT			
Listed (Euroclear) bond	(a)	**103,562,531**	91,147,975
Super senior note facility B	(a)	**5,000,000**	5,000,000
Working capital facilities	(b)	**6,000,000**	-
Non-interest bearing loan	(d)	**3,000,000**	3,000,000
Dragline Facility	(e)	**1,432,516**	-
Finance leases	(g)	**2,516,234**	-
Total		**121,511,281**	99,147,975
Total borrowings		**143,362,254**	119,686,784

(a) 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 acquired from Enkhtunkh Orchlon LLC.

Super Senior Note A

The Super Senior Note A facility was fully drawn down on 30 June 2017 for the amount of US$12,000,000. The facility bears an interest rate of 15% per annum with interest payable on the repayment date. The original repayment date was 1 year from the issue date being 30 June 2017.

During the reporting period agreement was reached to defer the US$12,000,000 principal repayment from 30 June 2017 to 50% on 30 October 2017 and 50% on 30 January 2018. The coupon interest continues at an interest rate of 15% per annum and was agreed to be paid on 30 October 2017 and 30 January 2018.

Super Senior Note B

The Super Senior Note B facility was fully drawn down on 30 June 2016 for the amount of US$5,000,000. The facility bears an interest rate of 15% repayable at 30 June 2017. The original expiry date was 1 year from the issue date being 30 June 2017.

During the reporting period agreement was reached to postpone the expiry date to 30 January 2018, and the coupon interest continues at an interest rate of 15% per annum and was agreed to be paid on 30 October 2017 and 30 January 2018. On the expiry date, the Group has an unconditional right to convert the principal outstanding amounts into the Listed (Euroclear) bonds with repayment due on the same terms and conditions of the bond.

Listed (Euroclear) Bond

The Listed (Euroclear) Bond was fully drawn down on 30 June 2017 for the amount of US$97,000,000 (purchase value of the bonds) and an initial redemption value of US$124,000,000. The facility bears a cash interest rate of 12.5% per annum, payable 6 monthly in arrears except for the first interest payment which was paid on 30 June 2017. The Company elected to pay in kind (PIK) 50% of the first interest payment for the amount of US$7.75 million, which has been added to the redemption value of the Bonds. The maturity date of the facility is 30 June 2021 at which point the redemption value as calculated on 30 June 2017 of the bonds is due and payable for the amount of US$131,750,000. The value uplift applied between the initial redemption value and purchase price, along with the interest, implies an annual cumulative interest rate of 21.09%.

This facility includes a special interest component which has been treated as a separate non-derivative financial liability (note 19). 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.

(b) Working capital facilities

On 13 September 2016, the Company entered into a Blair Athol Prepayment Facility Agreement with Noble for US$12,000,000. On 30 June 2017 the Blair Athol Prepayment Facility Agreement was drawn for the amount of US$9,000,000, and therefore US$3,000,000 remains un drawn on 30 June 2017.

Under Facility A, US$3,000,000 was received on 28 October 2016 when certain conditions precedent were met with respect to the acquisition of Blair Athol. Repayment is US$250,000 per month which commenced on 31 March 2017 with a final repayment date of 28 February 2018. Interest is incurred at a rate of 9% per annum.

Under Facility B, on 23 May 2017 US$3,000,000 was received, with a further US$3,000,000 received on 23 June 2017, following the achievement of certain conditions precedent surrounding acquisition and commissioning of Blair Athol. Facility B has a final repayment date 5 years following the initial utilisation date. Interest is incurred at a rate of 9% per annum.

(c) Fuel exclusivity agreement:

On 14 November 2013, the Company entered into a Fuel Exclusivity agreement with Noble for US$8,000,000. On 27 June 2017 the Group and Noble agreed on a debt to equity swap to convert US$7,159,470 of the Fuel Facility into 298,311,234 fully paid ordinary shares of TerraCom. At that time the carrying value of the fuel facility, including accrued interest, was US$8,733,335. The remaining principal of US$1,573,863 has a repayment date of 30 January 2018 and will accrue interest at 12.5% per annum payable on the principal repayment date. No gain or loss has been recorded on the conversion of debt to equity.

(d) Non-Interest bearing loan

This amount relates to US$3m due by the Group to Noble and is payable by the subsidiary Enkhtunkh Orchlon LLC. This amount is due for repayment on 1 October 2020. The Share Sale Agreement also included up to US$4,000,000 to be advanced by Noble to the Group for furtherance of the business.

(e) Dragline facility

Upon completion of the Blair Athol Coal mine acquisition the Group met the conditions precedent which triggered a AU$3 million drawdown of the loan with Two Thirty One Pty Limited (being a related party of Link Mining Services Pty Limited.

The total facility is for AU$3.9 million. As at 30 June 2017 AU$3,000,000 was drawdown leaving AU$900,000 undrawn. The AU$900,000 will be utilised to complete the necessary recommissioning activities on the Dragline as part of the Blair Athol recommencement activity.

The facilty is for 26 months from commencement date, bears an interest rate of 12% per annum, and principal and interest payments commencing on 31 July 2017

(f) Accrued finance costs

Accrued finance costs relate to interest accrued to 30 June 2017 on the following facilities;

i. Super senior note facility A - US$1,800,000

ii. Super senior note facility B – US$750,000

iii. Special interest on Bond – US$296,094

iv. Blair Athol working capital facilities – US$45,432

Subsequent to year end, these accrued finance costs have all been paid to the financiers of the Group.

(g) Finance leases

CHPP

Upon completion of the Blair Athol mine acquisition the Group met the conditions precedent for the acquisition of the onsite CHPP for Sedgman Pty Limited. The acquisition of the CHPP has been funded by the Link Mining Services Pty Limited. In addition to the CHPP acquisition, the facility with Link Mining Services Pty Limited included AU$1,500,000 for upgrading and recommissioning the CHPP.

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 Limited for AU$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 total finance lease is for AU$4,500,000 which includes CHPP upgrading and commissioning costs. As at 30 June 2017 AU$3,000,000 was drawn down leaving AU$1,500,000 undrawn.

The lease is for 28 months from the commencement date and bears an implied interest rate of 12% per annum.

Mobile Equipment

Upon completion of the Blair Athol Coal mine acquisition the Group met the conditions precedent which triggered a AU$3,210,000 drawdown of a facility with Link Mining Services Pty Limited.

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 Limited 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 and at the end of the term the mobile equipment will have a negligible value.

The total finance lease is for AU$3,210,000. As at 30 June 2017 the lease was fully drawn. The lease is for 26 months from the commencement date and bear an implied interest rate of 12% per annum.

(h) Security

For the 2017 financial year, and effective from 30 June 2016 as part of the Bond and Super Senior Note facilities establishment, there is a general security arrangement in place which encompasses TerraCom, its subsidiaries assets and its subsidiaries equity.

The exception to this is the following assets which are excluded assets as security under the Bond and Super Senior Notes facilities:

i. Blair Athol stockpile (Australia) – pledged as security to Noble as security for the Blair Athol working capital facility.

ii. BNU (Mongolia) stockpile

iii. Cash provided to the Queensland government as part of the financial assurance and indicative approved conditions for Blair Athol.

iv. Dragline and mobile Equipment acquired as part of Blair Athol mine acquisition for AU$1 purchase price – pledged as security to Link Mining Services Pty Limited (and its related parties).

v. CHPP at Blair Athol – Pledged as security to Link Mining Services Pty Limited.

Note 19 Other Financial Liabilities

	2017	2016
	$	$
CURRENT		
Special Interest Liability	**730,438**	-
	730,438	-
NON-CURRENT		
Special Interest Liability	**4,545,623**	7,880,454
	4,545,623	7,880,454

The above Special Interest Liability is part of the Listed (Euroclear) Bond which is denominated in USD and is subject to translation at every reporting date. The table below outlines the nominal USD Special Interest Liability amount.

Amount expressed in USD		
CURRENT		
Special Interest Liability	**561,853**	-
	561,853	-
NON-CURRENT		
Special Interest Liability	**3,496,493**	5,852,025
	3,496,493	5,852,025

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 acquires the Blair Athol mine in Queensland
- As the Blair Athol mine was acquired during the period, the special interest rate has decreased to 0.75% of total mine gate revenue generated by the Company globally
- 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 has been offset against the carrying value of the debt in note 18.

Note 20 Provisions

	Employee entitlements	Mine rehabilitation and closure (a)	Total
	$	$	$
At 1 July 2016	**262,938**	**696,190**	**959,128**
Effects of foreign exchange on translation	-	(20,998)	(20,998)
Acquisition of Blair Athol	-	75,020,143	75,020,143
Arising/(utilised) during the year	172,906	79,408	252,314
At 30 June 2017	**435,844**	**75,774,743**	**76,210,587**
Current	**435,844**	**-**	**435,844**
Non-current	**-**	**75,774,743**	**75,774,743**
	435,844	**75,774,743**	**76,210,587**

	Employee entitlements	Mine rehabilitation and closure	Total
	$	$	$
At 1 July 2015	53,695	1,015,548	1,069,243
Effects of foreign exchange on translation	-	20,245	20,245
Arising/(utilised) during the year	209,243	(339,603)	(130,360)
At 30 June 2016	262,938	696,190	959,128
Current	262,938	-	262,938
Non-current	-	696,190	696,190
	262,938	696,190	959,128

(a) Increases in the provision for rehabilitation was made during the year as a result of:

- Acquisition of the Blair Athol Coal Mine with an amount of $75,020,143 recognised as part of the purchase price allocation (refer Note 8 – Business Combination); and
- Additional disturbance at the Baruun Noyon Uul (BNU) coking coal mine in Mongolia.

Rehabilitation expenditure is expected to occur over the life of the mining operations and subsequent to the cessation of mining activities (7-15 years).

Note 21 Reserves

		2017	2016
		$	$
Foreign currency translation reserve	(a)	(1,786,248)	(4,139,090)
Acquisition reserve	(b)	(36,684,681)	(36,684,681)
Share based payment/option and warrant reserve	(c)	11,052,802	7,958,848
		(27,418,127)	(32,864,923)

a) Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries and exchange differences on intercompany loans deemed net foreign investments.

	2017	2016
	$	$
Balance at start of period	(4,139,090)	(2,864,418)
Foreign currency gain/(loss) during the period	2,352,842	(1,274,672)
Balance at end of period	(1,786,248)	(4,139,090)

b) Acquisition reserve

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

	2017	2016
	$	$
Balance at start of period	(36,684,681)	(36,684,681)
Decrease during the period	-	-
Balance at end of period	(36,684,681)	(36,684,681)

c) Share based payments/option and warrant reserve

The share option and warrant reserve records the fair value of share options and warrants issued by the Group. Refer to Note 24 for additional details.

	2017	2016
	$	$
Balance at start of period	7,958,848	7,958,848
Increase during the period	3,093,954	-
Balance at end of period	11,052,802	7,958,848

Note 22 Issued capital

	2017	2016
	$	$
3,013,244,790 (2016: 2,400,931,258) Ordinary Shares	**212,062,345**	195,276,818

a) Ordinary shares

	No.	$
Balance at 1 July 2016	**2,400,931,258**	195,276,818
Ordinary shares issued on 9 August 2016 at a placement issue price of $0.0166 per share	**80,849,502**	1,342,102
Ordinary shares issued on 6 September 2016 at a placement issue price of $0.0206469	**55,407,834**	1,144,000
Ordinary shares issued on 6 September 2016 at a placement issue price of $0.0215	**44,411,629**	954,850
Ordinary shares issued on 14 December 2016 at a placement issue price of $0.03	**133,333,333**	4,000,000
Ordinary shares issued on 30 June 2017 from a debt to equity swap at an issue price of $0.032 per share	**298,311,234**	9,545,959
Share issuance expenses	**-**	(201,384)
Balance at 30 June 2017	**3,013,244,790**	212,062,345

	No.	$
Balance at 1 July 2015	1,095,928,523	186,354,850
Ordinary shares issued on 29 January 2016 at a placement issue price of $0.0065	221,489,379	1,439,681
Ordinary shares issued on 29 January 2016 at a placement issue price of $0.0069	1,023,066,046	7,059,156
Ordinary shares issued 26 February 2016 at a placement issue price of $0.0070	60,447,310	423,131
Balance at 30 June 2016	2,400,931,258	195,276,818

Capital management

Directors and management control the capital of the Group with a focus to achieve a good debt to equity ratio, provide the shareholders with adequate returns and also ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Directors and management effectively manage the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, refinancing of existing financing facilities, establishment of new financing facilities, distributions to shareholders and share issues.

Note 23 Cash flow Information

a) Reconciliation of cash balances

	2017	**2016**
	$	**$**
Cash and cash equivalents	**8,586,623**	1,199,183
Balance per Statement of Cash Flows	**8,586,623**	1,199,183

b) Reconciliation of result for the year to cash flows from operating activities

Reconciliation of net income to net cash provided by operating activities:

	2017	2016
	$	$
Loss for the year – before income tax	**(14,565,737)**	(51,785,671)
Non-cash flows in loss:		
- depreciation and amortisation	**4,872,730**	3,860,480
- Gain on BA acquisition	**(45,739,430)**	-
- finance interest, fees and penalties irrevocably waived	**-**	(39,653,996)
- Interest expense on interest bearing loans (accrued)	**15,806,205**	8,209,623
- Finance expense on amortisation of Listed (Euroclear) Bond	**6,157,314**	18,990,172
- Finance charge on amortisation of special interest	**120,187**	-
- currency loss/(gain)	**(58,946)**	3,311,870
- share based payments	**3,093,954**	423,131
- impairment losses	**-**	36,808,252
- exploration write off	**3,415,245**	646,224
- Intangible assets write off	**809,099**	-
- share of loss of associates company	**9,154**	3,949
- receipts from customers reclassed under investing activities		1,353,812
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	**1,647,086**	(2,166,436)
- (increase)/decrease in other assets	**2,212,260**	(369,180)
- (increase)/decrease in inventory	**(1,918,149)**	(539,220)
- increase/(decrease) in trade and other payables	**16,696,198**	6,097,489
- increase/(decrease) in provisions	**231,316**	(110,115)
- increase/(decrease) in other liabilities	**(2,604,393)**	-
Cash flow used in operating activities	**(9,815,907)**	(14,919,616)

Note 24 Share-based payments

The following share based payments were made during the reporting period:

i. 29 August 2016 – 30,000,000 unlisted options issued to Fosters Stockbroking Pty Ltd for the provision of institutional research coverage services. The options were issued in two tranches of 15,000,000 at a strike price of $0.03 and $0.045 respectively and an expiry date of 31 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 30 June 2017. An expense of $381,161 has been recognised within consulting fees in the income statement.

ii. 30 November 2016 – 73,318,740 fully paid ordinary shares were approved as a sign-on bonus to be allocated to Tarva, a company that Cameron McRae controls. The sign-on share bonus was granted upon approval at the Company's AGM on 30 November 2016. As at 30 June 2017 these shares have not yet been issued to Tarva.

   At the Company's AGM held on 30 November 2016 shareholders approved a $600,000 sign-on bonus (fully paid ordinary shares for nil consideration) to Cameron McRae, through the Executive Chairman Consultancy Agreement with Tarva Investment and Advisory LLC (Tarva) a company which he controls, with a conditions precedent that shareholder approval be obtained before granting the bonus. At the time of agreeing this bonus, the average VWAP of TerraCom's shares were $0.008183 which entitled Mr McRae to 73,813,740 fully paid ordinary shares for nil consideration. For accounting standard purposes, a share based payment expense of $2,712,793 was recognised in the profit and loss statement for the year ended 30 June 2017 as the grant date for the shares was not until 30 November 2016 (the date shareholder approval was obtained) and the fair value of the shares was determined using the market value of the shares as at 30 November 2016, which was $0.037 per fully paid ordinary share. As at 30 June 2017 these shares have not yet been issued to Tarva.

Note 25 Subsidiaries

a) Subsidiaries

	Country of incorporation	Percentage owned (%)* 2017	Percentage owned (%)* 2016
Parent entity:			
TerraCom Limited	Australia		
Subsidiaries:			
FTB (QLD) Pty Limited	Australia	**100**	100
Sierra Coal Pty Limited	Australia	**100**	100
Orion Mining Pty Limited	Australia	**100**	100
Orion Housing Pty Limited	Australia	**100**	-
Terra Energy Limited	Australia	**100**	100
Clyde Park Coal Pty Limited*	Australia	**64.4**	64.4
Guildford Coal (Mongolia) Pty Limited *	Australia	**83.87**	83.87
Guildford Infrastructure (Mongolia) Pty Limited	Australia	**100**	100
Subsidiaries of Terra Energy Limited:			
Tellus Commodities Pte Limited	Singapore	**100**	100
Subsidiaries of Guildford Coal (Mongolia) Pty Limited:			
Tellus Marketing Pte Limited	Singapore	**100**	100
Subsidiaries of Guildford Infrastructure (Mongolia) Pty Limited:			
Terra Infrastructure Pte Limited	Singapore	**100**	100
Subsidiaries of Tellus Marketing Pte Limited:			
Alag Tvesh LLC**	Mongolia	**100**	100
Subsidiaries of Tellus Commodities Pte Limited:			
Terra Energy LLC**	Mongolia	**100**	100
Subsidiaries of Terra Infrastructure Pte Limited:			
Enkhtunkh Orchlon LLC**	Mongolia	**100**	100
Subsidiaries of Terra Energy LLC:			
Tsagaan Uvuljuu LLC**	Mongolia	**100**	100
Subsidiaries of Tsagaan Uvuljuu LLC:			
Terra Coal Processing LLC**	Mongolia	**100**	-

* Percentage of voting power is in proportion to ownership

** These subsidiaries have a 31 December year end for Mongolian statutory purposes to comply with the various laws and regulations within Mongolia.

Subsidiaries with material non-controlling interests

Set out below is the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group, before any inter-group eliminations and consolidation entries:

Name of subsidiaries	**Clyde Park Pty Limited**		**Guildford Coal (Mongolia) Pty Limited ***	
	2017	2016	**2017**	2016
Ownership held by NCI	**35.60%**	35.60%	**16.10%**	16.10%
Profit / loss allocated to NCI	**(14,214)**	(374,731)	**(206,059)**	(3,110)
Purchase of NCI	**-**	-	**-**	-
Accumulated NCI of subsidiary	**2,948,267**	2,962,481	**1,111,971**	1,323,836
Current assets	**178**	4,465	**102**	1,379
Non-current assets	**2,949,068**	3,360,837	**1,112,351**	1,323,632
Current liabilities	**(979)**	(402,821)	**(482)**	(1,176)
Non-current liabilities	**-**	-	**-**	-
	2,948,267	2,962,481	**1,111,971**	1,323,835

Name of subsidiaries	**Clyde Park Pty Limited**		**Guildford Coal (Mongolia) Pty Limited**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenue	**-**	-	**-**	24
Expenses	**(39,927)**	(1,052,617)	**(1,279,866)**	(19,302)
Profit / loss allocated to NCI	**(39,927)**	(1,052,617)	**(1,279,866)**	(19,278)
Summarised consolidated statement of cash flows				
Cash flows from/(used in) operating activities	**8**	(20,442)	**57**	(56,091)
Cash flows from/(used in) investing activities	**-**	(14,928)	**-**	-
Cash flows from/(used in) financing activities	**-**	34,596	**-**	53,539
Net increase / (decrease) in cash and cash equivalents	**8**	(774)	**57**	(2,552)

* Includes Tellus Marketing Pte Limited and Alag Tvesh LLC

Note 26 Fair value measurement

The Group measures all of its financial assets and financial liabilities at amortised cost. No financial instruments are measured at fair value on a recurring basis.

Fair value hierarchy

AASB 13 *Fair Value Measurement* requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

Level 1 - Measurement based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 - Measurement based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Measurement based on unobservable inputs for the asset or liability.

The table below shows the assigned categorisation within the fair value hierarchy for each financial asset and liability that is required to disclose fair value:

			Fair Value & Hierarchy Level			
			Level 1	Level 2	Level 3	Total
30-Jun-17	**Note**	**Carrying Value**	**$**	**$**	**$**	**$**
Non-Recurring fair value measurements for which fair value is disclosed						
Trade and other receivables	10	9,925,886	-	5,159,270	4,766,616	9,925,886
Secured deposit	11	77,630,898	-	77,630,898	-	77,630,898
Other Assets	12	383,740	-	383,740	-	383,740
Trade and other payables	17	44,092,398	-	44,092,398	-	44,092,398
Borrowings	18	186,378,385	-	176,615,168	-	176,615,168
Special interest liability	19	5,276,061	-	-	5,276,061	5,276,061

			Fair Value & Hierarchy Level			
			Level 1	Level 2	Level 3	Total
30-Jun-16		**Carrying Value**	**$**	**$**	**$**	**$**
Non-Recurring fair value measurements for which fair value is disclosed						
Trade and other receivables	10	8,278,800	-	201,407	8,077,393	8,278,800
Other Assets	12	2,596,000	-	2,596,000	-	2,596,000
Trade and other payables	17	26,915,749	-	26,915,749	-	26,915,749
Borrowings	18	161,205,819	-	157,132,754	4,073,065	161,205,819
Special interest liability	19	7,880,454	-	-	7,880,454	7,880,454

Valuation techniques and inputs used to measure fair values.

Fair values

Trade and other receivables

The carrying value of current trade and other receivables approximates its fair value given the short-term nature of the receivable.

Non-current trade and other receivables are measured at amortised cost. The fair value of these receivables is determined by discounting the future expected payments using an appropriate discount rate. Maturities of these amounts are not fixed, and determined upon meeting certain milestones (such as generating revenues to recover VAT receivables), and operational outcomes which have been estimated by management.

Secured Deposit

The carrying value of secured deposit approximates its fair value given the short-term nature of the asset.

Other Assets

The carrying value of current other assets approximates its fair value given the short-term nature of the asset. Non-current other assets are measured at amortised cost. The fair value of these assets is determined by discounting the future expected payments using an appropriate discount rate. These asset fair values are assumed at their carrying value as they represent cash held on deposit with no fixed maturity.

Trade and other payables

The carrying value of current trade and other payables approximates its fair value given the short-term nature of the liability. The fair value of non-current trade and other payables is estimated by discounting future cash flows using rates currently available for debt on similar terms.

Borrowings

The fair value of Listed Bond, Super Senior Note A and Super Senior Note B are measured at amortised cost. There has not been a significant change in fair value since the issuance date on 30 June 2016 as the liability is carried at amortised cost and the effective interest rate used to discount future principal and interest cash flows has not changed significantly from the market rate on issuance.

The Non-interest bearing loan was acquired by the Group during the acquisition of Enkhtunkh Orchlon LLC on 1 October 2015 and has been fair valued as at the date of acquisition. As the loan is interest free the fair value has been calculated using a market rate of interest at 30 June 2017.

The fair value of the Fuel Exclusivity Facility approximates its carrying value at 30 June 2017 due to its short-term nature.

The fair value of the dragline facility approximates its carrying value at 30 June 2017 due to its short term nature.

Special interest liabilities

The fair value of special interest liability is determined by applying a present value income approach to the estimated mine gate revenues projected over the duration of the instrument, multiplied by the special interest rate and discounted using an appropriate discount rate.

There were no changes during the period in the valuation techniques used by the Group to determine fair values.

Note 27 Capital and leasing commitments

a) Finance leases

The Group has finance leases for various items of plant and machinery. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are, as follows:

	2017	2017	2016	2016
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	$	$	$	$
Within one year	2,938,765	2,938,765	-	-
After one year but not more than five years	4,230,165	3,271,235	-	-
More than five years	-	-	-	-
Total minimum lease payments	7,168,930	6,210,000	-	-
Less amounts representing finance charges	(958,930)	-	-	-
Present value of minimum lease payments	6,210,000	6,210,000	-	-

Operating leases

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	2017	2016
	$	$
Payable minimum lease payments:		
- not later than one year	6,733,425	227,076
- later than one year, not later than five years	14,813	17,409
	6,748,238	244,485

Capital expenditure commitments

The exploration commitments for Exploration Permits for Coal (EPCs) to the Department of Mines and Energy (Queensland) and Mongolian authorities are tabulated below:

	2017	2016
	$	$
Payable:		
- not later than one year	18,595,167	1,718,292
- later than one year, not later than five years	6,184,908	8,094,194
	24,780,075	9,812,486

Note 28 Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, and loans to and from subsidiaries and from external lenders.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2017 $	2016 $
Financial assets – loans and receivables			
Cash and cash equivalents		**8,586,623**	1,199,183
Trade and other receivables	10	**9,925,886**	8,278,800
Secured deposit	11	**77,630,898**	-
Other assets	12	**383,740**	2,596,000
		96,527,147	12,073,983
Financial liabilities – amortised cost			
Trade and other payables	17	**44,092,398**	26,915,749
Financial borrowings	18	**186,378,385**	161,205,819
Other financial liabilities	19	**5,276,061**	7,880,454
		235,746,844	196,002,022

Specific financial risk exposures and management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk, and commodity and equity price risk.

a) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the Group.

The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

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.

b) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financial activities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit risk profile; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The tables following reflect an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that financing facilities will be rolled forward

	Within 1 Year		1 to 5 Years		More than 5 Years		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$	**$**	$
Financial liabilities due for payment								
Trade and other payables	**38,522,868**	26,964,353	**5,569,530**	-	**-**	-	**44,092,398**	26,964,353
Provisions	**3,541,683**	-	**13,651,436**	-	**58,987,468**	-	**76,180,587**	-
Borrowings (excluding finance leases)	**25,468,636**	27,609,366	**154,699,749**	133,547,849	**-**	-	**180,168,385**	161,157,215
Finance leases	**2,938,765**	-	**4,230,165**	-	**-**	-	**7,168,930**	-
Other financial liabilities	**730,438**	-	**4,545,623**	7,880,454	**-**	-	**5,276,061**	7,880,454
Total contractual outflows	**71,202,390**	54,573,719	**182,696,503**	141,428,303	**58,987,468**	-	**312,886,361**	196,002,022
Total expected outflows	**71,202,390**	54,573,719	**182,696,503**	141,428,303	**58,987,468**	-	**312,886,361**	196,002,022
Financial assets - cash flows realisable								
Cash and cash equivalents	**8,586,623**	1,199,183	**-**	-	**-**	-	**8,586,623**	1,199,183
Trade and other receivables	**5,159,270**	201,407	**4,766,616**	8,077,393	**-**	-	**9,925,886**	8,278,800
Secured deposit	**8,660,396**	-	**13,651,436**	-	**55,319,066**	-	**77,630,898**	-
Other Assets	**90,912**	470,073	**292,828**	2,125,927	**-**	-	**383,740**	2,596,000
Total anticipated inflows	**22,497,201**	1,870,663	**18,710,880**	10,203,320	**55,319,066**	-	**96,527,147**	12,073,983
Net inflow (outflow) on financial instruments	**(48,705,189)**	(52,703,056)	**(163,985,623)**	(131,224,983)	**(3,668,402)**	-	**(216,359,214)**	(183,928,039)

c) Market risk

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period, whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

As at 30 June 2017, the Group holds no borrowings which are subject to interest rate fluctuations (2016: $nil).

Foreign exchange risk

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. 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.

Commodity 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.

During the financial year the Group finalised the acquisition of the Blair Athol Thermal Coal Mine in Australia and recommenced production at its BNU Coking Coal Mine in Mongolia following the successful implementation of an alternate supply chain. The Group is continuing to monitor its exposure to commodity price risk. As at reporting date thermal coal and coking coal prices are up 56% and 97% respectively since their low in January 2016. There is still uncertainly 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 uncertainly is reduced the Group will consider strategies to manage this risk.

Foreign currency risk sensitivity analysis

At 30 June 2017, the effect on profit and equity as a result of changes in foreign currency, with all other variables remaining constant (including the functional currency of each entity) would be as follows:

	2017	2016
	$	$
Change in profit		
- Increase in US Dollar by 1%	**(226,725)**	1,861,217
- Decrease in US Dollar by 1%	**221,443**	(1,824,361)
Change in equity		
- Increase in US Dollar by 1%	**(226,725)**	1,861,217
- Decrease in US Dollar by 1%	**221,443**	(1,824,361)

Fair value estimation

Fair value is 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. The fair values of financial assets and financial liabilities presented in the financial statements, except for those reported in Note 26, are not materially different to the carrying value of these assets and liabilities.

Note 29 Directors and key management personnel disclosures

a) Details of directors and key management personnel

Names	Position	Appointed/Resigned
Non-Executive Directors		
Mr Wallace King AO	Non-executive, Independent Director	Appointed 17/5/2017
	Non-executive Chairman	Appointed 1/9/2017
The Hon Craig Wallace	Non-executive Deputy Chairman, Independent Director	
Mr Tsogt Togoo	Non-executive, Independent Director	
Mr James Soorley	Non-executive, Independent Director	Appointed 8/3/2017
Mr Philip Forrest	Non-executive, Independent Director	
Ms Loo Hwee Fang	Non-executive, Independent Director	Resigned 8/03/2017
Executives		
Mr Cameron McRae	Executive Chairman	Resigned 1/9/2017
	Non-executive Director	Appointed 1/9/2017
Mr Michael Avery	Executive Director Vice President – Corporate Development	
Mr David Stone	Executive Director Vice President - Operations	Appointed 4/9/2016 Resigned 31/8/2017
Mr Nathan Boom	Company Secretary	
	Financial Controller	Changed Role 31/10/2016
	General Manager – Corporate Development	Appointed 1/11/2016, Changed Role 14/3/2017
	Chief Financial Officer	Appointed 15/3/2017
Mr Karl Arnold	Chief Financial Officer	Resigned 10/3/2017
Mr Julien Lawrence	Chief Development Officer	Resigned 15 December 2016

Totals of remuneration paid

Directors and key management personnel remuneration included within employee expenses for the year is shown below:

	2017	2016
	$	$
Short-term employee benefits	2,467,271	2,447,205
Short-term non-cash incentives	9,590	812
Post-employment benefits	104,030	121,795
Share-based payment	2,712,793	-
	5,293,684	2,569,812

The remuneration report contained in the directors' report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2017.

Note 30 Contingencies

Contingent liabilities

The Company's Mongolian entities undergo standard mandatory taxation audits on an annual basis. The outcome of these audits may result in additional tax balances payable. The Group had the following contingent liabilities at the end of the financial year:

FTB (QLD) Pty Ltd

The FTB (QLD) Pty Ltd (FTB) Share Sale Agreement dated 14 September 2011 includes an agreement to pay a royalty of $0.50 per tonne of coal mined from the FTB tenements and sold to a third party (tenements acquired as part of the sale agreement included 1300, 1394, 1477, 1478, 1479, 1480, 1574, 2047, 2049 and 2105). The royalty applies to a maximum tonnage of 10 million tonnes (Mt) per year and will cease 20 years from the date of first production of coal from any of the FTB tenements. No amount has been paid or accrued as at 30 June 2017.

Springsure Mining Pty Limited

The Springsure Mining Pty Limited (Springsure) Share Sale and Purchase Agreement for TerraCom Limited's (TerraCom) purchase of 50.52% ownership in Springsure provided for the following consideration:

- Initial purchase consideration of $250,000;
- Initial Additional Consideration, being contingent payments of $2,200,000 for each of the first five tranches of 10Mt of JORC (Joint Ore Reserves Committee) Indicated Resource;
- Final Additional Consideration, being contingent payments of $1,800,000 for each of the next five tranches of 10Mt of JORC Indicated Resource; and
- Initial Additional Consideration and Final Additional Consideration total contingent payments to a maximum of $20,000,000, which is payable in cash or TerraCom shares.

On the 29 November 2013 the Company announced a Maiden JORC Indicated Resource of 43Mt in Exploration Permit for Coal (EPC) 1674, Springsure Project. The Indicated Resource triggered the Initial Additional Consideration settlement from TerraCom under the Springsure Share Sale and Purchase Agreement by which Springsure was acquired by TerraCom (Springsure Settlement). The counterparty to the Share Sale and Purchase Agreement assigned the Springsure Settlement to A.C.N. 137 271 642 Pty Limited. TerraCom consented to this assignment in return for adjustments to the Springsure Settlement which improved the commercial terms for the Company. The revised commercial terms were as follows:

- The Initial Additional Consideration was to have been $11million. However, TerraCom would only make payments for four 10Mt tranches (totalling $8.8m) as A.C.N. 137 271 642 Pty Limited had agreed to forego, after negotiations with TerraCom, any settlements for the fifth 10Mt tranche;
- TerraCom was released from any obligation to pay the fifth 10Mt tranche of the initial additional consideration; and
- Payment was made by the issue to A.C.N. 137 271 642 Pty Limited of fully paid ordinary shares in TerraCom, not a cash settlement.

Pursuant to a deed poll dated 19 December 2012, TerraCom acknowledged the assignment by counterparty to the Share Sale and Purchase Agreement of its rights to receive the Final Additional Consideration to Gleneagle Securities Nominees Pty Ltd.

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.

Enkhtunkh Orchlon LLC

TerraCom, through a wholly owned subsidiary, acquired Enkhtunkh Orchlon LLC (EO) from Noble Resources International Pte Limited (Noble) which holds Exploration Licence 12600X – being the Khar Servegen (KS) Coking Coal Resource which is located adjacent to the Baruun Noyon Uul (BNU) Mine. The consideration included:

- Initial purchase consideration of US$6.0 million; and
- Deferred purchase consideration, which includes a royalty payable to Noble as follows:
  - for the first 5 million tonnes of coal produced and sold, US$7.50 per tonne;
  - for the next 5 million tonnes of coal produced and sold, US$4.25 per tonne;
  - thereafter, US$1.25 per tonne of coal produced and sold; and
  - aggregate royalty amount paid to Noble equals US$65.0 million.

Note 31 Related party disclosures

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties are summarised as follows:

Transactions with director – Cameron McRae

Cameron's engagement is through consultancy firm Tarva Investments and Advisory LLC (Tarva) to which he is the appointed Executive Director. During the year, Tarva received payments of $470,996 (2016: $nil) representing his Executive Chairman remuneration and reimbursements of business expenditure. At 30 June 2017 the amount payable to Tarva is $71,429 (2016: $53,687).

Transactions with director – James Soorley

During March 2017 the Company appointed Mr James Soorley as Non-Executive, Independent Director of TerraCom Limited and Chairman of Orion Mining Pty Limited, Jim's engagement is through the Maji Family Trust (Maji) to which he is a beneficiary. During the year, Maji Received $19,516 (2016:$nil). At 30 June 2017 the amount payable to Maji is $23,401 (2016: $nil).

Note 32 Events occurring after the reporting date

In the interval between the end of the financial year and the date of this report there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years other than the following:

- On 6 July 2017, the Company advised the market that it had paid the Super Senior Note A and Super Senior Note B facility interest for the period 1 July 2016 to 7 July 2017. The total interest paid was US$2,599,583.
- On 18 July 2017 the Company announced the initial overburden has been removed to facilitate first coal extraction at Blair Athol.
- On 8 August 2017 the Company announced the following Blair Athol updates:
    - Overburden has been removed to facilitate the first coal extraction;
    - Production for first 6 months is forecasted to be 818kt, ramping up from August 2017 to 205kt in January 2018;
    - Purchase agreement signed for the sale of the first 6 months of production. For this period the coal will be transported to a nearby train loading facility to be loaded onto trains and transported to DBCT for export; and
    - Establishing Blair Athol's own train loading facility in the next 6 to 9 months (in conjunction with Aurizon) through recommissioning of the rail line that runs across the Blair Athol site which connects into the main Goonyella Rail Line which runs to DBCT.
- On 15 August 2017 the Company announced the following Blair Athol updates:
    - Coal production has commenced.
- On 4 September 2017 the Company announced:
    - Mr Wal King AO appointed Non-Executive Chairman of the Company
    - Cameron McRae stepped down to Non-Executive Director
    - David Stone resigned from the Company as an Executive Director and Vice President - Operations.
    - Blair Athol mined 25,000 tonnes for the month of August and invoiced 9,000 tonnes.

Note 33 Parent entity

The following information has been extracted from the books and records of the parent Company, TerraCom Limited, and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, TerraCom Limited has been prepared on the same basis as the consolidated financial statements except as disclosed below.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss accounts, rather than being deducted from the carrying amount of these investments.

	2017 $	2016 $
Statement of Financial Position		
Assets		
Current assets	**685,199**	861,871
Non-current assets	**206,400,430**	148,729,408
Total Assets	**207,085,629**	149,591,279
Liabilities		
Current liabilities	**34,759,150**	29,986,692
Non-current liabilities	**148,972,374**	137,255,238
Total Liabilities	**183,731,524**	167,241,930
Net assets/(liabilities)	**(23,354,105)**	(17,650,651)
Equity		
Issued capital	**212,062,345**	195,276,818
Retained earnings/accumulated losses	**(243,502,731)**	(220,886,317)
Foreign currency translation reserve	**(2,966,521)**	-
Reserves	**11,052,802**	7,958,848
Total Equity/ (Deficiency)	**(23,354,105)**	(17,650,651)
Consolidated Statement of Comprehensive Income		
Total profit or loss for the year	**(22,616,416)**	(53,068,166)
Total comprehensive income	**(22,616,416)**	(53,068,166)

Note 34 Company details

During the financial year the Company had the following registered address:

Blair Athol Mine Access Road

Clermont QLD 4721

Australia

(from 23 September 2017)

34 Hewitts Avenue,

Thirroul, New South Wales, 2515

(from 1 July 2016 to 22 September 2017)

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements and notes for the year ended 30 June 2017 are in accordance with the *Corporations Act 2001* and:

   a. comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

   b. give a true and fair view of the financial position and performance of the consolidated Group;

2. the Executive Chairman, Executive Director and Chief Financial Officer have given the declarations required by Section 295A that:

   a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

   b. the financial statements and notes for the financial year comply with the Accounting Standards; and

   c. the financial statements and notes for the financial year give a true and fair view.

3. in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

....

Mr Wallace King AO

Non-Executive Chairman

Dated 29 September 2017

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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 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year 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:

(i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

(ii) 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 Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional* Accountants (the Code) that are relevant to our audit of the financial report in Australia; and we have 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.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern. As a result of the working capital deficiency and the debt obligations of the Group, there is significant uncertainty as to whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

The Group's ability to continue as a going concern is reliant on profitable mining activities at BNU North and Blair Athol, (including achievement of the Blair Athol production milestones agreed under the working capital facility); successful repayment of interest and principle amounts due on the Group's debt facilities (in October 2017, December 2017, January 2018 and June 2018) or the continued co-operation of the debt holders to defer or re-negotiate these payments or refinance the debt facilities; and continued co-operation of existing creditors to defer and manage payment obligations for the balances that remain outstanding at 30 June 2017.

Should these not occur, the Group may be required to raise additional funds through debt, equity or asset sales to meet those debt repayments and existing creditor obligations.

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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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 statements. 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. Acquisition of the Blair Athol Coal Mine

Why significant	How our audit addressed the key audit matter
On 31 May 2017 the Group completed the acquisition of the Blair Athol coal mine in Queensland for $1. As disclosed in Note 8 in the financial report, the Group has recorded total assets of $140,362,187, total liabilities of $94,622,756 and a gain on acquisition of $45,739,430. The accounting for the acquisition was considered a key audit matter due to the magnitude of the gain on acquisition and the judgement required by the Group to measure the fair values of the following assets and liabilities acquired: ► Property, plant and mining equipment; ► Mining lease/reserves; ► Secured Deposits ► Rehabilitation provisions; ► Deferred tax assets and liabilities. Note 8 to the financial statements discloses the details of the provisional acquisition accounting performed by the Group and key assumptions adopted.	In completing our audit procedures we: ► Evaluated the competency, independence and objectivity of the external valuation experts used by the Group. ► Involved our rehabilitation specialists in the assessment of the fair value calculations as follows: - Examined the mine closure plans to understand the planned timing and rehabilitation strategy; - Performed a site visit to assess the completeness of the required rehabilitation activities; - Assessed the cost estimates used in the rehabilitation calculations with reference to recent market data and historical mining costs; - Tested the mathematical accuracy of the rehabilitation net present value calculations and discount rate applied. ► Involved our valuation specialists in the assessment of the fair value calculations as follows: - Considered whether the modelling methodology applied was in accordance with the requirements of Australian Accounting Standards; - Assessed the assumptions used by comparing key assumptions such as commodity prices, discount rates, inflation rates, and foreign exchange rates to external market data, and performed sensitivity analysis using a range of assumptions; - Compared reserves data and mine life data used to the most recent JORC statements; - Compared operating cost forecasts to signed contractor and supplier agreements and other external information. ► Involved our taxation specialists in the assessment of the fair value calculations as follows: - Considered the availability of carryforward tax losses; - Considered the accounting for the tax effects on the acquisition accounting. ► Considered the classification of the financial assets (secured deposit) received and the fair value on acquisition. ► Assessed the adequacy of the disclosures in relation to the acquisition in accordance with the requirements of AASB 3: *Business Combinations*.

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2. Asset Recoverability – Mongolia Mine Development Asset

Why significant

The Group's Mongolian mine development asset, which relates to the BNU North mine, represents 34% of the Group's total assets

At the end of each reporting period, the Group exercises judgment in assessing the recoverability of this asset.

We considered this to be a key audit matter because of the significant judgment involved in considering whether indicators of impairment are present, whether impairment losses recognised in prior periods may need to be reversed and in determining the recoverable amount of the asset.

The determination of the recoverable amount is based on forecast future cash flows which use forward looking estimates relating to future coal prices, production and development costs and reserves which are inherently difficult to determine with precision and there is a level of judgment applied in determining other key inputs. Refer to Note 15.

How our audit addressed the key audit matter

We assessed how the Group considered whether any indicators of impairment were present or indicators that an impairment loss recognised in prior periods may need to be reversed.

We assessed the Group's determination of the recoverable amount of the asset through the following key audit procedures:

- Evaluated the competency, independence and objectivity of the external valuation specialists engaged by the Group, by considering their professional qualifications and experience;
- Involved our valuation specialists to evaluate whether the modelling methodology applied complied with the requirements of Australian Accounting Standards;
- Our valuation specialists compared key assumptions such as commodity prices, discount rates, inflation rates, country risk rates and foreign exchange rates to external market data;
- Performed a sensitivity analysis using a range of assumptions;
- Compared reserves and operating costs data used by the expert in the valuation report to the most recent JORC statements and actual operating cost information;
- Evaluated the competency, independence and objectivity of the experts who produced the JORC resource estimates used in the recoverable amount assessment by considering their objectivity, professional qualifications and experience;
- Assessed the adequacy of the associated disclosures in the financial report.

3. Asset Recoverability – Exploration and Evaluation Assets

Why significant	How our audit addressed the key audit matter
The Group's Exploration and Evaluation ("E&E") assets, relate to projects in the South Gobi and Mid Gobi regions 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. The results of exploration work also determines 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 mining properties either through the successful development or sale. The Group wrote-off $3,415,245 of E&E assets that had previously been capitalised. The Group continues to carry exploration assets of $44,017,467 on the balance sheet as at 30 June 2017. These assets are disclosed in Note 15(a) of the financial statements. We considered the recoverability of E&E assets to be a key audit matter because of the significant judgment involved in considering whether indicators of impairment are present, whether impairment losses recognised in prior periods may need to be reversed and in determining the recoverable amount of the asset.	In completing our audit procedures we: ► Considered the Group's right to explore in the relevant exploration areas which included obtaining and assessing relevant documentation such as license agreements; ► Considered the Group's intention to carry out significant exploration and evaluation activity in the relevant exploration area which included the review of the Group's exploration budgets, and enquiries with senior management and Directors of the Group as to their intentions and strategy; ► Examined the Group's analysis of results relating to exploration and evaluation activities carried out in the relevant licensed area by obtaining drilling results during the period; ► Considered whether any other data or information available indicated that the carrying amount of the E&E assets is unlikely to be recovered in full from successful development or by sale; ► Evaluated the competency, independence and objectivity of the external specialists engaged by the group, by considering their professional qualifications and experience; ► Involved our valuation specialists to evaluate the whether the methodology applied was in accordance with the requirements of Australian Accounting Standards; ► Involved our valuation specialists to compare transaction and resource multiples adopted in the valuation report to external market data; ► Performed sensitivity analysis using a range of multiple assumptions; ► Where available, compared resource data used by the external specialist to the most recent JORC statements; ► Assessed the adequacy of the associated disclosures in the financial report.

Information Other than the Financial Statements and Auditor's Report

The Directors are responsible for the other information. The other information comprises the information in the Group's Annual Report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

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

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 upon the work we have performed, 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.

Directors' Responsibilities 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, 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or 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 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 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 entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- 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 consolidated financial statements represent 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.

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Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 19 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of TerraCom Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

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
29 September 2017

SHAREHOLDER INFORMATION
(AS AT 23 OCTOBER 2017)

DISTRIBUTION OF SHAREHOLDINGS

AS AT 23 OCTOBER 2017

Range	Securities	%	No. of holders	%
100,001 and Over	2,973,563,312	98.68	565	26.63
10,001 to 100,000	36,790,066	1.22	920	43.36
5,001 to 10,000	1,971,045	0.07	239	11.26
1,001 to 5,000	863,475	0.03	283	13.34
1 to 1,000	56,892	0.00	115	5.42
Total	**3,013,244,790**	**100.00**	**2,122**	**100.00**

UNMARKETABLE PARCELS

The number of shareholders holding less than a marketable parcel is 862 (6,081,626 ordinary shares).

TWENTY LARGEST SHAREHOLDERS

AS AT 23 OCTOBER 2017

Rank	Name	Shares held	% of Issued Capital
1	BNP PARIBAS NOMS PTY LTD <UOB KH P/L AC UOB KH DRP>	756,449,911	25.10
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	448,889,593	14.90
3	NATIONAL NOMINEES LIMITED <DB A/C>	332,554,568	11.04
4	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	263,880,317	8.76
5	CITICORP NOMINEES PTY LIMITED	227,211,275	7.54
6	EQUITAS NOMINEES PTY LIMITED <3083923 A/C>	100,000,000	3.32
7	J P MORGAN NOMINEES AUSTRALIA LIMITED	97,801,351	3.25
8	THE SUMMIT HOTEL BONDI BEACH PTY LTD	85,862,025	2.85
9	UBS NOMINEES PTY LTD	80,000,000	2.65
10	SEA HONOUR LIMITED	54,449,502	1.81
11	MRS SARAH HATHWAY	29,999,451	1.00
12	HAYMAKER INVESTMENT PTY LTD <THE HAYMAKER A/C>	27,771,069	0.92
13	BT PORTFOLIO SERVICES LIMITED <WARRELL HOLDINGS S/F A/C>	25,342,221	0.84
14	GLENEAGLE SECURITIES (AUST) PTY LTD	20,720,000	0.69
15	EDM NOMINEES PTY LTD	19,000,000	0.63
16	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <ST A/C>	15,354,200	0.51
17	BNP PARIBAS NOMS PTY LTD <DRP>	15,054,243	0.50
18	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	9,844,366	0.33
19	PERSHING AUSTRALIA NOMINEES PTY LTD <AUST NOMINEE P/L FS A/C>	9,360,635	0.31
20	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	8,476,117	0.28
	Total	**2,628,020,844**	**87.22**

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	555,885,796	18.45
Rastas Limited	466,259,357	15.47
Noble Resources International Pte Limited	298,311,234	9.90
Acecrest Investments Limited	266,259,357	8.84

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	126,308,306	1
Options	1	30,000,000	1