



QUARTERLY REPORT

FOR THE QUARTER ENDED 31 MARCH 2018

TerraCom Limited (“**TerraCom**” or the “**Company**”) (**ASX: TER**) presents its quarterly production activities report for the quarter ended 31 March 2018.

HIGHLIGHTS

- The Company continued to unlock the potential to the Blair Athol mine and is on track to achieve 3.5 million tonnes production for the 2018 calendar year – consisting of 2 million tonnes¹ from the Blair Athol Thermal Coal Mine and 1.5 million tonnes² from the BNU Coking Coal Mine.
- During the quarter the ASX confirmed the Company’s change in classification from a mining exploration company to a mining production company.
- Blair Athol Train Load Out (TLO) was substantially completed by the end of the quarter with practical completion being achieved on the 2nd of April and first train loading commencing on the 6th of April 2018. This TLO has substantial positive impact on the economics of the mine, forecasting to deliver an additional A\$20 per tonne improvement in margin.
- With the completion of the TLO, trucking operations ceased on Friday 30 March 2018 which is a great benefit for the community and Company.
- To date the Company has paid approximately A\$9.9 million (including A\$3.1 million of cash security payments) towards the construction and commissioning of the Blair Athol TLO. Based on the forecasted earnings increase the capital paid to date to the TLO has a capital payback of approximately 3½ months.
- Blair Athol production milestones continued to improved quarter on quarter with coal sales tonnes increasing by 250,000 tonnes or 159% and ROM tonnes increasing by 90,000 tonnes or 29%.
- Rehabilitation at Blair Athol proceeded during the quarter.
- BNU Mine achieved a new daily export record of 10,112 tonnes; an increase of 18% over the prior record of 8,570 tonnes of coal exported from the mine in a single day.
- BNU Mine CHPP is forecasted to be operational from 1 January 2019. Commencement of construction was delayed following deliberate focus of resources (cash and personnel) to the Blair Athol TLO.
- Completion of fully underwritten rights issue which raised gross proceeds of approximately A\$15 million.

FORECAST

- The Company is forecasting for the June 2018 quarter (next quarter) to have consolidated sales of 912,000 tonnes of coal – consisting of 462,000 tonnes of thermal coal from Blair Athol Mine and 450,000 tonnes of coking coal from BNU Mine.
- The Company is forecasting a cash margin (EBITDA) of A\$42 per sales tonne at Blair Athol and A\$18 per sales tonne at BNU for the June 2018 quarter.
- This is forecast to deliver a consolidated EBITDA (cash margin before interest and tax) of A\$25.8 million for the quarter – consisting of A\$19.4 million from Blair Athol Mine, A\$8.1 million from BNU Mine, and after A\$1.7 million of Corporate and Overhead costs.

CONSOLIDATED PRODUCTION

Production Overview: Quarter by Quarter for 9 Months Ending 31 March 2018

	Q1 Sep17	Q2 Dec17	Q13 Mar18	Total
Run of Mine Coal mined (tonnes)	271,468	599,746	612,129	1,483,343
Overburden Mined (bcm)	5,584,092	7,238,321	7,272,177	20,094,590
Equivalent Saleable Production (tonnes)	271,468	563,799	485,243	1,320,510
Sales (tonnes)	158,583	474,882	622,491	1,255,956
Inventory (tonnes)	186,680	290,239	173,923	173,923

Production: Year to Date – 9 Months Ending 31 March 2018

	2018 YTD	2017 YTD	CHANGE	CHANGE %
Run of Mine Coal mined (tonnes)	1,483,343	97,870	1,385,473	1416%
Overburden Mined (bcm)	20,094,590	2,637,224	17,457,366	662%
Equivalent Saleable Production (tonnes)	1,320,510	97,870	1,222,640	1249%
Sales (tonnes)	1,255,956	97,295	1,158,661	1191%
Inventory (tonnes)	173,923	97,870	76,053	78%

CONSOLIDATED FINANCIAL POSITION

Gross working capital of the Company as at 31 March 2018 includes the following:

- Cash on Hand – A\$1.62 million
- Accounts Receivable – A\$20.47 million
- Inventory (at revenue realisation value) – A\$15.60 million

CORPORATE

RIGHTS ISSUE

During the quarter the Company completed a fully underwritten non-renounceable pro-rata accelerated rights issue (Rights Issue):

- Fully sub-underwritten by Bonython Coal No 1 Pty Limited, whose major shareholder is Australian Businessman John Singleton
- Three (3) new shares for every Thirteen (13) existing shares held
- Issue price of \$0.215 per share
- Raised gross proceeds of approximately \$15 million and issued approximately 69.7 million fully paid ordinary shares

In addition to this, a further 4.7 million shares were issued to Bonython in lieu of the Sub-Underwriters Fee (3.5 million shares) and participation in small placement (1.2 million shares).

As at 31 March 2018 the Company had 377.1 million fully paid ordinary shares on issue.

CHANGE IN CLASSIFICATION TO A MINING PRODUCING ENTITY

During the quarter the ASX confirmed the Company's change in classification from a mining exploration company to a mining production company.

As a result of the change in classification:

- the Company will continue to lodge quarterly mining activity reports, but will no longer be required to lodge quarterly cashflow reports (Appendix 5B); and
- the Company will now have to lodge a preliminary final report (Appendix 4E) and half year report (Appendix 4D), in each case within two months of end of the relevant reporting period (30 June and 31 December respectively).

BOARD CHANGES

On 18 January 2018, Matthew Hunter was appointed a Non-Executive Director of TerraCom. Matthew is appointed as OCP Asia's nominee director. He has more than 20 years' experience in the finance industry, most recently with over 10 years' experience in private equity investment. Matthew is presently Non-Executive Director of Silver Heritage Group Limited, Chairman of Measure Australia, a Non-Executive Director of Medirent, Advisory Board Member of AtlasTrend and a Consultant engaged by OCP Asia (TerraCom's largest shareholder and debt holder).

OPERATIONS – AUSTRALIA

TRAIN LOAD OUT COMMISSIONING - BLAIR ATHOL THERMAL COAL MINE

The Company had substantially completed the construction of the new train load-out facility (TLO) within the quarter and practical completion was achieved on the 2nd of April and first train loading commencing on the 6th of April 2018.

To date, the Company has paid approximately A\$9.9 million (including A\$3.1 million of cash security payments) towards the construction and commissioning of the TLO. Based on the forecasted earnings increase of A\$34 million per annum the capital paid to date to the TLO has a capital payback of approximately 3½ months.

The train load-out facility upgraded the existing unused Agricultural rail line which runs across the Blair Athol mine site and connects into the main Goonyella Rail Line, which then continues to Dalrymple Bay Coal Terminal (DBCT). The train load-out facility is operated under contract by a subsidiary of the Toll Group Ltd.

The commissioning of the train load-out facility has allowed the company to cease trucking product to the alternate rail load out facility with 100% of all product now transported through the new dedicated train load-out facility at Blair Athol.

This TLO will have a substantial positive impact on the economics of the BA mine, forecasting to deliver an additional A\$20 per tonne improvement in margin. The Company's dedicated rail load-out facility is forecasted to provide substantial additional Operating Cash Flow and Net Profit Before Tax of A\$34 million per annum which will flow through to consolidated results.



Image: First train entering the new Blair Athol spur line.



Image: First train in position to commence loading



Image: First wagon being loaded



Image: Train loading operations at Blair Athol utilising the new train load-out facility



Image: Pacific National train parked at the Blair Athol train load-out facility

PRODUCTION – BLAIR ATHOL THERMAL COAL MINE

Blair Athol continued to set new production milestones quarter on quarter. Production highlights:

- Coal Sales tonnes increased quarter on quarter by approximately 250,000 tonnes or 159%.
- ROM tonnes increased quarter on quarter by approximately 90,000 tonnes or 29%.
- Overburden removal increased quarter on quarter by approximately 800,000 bcm or 22%.
- Focus on overburden removal during the quarter to maximise ROM production in June 2018 quarter. This will allow the Company to realise additional cash margin per coal sales tonne resulting from the TLO being operational from April 2018.

Production Overview: Quarter by Quarter for 9 Months Ending 31 March 2018

	ACTUAL Q1 Sep17	ACTUAL Q2 Dec17	ACTUAL Q3 Mar18	Total
Run of Mine Coal mined (tonnes)	124,250	317,746	407,952	849,948
Overburden Mined (bcm)	2,221,357	3,739,744	4,348,459	10,309,560
Equivalent Saleable Production (tonnes)	124,250	281,799	294,861	687,115
Sales (tonnes)	46,461	158,087	409,693	614,241
Inventory (tonnes)	77,789	201,118	91,615	91,615

Production: Year to Date – 9 Months Ending 31 March 2018

	2018 YTD	2017 YTD	CHANGE	CHANGE %
Run of Mine Coal mined (tonnes)	849,948	NA	NA	NA
Overburden Mined (bcm)	10,309,560	NA	NA	NA
Equivalent Saleable Production (tonnes)	687,115	NA	NA	NA
Sales (tonnes)	614,241	NA	NA	NA
Inventory (tonnes)	91,615	NA	NA	NA



Image: Coal Handling and Preparation Area



Image: Coal exposed and mined



Image: Excavator at Blair Athol loading Run of Mine Coal into haul truck



Image: Haul truck at Blair Athol hauling Run of Mine Coal to CHPP/ Crusher Facility

SAFETY

The Blair Athol Project suffered a lost time injury in February. The person involved return to work the next day and has fully recovered. TerraCom, along with mining contractor' Link Mining Services, continued its elevated focus on pro-active risk control and enhancing the positive safety culture within the workforce. An awards system was introduced to reward positive contributions to safety with some exceptional nominations.

REHABILITATION AND ENVIRONMENT

Monitoring of the recently completed rehabilitation areas continued during the quarter. Detailed planning for rehabilitation in FY19 is well underway. The capping of the tailings storage facility has commenced ahead of schedule and will continue through to the end of the 2018 calendar year. Rehabilitation of areas utilised for construction of the train load-out facility was completed.



Image: Rehabilitation vegetation developing well

FINANCIAL PERFORMANCE – MARCH 2018 QUARTER

Financial performance summary for March 2018 quarter is as follows:

- Average revenue received per sales tonne was A\$72. The delivery point was the nearby alternate train load out facility and therefore the Company was not responsible for rail and port costs.
- Cash margin (EBITDA) per sales tonne was A\$11. The Company's margin in the March 2018 quarter was severely impaired by approximately A\$20 per tonne due to the trucking of the coal to the nearby

alternate train load out facility. Trucking of coal has ceased following practical completion of the Company's TLO at the mine site on 2 April 2018.

MARKETING

During the June 2018 quarter the Company will have shipments of Blair Athol thermal coal to Japan, Korea and China. The Company is forecasting average revenue received per tonne to be A\$103 in the June 2018 quarter with the delivery point being Dalrymple Bay Coal Terminal.

The Company has secured six (6) trial shipments into the lucrative Japan and Korea thermal coal markets. The Company's goal is to place 1.3 to 1.5 mtpa into Japan and Korea, and the balance placed into the spot market. Following the completion of the trial shipments the Company expects premium prices in the long term compared to the June 2018 quarters forecasted average realised price.

FORECAST PERFORMANCE – JUNE 2018 QUARTER

Forecast performance for June 2018 quarter is as follows:

- Production¹
 - Run of Mine Coal – 810,000 tonnes.
 - Equivalent Saleable Coal – 637,000 tonnes.
 - Coal Sales – 462,000 tonnes. These coal sales exclude 70,000 tonnes which has a forecasted Bill of Lading date of 3 July 2018.
 - Inventory – 267,000 tonnes.
- Financial
 - Average revenue received per sales tonne to be A\$103. With the commissioning of the TLO the delivery point is the Dalrymple Bay Coal Terminal.
 - Cash margin (EBITDA) per sales tonne to be A\$42. This is a strong forecasted margin for the June 2019 quarter in light of the Company having trial shipments to end users in Japan and Korea to which it is expecting to realise higher prices from these customers in the long term.

BUSINESS DEVELOPMENT – AUSTRALIA

FERNLEE PROJECT (ADJOINING SPRINGSURE PROJECT)

As previously announced, TerraCom's wholly owned subsidiary Sierra Coal Pty Limited executed an Asset Sale Agreement for EPC1103 - Fernlee Project from the Liquidators of Fernlee Coal Pty Limited (In Liquidation). The title has been transferred to Sierra Coal Pty Limited during the quarter.

EPC1103 - Fernlee Project adjoins the EPC1674/MDL3002 - Springsure Project and is seen as a key strategic transaction for TerraCom providing the potential to expand the Springsure Project MDL area to the East and North East. TerraCom has completed planning for further exploration and feasibility work and is working with the shareholders of MDL3002 to advance works on the ground.

OPERATIONS - MONGOLIA

PRODUCTION – BNU COKING COAL MINE

Production highlights:

- Following a traditional seasonal lull in exports during February coinciding with Mongolian Tsagaan Sar and Chinese Lunar New Year public holidays, exports resumed strongly in March.
- A new daily export record of 10,112 tonnes; an increase of 18% over the prior record of 8,570 tonnes of coal exported from the mine in a single day.
- The Company focussed on overburden removal as the ROM production was reduced to coincide with the seasonal lull in exports and typical winter conditions of the Gobi Desert (and thereby creating in pit inventory). Production was focused equally on both Pit 2 and Pit 3, with the run-of-mine coal from each combining well to produce a high quality coking coal to meet customer specifications.

Production Overview: Quarter by Quarter for 9 Months Ending 31 March 2018

	Q1 Sep17	Q2 Dec17	Q13 Mar18	Total
Run of Mine Coal mined (tonnes)	147,218	282,000	204,177	633,395
Overburden Mined (bcm)	3,362,735	3,498,577	2,923,718	9,785,030
Equivalent Saleable Production (tonnes)	147,218	282,000	204,177	633,395
Sales (tonnes)	112,122	316,795	212,798	641,715
Inventory (tonnes)	108,891	89,121	82,308	82,308

Production: Year to Date – 9 Months Ending 31 March 2018

	2018 YTD	2017 YTD	CHANGE	CHANGE %
Run of Mine Coal mined (tonnes)	633,395	97,870	535,525	547%
Overburden Mined (bcm)	9,785,030	2,637,224	7,147,806	271%
Equivalent Saleable Production (tonnes)	633,395	97,870	535,525	547%
Sales (tonnes)	641,715	97,295	544,420	560%
Inventory (tonnes)	82,308	97,870	535,525	547%



Image: Export operations, daily export record being set



Image: BNU Pit 3 operations

SAFETY

The BNU coking coal mine has maintained its excellent safety record, with operation continuing throughout the quarter without any Lost Time Injury (LTI) incidents occurring. By 31 March 2018, a total of 3,091,818 man-hours have been worked without LTI, and it remains that not a single LTI event has been recorded for employee or contractor since commencement of operation in 2013.

FINANCIAL PERFORMANCE – MARCH 2018 QUARTER

Financial performance summary for March 2018 quarter is as follows:

- Average revenue received per sales tonne at the mine gate was A\$68

- Due to the seasonal lull in exports there was no cash margin (EBITDA) per sales tonne

FORECAST PERFORMANCE – JUNE 2018 QUARTER

Forecast performance for June 2018 quarter is as follows:

- Production²
 - Run of Mine Coal – 472,000 tonnes
 - Equivalent Saleable Coal – 472,000 tonnes
 - Coal Sales – 450,000 tonnes
- Financial
 - Average revenue received per sales tonne to be A\$76, sold as a Run of Mine (unwashed) product at the BNU mine gate.
 - Cash margin (EBITDA) per sales tonne to be A\$18

BUSINESS DEVELOPMENT – MONGOLIA

BNU ON-SITE CHPP

Long form contracts remain executed with Guohua Technology Corporation (GTC) for the design and construction of a coal handling and processing plant (CHPP) for the BNU coking coal mine. Commencement of construction has been delayed following deliberate focus of resources (cash and personnel) on the construction and commissioning of the Blair Athol train dedicated loadout facility (refer Operations – Australia for further details on this).

Whilst construction has not commenced, further refinement of the project has been initiated following engagement of Conveyor Manufacturers Australia Pty Ltd (CMA). Feasibility study remains in progress, the results of which aims to deliver a more profitable fully financed solution for the CHPP facility.

The Company is forecasting for the CHPP to be operational from 1 January 2019. The CHPP will deliver additional cash margin through:

- Increased revenue per tonne at the BNU mine gate through reduction in distribution and trucking costs (transporting only clean coal); and
- Improvement in yields of 3-6% due to CHPP designed specifically to deal with fines (CHPP set up to optimise BNU coal yields).

EXPLORATION

Exploration activity continued throughout the quarter unaffected by winter conditions, with RC and PCD drilling completed across both the BNU (MV-17162) and KS North (MV-19149) licenses followed by downhole geophysical logging. Initially two drill rigs were being utilised, but by end of quarter three drill rigs were being utilised, with plans in progress to introduce a fourth drill rig in April 2018.

MINING TENEMENTS HELD AT THE END OF THE QUARTER

Tenement	Interest at beginning of quarter	Interest at end of quarter	Location	Commodity
MV-17162, MV-020800, MV-020803, XV-17163	100%	100%	Mongolia	Coal
XV-018142, XV-018797, XV-018802, XV-20281, XV-20539	100%	100%	Mongolia	Coal, Potash/ Gypsum, Brines
XV-020139, XV-020329	100%	100%	Mongolia	Coal
XV-12929	100%	100%	Mongolia	Coal
XV-018111, XV-018513, XV-020268, XV-12600, MV-19149, MV-16971	100%	100%	Mongolia	Coal
ML1804	100%	100%	Australia	Coal
EPC 1641	100%	100%	Australia	Coal
EPC 1300, EPC 1394, EPC 1477, EPC 1478, EPC 1479, EPC 1480, EPC 1574, EPC 2047, EPC 2049, EPC 2105	100%	100%	Australia	Coal
EPC 1890, EPC 1892, EPC 1893, EPC 1962, EPC 1963, EPC 1964	100%	100%	Australia	Coal
EPC 2503, EPC 2504	100%	100%	Australia	Coal
EPC 1250, EPC 1260	64.4%	64.4%	Australia	Coal
EPC 1674, MDL 3002	35.78%	35.78%	Australia	Coal
EPC 1103	0%	100%	Australia	Coal
EPC 2256	100%	100%	Australia	Coal
EPC 1872	100%	100%	Australia	Coal
EPC 1822	100%	100%	Australia	Coal

OTHER

Forward Looking Statement

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

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ABOUT TERRACOM – TERRACOMRESOURCES.COM

TerraCom has fully commissioned the Baruun Noyon Uul (BNU) coking coal mine in the South Gobi of Mongolia. Export shipments under a 5.5 year offtake agreement have commenced on schedule. The company's goal is to become one of the largest and highest quality coking coal producers in Mongolia, providing exceptional value for its steel-producing customers.

TerraCom completed the acquisition of the Blair Athol Coal Mine in May 2017. The acquisition included the mining lease, related licenses, land, site infrastructure, active contracts and all mining plant & equipment, including a dragline, to deliver TerraCom's forecast production schedule and the progressive rehabilitation.

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

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

TerraCom has completed 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 9 years¹ and ongoing progressive rehabilitation.

Additionally, TerraCom has long term exploration plans with the intent on developing two projects in Queensland, Australia: the large thermal coal Northern Galilee Project and the high energy prime thermal coal Springsure Project.

1– Refer to ASX Announcement on 13 February 2018 for further information and clarification on the Blair Athol production forecast. The material assumptions underpinning the Blair Athol production target in this ASX Announcement continues to apply and has not materially changed.

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

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