



TerraCom Limited
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31 December 2015

ASX Announcement

Finance Update

TerraCom Limited (**TerraCom or the Company**) (**ASX:TER**) wishes to update the market on recent developments within the Company's finances.

Debt Restructure

The Company continues to maintain a strong and supportive working relationship with its existing financial backers, Noble Group and OCP.

The Company has been working on two options in parallel in its efforts to achieve the requisite balance sheet recalibration early in 2016. Both debt restructuring options would provide stability and funding security to the Company to enable it to successfully deliver its strategic objectives.

Option 1 – Bond

The Company has executed a Term Sheet with OCP and is continuing discussions with Noble for this option which involves a circa US\$115 million five year interest-only bond.

In general terms the bond contemplates:

- Semi-annual interest payments paid in arrears;
- A bullet repayment at the end of the term;
- An option to capitalise a pre-agreed portion of the interest payments; and
- A variable component of the interest payments linked to actual coal sales.

The structure contemplated will give the Company significantly greater flexibility to manage its cash flows going forward and enable implementation of the growth strategy. Long form documents are being drafted this week with a plan to finalise in early 2016 subject to a successful vote by shareholders in favour of the placement at the upcoming EGM scheduled for the 12th January 2016 as this is a pre-condition from the financiers for the completion of the Bond. For clarity if the placement is not successfully voted through the refinance will not proceed as it is a pre-condition from the financiers that fresh equity is brought into the company.

Option 2 - Traditional Debt Facility

The Company is also continuing to work in parallel on a traditional debt facility which in the current market is proving to be difficult.

While the Company has made significant progress with Option 1 debt restructure, there can be no certainty that this will be completed and the Company will update the market appropriately.

SPG Strategic Placement

As advised in the Notice of Meeting (NoM) lodged on the 10 December 2015, an EGM has been scheduled on the 12 January 2016 to enable shareholders to consider the strategic placement of AUD\$7M in the Company by SPG Holdings Ltd (SPG).

The Company reached agreement with SPG, subject to the satisfaction of certain conditions set out below, to issue 583.3 million placement shares at an issue price of \$0.012.

The Placement is conditional on:

- Shareholders approving the Placement for all purposes, including (without limitation) for the purposes of item 7 of section 611 of the Corporations Act;
- The issue of shares by the Company to the holders of Convertible Notes following the conversion of the Convertible Notes having occurred;
- The Company successfully completing the restructuring of its current debt on terms which are within specific parameters which have been agreed between the Company and SPG; and
- Other customary conditions, including Board approval and regulatory approvals.

The Company wishes to reinforce with shareholders the strong recommendation to support this placement when voting on this resolution in order to secure funds to ensure the Company can continue to trade, implement its business plans and also maintain the support of financiers.

Convertible Notes

The other resolution for consideration at this EGM is approval of the issue of Shares to Morning Crest Capital Management Limited (Morning Crest Capital) pursuant to the conversion of Convertible Notes first issued by the Company on 30 December 2013.

The Company has also been informed that Morning Crest Capital has entered into an agreement to acquire 50% of the Convertible Notes, and intends to convert those Convertible Notes into equity in the Company. The Company is not a party to that agreement and therefore not privy to its details other than what we have been informed.

The Company has also been informed that Morning Crest Capital and SPG are associates.

The Company's current understanding with respect to the remaining 50% of the CNs is that they remain owned by their original investors, but prior to maturity they will be acquired by parties who subsequently intend to convert them. The Company is not aware of the details of that acquisition including whether formal agreements are currently in place. At this stage the Company has no information that would lead it to believe that any regulatory approvals will be required for the issue of shares pursuant to the conversion of the CNs.

The Company will update shareholders as appropriate in respect of the maturity and conversion of the CNs when it has further information.

The Company would also like to reinforce with shareholders that it is a condition precedent to the Placement by SPG that all Convertible Notes are converted and the issue of shares by the Company to the holders of Notes in respect of the conversion of the Convertible Notes has occurred.

BNU Outlook

The Company has built a world class high quality coking coal mine (BNU) in the South Gobi in Mongolia during 2015. However as the volumes have increased on a month to month basis the operation has encountered variances to plan in the third party washing capacity and capability, there has also been variations with 'in-pit' reconciliation.

The volume increases have also placed stress on the third party road transport capabilities that has led to variances to plan over the past month. Actions are being implemented to optimise to 'pit to end user' supply chain.

The end user coal sale prices have continued to soften over the last quarter in direct relation to the volume constraints and conditions that exist in the Chinese steel market which has compounded the reconciliation, transport and yield issues.

These current global market headwinds coupled with the operational and supply chain inputs from BNU are continuously being assessed. This may alter the current short term implementation plan as we ensure the optimisation of the company's financial position. Once these effects and options have been fully evaluated the market will be updated on any further revisions to the implementation plan necessitated by these input changes.

ABOUT TERRACOM – www.terraresources.com

TerraCom has fully commissioned the Baruun Noyon Uul (BNU) coking coal mine in the South Gobi Mongolia. 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 is also focused on developing two priority projects in Queensland, Australia: the large thermal coal Northern Galilee Project and the high energy prime thermal coal Springsure Project.

Please contact David Stone, +61 2 42 686 258 for further information.



***Honourable Craig Wallace
Chairman***