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Supplemental Release –

Half Year Financial Statements

TerraCom Limited (**TerraCom or the Company) (ASX: TER)** would like to announce the results of the 2016 Half Year financial results. The full release has been lodged and is available for review.

In summary for the period TerraCom continued with the implementation of the strategic plan and substantial activity has occurred both with the restructuring of the balance sheet and operationally within the Mongolian Business Unit all be it in a very tough commodity market cycle.

Executive Summary

Over the past 18 months the Group's net assets have decreased by $92.3 million. The principle contributor over that period has been non-cash items that have affected the net assets total by $92.7 million – including, but not limited to:

- Unrealised foreign exchange loss recognised on borrowings ($32.9 million)
- Impairment of non-cash generative assets ($17.1 million)
- Impairment of operating asset (including finance costs capitalised) ($19.7 million)

The TerraCom Consolidated Loss for the Period was $74.0 million. It is important to highlight the following items that represent 82% of this Consolidated Loss for the Period:

- $36.8 million non-cash impairment loss – represents 49.7% of Consolidated Loss for the Period;
- $7.9 million non-cash unrealised foreign exchange losses on its USD denominated loans – represents 10.7% of Consolidated Loss for the Period
- $16.0 million interest and finance costs – represents 21.6% of Consolidated Loss for the Period

Since 31 December 2015 there have been a number of significant financing events which have been agreed with the Company's financiers. Some of these are still awaiting long form documentation; however the Company has entered a binding position with the parties. An overview of the significant financing events are as follows:

1. 50% (US$ 5 million face value) of convertible notes converted to equity.
2. 50% of convertible note interest and deferral fees converted to equity.
3. Remaining 50% of convertible notes refinanced into 5 year bond facility.
4. Amortising note principal refinanced into 5-year bond facility, bullet repayment at end of term.
5. Outstanding interest and deferral fees irrevocably waived by all amortising notes holders and remaining convertible note holders.

Net Asset Analysis

The continued depressed commodity markets over the past couple of years has continued to place significant pressure on the Group's consolidated net asset position. During difficult trading conditions such as these the focus of the Group needs to be central to preserving the value in cash generative assets and defer exploration and evaluation on non-cash generative assets until the commodity markets show signs of recovery.

The total net assets of the Group as at 31 December 2015 are a deficit of $45.0 million. At 30 June 2015 net assets were $26.5 million. This represents a decrease of $71.5 million when compared to the net assets of the Group as at 30 June 2015. Further, during the 2015 financial year the Group's net assets decreased by $20.8 million.

Over the past 18 months the Group's net assets have decreased by $92.3 million. The primary contributor over the past 18 months has been non-cash items which have affected the net assets total by $92.7 million – including, but not limited to:

- Unrealised foreign exchange loss recognised on borrowings ($32.9 million)
- Impairment of non-cash generative assets ($17.1 million)
- Impairment of operating asset (including finance costs capitalised) ($19.7 million)

The foreign exchange losses recognised on borrowings will not have a bearing on the actual future cash flows of the Group.

Summarised on the next page are items which contribute to the movement of the net assets.

Net Asset Movement 1 July 2015 to 31 December 2015

	$ million	$ million
Net Assets as at 30 June 2015		**26.50**
Non-Cash Items		***(62.15)***
Impairment of Australian Tenements (non-cash generative)	(13.36)	
Impairment of Mid Gobi Tenements (non-cash generative)	(3.75)	
Impairment of South Gobi CGU (finance cost previously capitalised)	(19.70)	
Unrealised foreign exchange loss recognised on borrowings	(7.90)	
Finance cost on loans (deferred, waived or converted to equity)	(14.30)	
Depreciation and Amortisation	(3.14)	
Cash Items		***(14.01)***
Increase in Trade Payables and Accrued Expenses	(14.01)	
Balance of net asset movement		*4.71*
Net Assets as at 31 December 2015		**(44.95)**

Net Asset Movement 1 July 2014 to 30 June 2015

	$ million	$ million
Net Assets as at 30 June 2014		**47.34**
Non-Cash Items		***(33.73)***
Unrealised foreign exchange loss recognised on borrowings	(24.98)	
Finance expense on amortising notes and convertible notes	(5.87)	
Interest expense on interest bearing loans	(1.58)	
Loss of control in Springsure Mining Pty Ltd	(1.00)	
Impairment of assets (Recognised at 31 December 2014)	(0.30)	
Cash Items		***15.89***
Shareholder contributions through rights issues[1]	15.89	
Balance of net asset movement		*(3.00)*
Net Assets as at 30 June 2015		**26.50**

Financial Performance Analysis

The TerraCom Consolidated Loss for the Period was $74.0 million. It is important to highlight the following which represent 82% of the Consolidated Loss for the Period (further explanation below):

- $36.8 million non-cash impairment loss – represents 49.7% of Consolidated Loss for the Period;
- $7.9 million non-cash unrealised foreign exchange losses on its USD denominated loans – represents 10.7% of Consolidated Loss for the Period
- $16.0 million interest and finance costs – represents 21.6% of Consolidated Loss for the Period

i. **$36.8 million non-cash impairment loss – represents 49.7% of Consolidated Loss for the Period.**

$17.1 million of the non-cash impairment loss relates to non-cash generating assets (Australia and Mid Gobi).

The Company retains these tenements as a long term investment. However, even with this investment horizon accounting standards require these tenements to be subject to annual impairment assessment. That is, assuming all things being equal, the tenements are fair valued at their recoverable amount if they were disposed of at the reporting date. The Company expects the commodity markets to rally out of its depressed state and therefore views the impairment of these assets as a timing difference.

$19.7 million of the non-cash impairment relates to South Gobi CGU. The Group has previously capitalised finance costs to the CGU for the amount of $26.0 million. Therefore, the impairment recorded is less than this amount and as such does not impact the underlying direct costs in establishing the CGU.

Had the Group's finance costs not been capitalised to the CGU there would be headroom of $6.3 million and no impairment would be recognised this reporting period. The Company expects the commodity markets to rally out of its depressed state and therefore expects the impairment may reverse in future periods. Further, this result demonstrates the low cost of capital to establish the South Gobi CGU.

The Company is of the opinion that the commodity cycle is nearing the bottom of the continual downturn. Subsequent to year end the Chinese steel prices have increased ~25%; and iron ore has rallied 46% (the other key commodity used in steel production). As a result of the relationship of metallurgical coal with these it is recognised that these rebounds are positive to the metallurgical coal market (South Gobi CGU product produced).

ii. **$7.9 million non-cash unrealised foreign exchange losses on its USD denominated loans – represents 10.7% of Consolidated Loss for the Period.**

The functional reporting currency is Australian dollars (AUD) and therefore there is the requirement under Australian Accounting Standards to convert all foreign currency loans using the closing exchange rate at balance date.

The loans outstanding at 31 December 2015 in its issued currency are US$120 million, compared to 30 June 2015 of US$106 million. The movement in the amount outstanding is the US$7.6 million loan re-draws on Noble's existing facilities, the Noble loan of US$ 3.0 million acquired by the acquisition of EO, and US$3.4 million non-cash adjustment with respect to amortisation of the amortising notes.

The Company continues to assess the merit of changing its functional and reporting currency from AUD to USD.

iii. **$16.0 million interest and finance costs – represents 21.6% of Consolidated Loss for the Period.**

The Company's financiers have demonstrated their continued support to the Company by deferring interest payments during the period. The financiers support the Company as they recognise the value proposition within the existing asset portfolio. Subsequent to period end, financiers have agreed that the outstanding finance costs accrued will be converted to equity, irrevocably waived or payment deferred to 23 December 2016.

Significant Financing Events

Subsequent to the 31 December 2015 a number of financing events have occurred which, if all things being equal, had these events occurred on or prior to 31 December 2015 the Balance Sheet (Statement of Financial Position) would have been reported in a more favourable position.

The overviews of these significant financing events are as follows:

- **US$5.0 million converted from debt to equity**

  On 29 January 2016, Rastas Limited, Acecrest Investments Limited and Island Sands Corporation converted Convertible Notes with a value of US$ 5 million into 1,023,066,046 new shares of the Company, reducing the Company's debt by a corresponding amount.

- **US$ 1.1 million outstanding interest paid by additional equity in TerraCom**

  On 29 January 2016, the Company issued OL Master (Singapore) Limited, an affiliate of OCP Asia (Hong Kong) Ltd 221,489,379 fully paid ordinary shares in satisfaction of outstanding interest and deferral fees totalling US$ 1.1 million at an issue price of $0.0065. These shares were issued under rule 7.1 and rule 7.1A. The issue price of the shares was at least 75% of the 15 day VWAP.

- **US$ 5.0 million principal repayment refinanced for 5 years**

  On 28 February 2016 JP Morgan the holder of the remaining US$5m convertible notes extended the maturity of these to 31 March 2016. The convertible notes will be refinanced by the Bond (as defined below) and the maturity was extended to allow time for completion of the long-form Bond documentation.

- **US$ 63.4 million principal repayment refinanced for 5 years**

  Further to the binding term sheet executed on 23 December 2015, the Company is in the process of issuing secured unlisted bonds (the Bonds) with OCP with a face value of approximately US$76 million. The term of the Bonds is 5 years with no principal repayments throughout this period (a bullet repayment at the end of the term). Interest of 12.5% p.a. is payable on a semi-annual basis, of which the Company has the option to capitalize up to 50%. Bondholders are also entitled to a royalty payment of between 0.75% and 1.75% of adjusted mine gate revenue. The Bonds are to be repaid at face value upon maturity. - This transaction will result in the reclassification of US$ 63.4 million (AU$ equivalent at balance date is $86.8 million) from current liability to non-current liability.

- **US$ 13.2 million interest and deferral fees irrevocably waived**

  The Company has agreed to enter into a letter agreement with the trustee of the Amortising Notes and Convertible Notes whereby all interest and fees accrued but not yet due and payable or any unpaid interest and fees accrued on these instruments will be irrevocably waived. This transaction will significantly reduce current liability by US$ 13.2 million (equivalent at reporting date AU$ 18.1 million).

TerraCom Next Steps

The strategic plan implementation will continue to drive the focus for the second half of the reporting period with the key activities being:

Potential Listing

TerraCom also continues to actively investigate the merits and mechanisms for a potential listing (dual and/or sole) on Asian stock exchange (**Potential Listing**). This was a crucial recommendation flowing from the strategic review of the Company completed in the 2015 strategic review process, which is strongly supported by the Company's financiers. Shareholders are advised that there is no certainty or assurance as at the date of this announcement that the Potential Listing will proceed or be completed. The Company will make the necessary announcements when there are further developments in relation to the Potential Listing.

South Gobi Operations

- Implementation of a new supply chain has commenced in February 2016, this should provide consistency in delivery in supply to our end users in China.
- A new coal washing agreement with a different coal washing facility in Ceke China has commenced in March 2016. The intent is to optimise the yield performance of the coal and manage the variability in product specification for our end user customers.
- The geological model and associated assumptions has been recalibrated to take into account the variability in in-pit reconciliation.
- In order to support the growth and expansion of the Company and to de-risk from single mine and single country operator TerraCom continues to evaluate cash generative assets for potential acquisition.

Business Development

One of the key strategic elements as previously released is a strategy to de-risk from single mine and single country operator TerraCom continues to evaluate cash generative assets for potential acquisition.

- The Company is currently considering a strategic opportunity in Queensland Australia to acquire a mature mining operation which is currently on care and maintenance. The plan should the opportunity be demonstrated as feasible would be to quickly bring this operation back into production.
- The Company is also nearing completion of its desktop due diligence on a hard coking coal mining operation in Indonesia. The mine's production license has a 12 year remaining life and is located in close proximity to road, barge and port infrastructure which connects into the seaborne coal market. The mine has a capability of delivering 500,000 tonnes per annum of hard coking coal.

Summary

The Board strongly believes the continued enactment of the strategic plan inclusive of the above mentioned activities places the company in the best possible position to continue to navigate the difficult market conditions.

ABOUT TERRACOM – www.terracomresources.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 Nathan Boom, on +61 2 4268 6258 or at info@terracomresources.com for further information.

Craig Wallace
Chairman