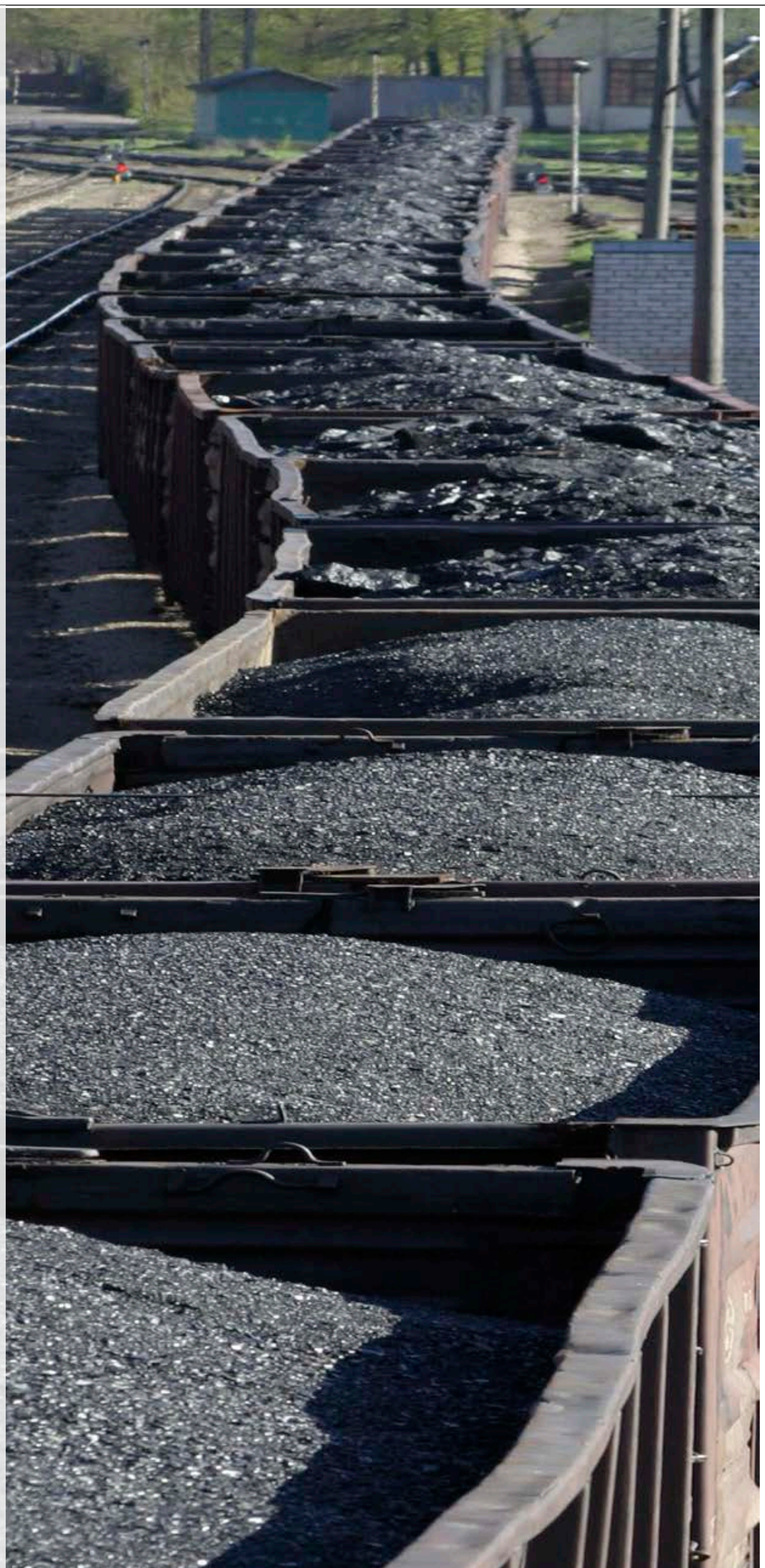
TERRACOM

CONSOLIDATED FINANCIAL REPORT

HALF-YEAR ENDED 31 DECEMBER 2015

ASX:	***TER***
SHARE INFORMATION	Issued Shares at 31 December 2015: 1,095,928,523 Issued shares at 15 March 2016: 2,400,931,258
BOARD OF DIRECTORS	*Non-Executive Chairman*: The Hon. Craig Wallace *Managing Director:* Mr Michael Avery *Non-Executive Director*: Mr Tsogt Togoo *Independent Director:* Mr Philip Forrest *Independent Director:* Ms Loo Hwee Fang
PRINCIPAL CONTACT	*Managing Director:* Michael Avery t + 61 (2) 4268 6258
WEBSITE	http://terracomresources.com/
REGISTERED OFFICE	34 Hewitts Ave, Thirroul, NSW, 2515 PO Box 548, Thirroul, NSW, 2515 Australia t + 61 (2) 4268 6258



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Corporate Information

Directors

The Hon. Craig Wallace	Non-Executive Chairman
Mr Michael Avery	Group Managing Director
Mr David Stone	Executive Director (resigned 18 December 2015)
Mr Tsogt Togoo	Non-Executive Director
Mr Philip Forrest	Independent Director
Ms Loo Hwee Fang	Independent Director

Company Secretary

Mr Nathan Boom (appointed 15 January 2016)
Mr Tony Mooney (resigned 6 January 2016)

Registered office and principal place of business

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Share registry

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Australia

TerraCom shares are listed on the Australian Stock Exchange (ASX code: TER).

Solicitors

Herbert Smith Freehills
101 Collins Street
Melbourne, Victoria 3000
Australia

Bankers

Westpac Banking Corporation Limited
Shop 26, 270 Princes Highway
Corrimal, NSW, 2518
Australia

Auditors

Ernst & Young
Level 51, 111 Eagle Street
Brisbane, QLD 4000
Australia

Directors Report

The directors present their report, together with the interim financial statements of The Group, being TerraCom Limited (the Company) and its controlled entities, for the half year ended 31 December 2015.

At the Company's EGM on 30 October 2015 shareholders approved the change of name from Guildford Coal Limited to TerraCom Limited. The Company's securities began trading under the ASX code TER (previously GUF) on 19 November 2015.

Directors

The names of the directors in office at any time during, or since the end of, the half year are:

Names	Position	Appointed/Resigned
The Hon Craig Wallace	Non-Executive Chairman	
Mr Michael Avery	Group Managing Director	
Mr David Stone	Executive Director	Resigned 18/12/2015
Mr Tsogt Togoo	Non-Executive Director	
Mr Philip Forrest	Independent Director	
Ms Loo Hwee Fang	Independent Director	

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

Results of operations

The consolidated comprehensive loss of the Group for the financial period after providing for income tax was $71.4 million (2014: $17.6 million).

Results of financial performance

Before analysing the operating performance of the Group for the half year ended 31 December 2015 it is important to highlight the following:

i. **$36.8 million non-cash impairment loss.**

$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.**

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.

Directors Report (continued)

The Company continues to assess the merit of changing its functional and reporting currency from AUD to USD to align with commercial production being achieved at BNU Mine and its financing activities.

iii. **US$7.6 million (converted to AU$10.4 million) loan re-draws on Noble's existing loans.**

This support from the Company's principal financiers shows the value proposition the Company has to offer within its existing asset portfolio.

iv. **$28.8 million increase in trade and other payables.**

This increase is as a result of the following:

1. **$14.8 million increase in finance costs accrued.** 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.
2. **$14.0 million increase in trade and other payables.** This is as a result of the Group's BNU Mine achieving commercial production during the period, negotiating payment terms with creditors to manage working capital and short term funding requirements, and the EO acquisition of equivalent AU$ 8.2 million which has been deferred for payment to 23 December 2016. During the reporting period there were no payment demands issued by suppliers.

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 $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.

Management has summarised items below which contribute to the movement of the net assets.

	$ 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)**

Directors Report (continued)

	$ 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**

1 – primarily used to fund payment for property, plant and equipment, and exploration and evaluation additions.

INCOME STATEMENT ANALYSIS

The Group loss for the period was $74.0 million compared to the prior period Group loss of $27.4 million. A range of factors negatively impacted the result. These include:

- Impairment of Australian Tenements, which are non-cash generative, of $13.36 million (2014: impairment reversal of $0.6 million).
- Impairment of Mid Gobi Tenements, which are non-cash generative, of $3.75 million (2014: $0.8 million).
- Impairment of South Gobi CGU, which is impairment of operating asset (including finance costs previously capitalised to mine development, of $19.7 million (2014: $nil).
- A total foreign currency loss of $7.2 million (2014: $16.4 million). This includes $7.9 million (2014: $22.9 million) loss on revaluation of borrowings.
- Interest and Finance costs of $16.0 million (2014: $3.2 million).
- Depreciation and amortisation expense of $3.1 million (2014: $0.5 million). During the period the Group's BNU Mine achieved commercial production. This resulted in $2.9 million amortisation of the BNU mine infrastructure.

CASH FLOW STATEMENT ANALYSIS

Operating cash flows

Operating cash outflow of $1.7 million has improved significantly compared to the operating cash outflow of $4.9 million in the prior period. During the period, the Groups BNU Mine commenced commercial production and accordingly all revenue and expenses incurred from this point are allocated to the Statement of Comprehensive Income.

As per announcements released throughout the period, and subsequent, as the volumes have increased at the Group's BNU Mine on a month to month basis the operation has encountered variances to plan in the third party washing capacity and capability; as well as variances in the in-pit reconciliation. These factors have negatively impacted the volume of the beneficiated product, which conversely affects the sales revenue earned on the tonnes mined.

Investing cash flows

Investing cash outflows have increased to $9.1 million in the period compared to $5.0 million in the prior period. The principal driver in the increase is the BNU mine ramping up site activities to become operationally commissioned (achieved 2H 2015 financial year) and achievement of commercial production (achieved 1H 2016 financial year).

Directors Report (continued)

Financing cash flows

Financing cash inflows have increased to $10.4 million in the period compared to $3.0 million in the prior period mainly due to the following factors:

- Continued funding support from the Company's financiers to enable the Company to re-commence production at its BNU mine. Proceeds from new funding facilities amounted to $10.4 million (2014: $nil).
- Continued support from the Company's financiers to defer finance costs payments to after period end. Subsequent to period end the Company's financiers have further demonstrated their commitment to the Group by agreeing to waive, convert to equity or defer finance costs to 23 December 2016.

CAPITAL MANAGEMENT AND BALANCE SHEET COMMENTARY

Cash on Hand

Cash on hand at 31 December 2015 was $0.4 million which is $0.3 million less than the 30 June 2015 balance of $0.7 million. The Company continues to renegotiate payment terms with creditors to manage working capital and short term funding requirements. The Group works with very supportive suppliers and did not receive any payment demands from suppliers during the period.

Interest Bearing Liabilities

Total borrowings at 31 December 2015 were US$ 120.0 million compared to US$ 105.9 million at 30 June 2015. This represents an increase of US$ 14.1 million and is represented by the following:

Cash Items

- US$ 1.1 million principal re-drawn under the Noble long-term debt facility;
- US$ 1.6 million principal re-drawn under the Noble long-term additional debt facility;
- US$ 4.9 million principal re-drawn under the Noble fuel exclusivity facility; and
- US$ 3.0 million principal relating to the acquisition of Enktunkh Orchlon LLC (Company which holds an adjoining lease to the Group's BNU Mine in Mongolia).

Non-Cash Items

- US$ 3.5 million amortising cost relating to the OCP amortising notes.

Further, as the Group's functional reporting currency is Australian dollars (AUD) there is the requirement under Australian Accounting Standards to convert all foreign currency loans using the closing exchange rate at balance date. In addition to the US$ movements above the Company's result for the period includes a $7.9 million non-cash unrealised foreign exchange loss on revaluation of borrowings. The effect of this has increased the comprehensive loss for the period and increased borrowings liability by $7.9 million. The Company continues to assess the merit of changing its functional and reporting currency from AUD to USD.

During the year the Company's principal financiers, Noble and OCP, continued to demonstrate their commitment to TerraCom. The facilities continued to be extended with respect to principal and interest payments. Refer subsequent events for details about financing activities post 31 December 2015.

Directors Report (continued)

Review of operations

Highlights

- TerraCom's Baruun Noyon Uul (BNU) operations finished 2015 calendar year with a strong safety result, delivering the full year LTI free with a TIFR of 11.18 in Q4 against the 12-month rolling average of 22.16.
- Terra Energy was rewarded for its dedication to safe and sustainable operations by being awarded 1st place for the "Company focused on a safe and healthy workplace". This award was presented to Terra Energy from the Mongolian Ministry of Mining.
- In January 2016, BNU operations celebrated reaching 1.5 million man hours LTI free since the commencement.
- The BNU operations achieved the following half year KPI's
  - 4,465,297bcm of overburden removed
  - 333,514t of ROM coal produced
  - 229,457t of ROM coal exported
- BNU Operations continued to meet production plans for Q3 2015 calendar year.
- BNU Operations were impacted with negative variance to plan in Q4 2015 calendar year with respect to supply chain performance, actual yield though the third party CHPP and in-pit reconciliation.
- Downward pressure on the sales price for Hard Coking Coal due to the Chinese Steel market softening continued over the period.

TerraCom Mongolia

During the period, TerraCom via its wholly owned subsidiary Terra Energy LLC continued to export Hard Coking Coal (HCC) from the BNU coal project and also sold the first allotments of thermal coal. The HCC coal was beneficiated in a third party CHPP at the Chinese border town of Ceke prior to delivery to customer.

Production over the period can be broken down as follows:

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	TOTAL
Overburden (bcm)	795,708	945,237	786,265	850,200	765,410	322,477	4,465,297
Coal Mined (tonnes)	28,716	53,520	72,138	63,596	48,731	66,813	333,514
Total Raw Coal Exported (tonnes)	12,525	22,093	30,000	55,569	66,680	42,590	229,457
End User Coal Sales (tonnes) -	22,261	17,010	17,990	14,210	47,671	16,683	135,825
Hard Coking Coal	22,261	17,010	17,990	4,272	17,609	16,683	95,825
Thermal Coal	-	-	-	9,938	30,062	-	40,000
Hard Coking Coal Sales by Customer							
Jisco	20,645	15,007	17,990	4,272	17,609	16,683	92,206
Haohai	1,615	2,003	-	-	-	-	3,618
Total	22,260	17,010	17,990	4,272	17,609	16,683	95,824

During Quarter 4 2015 calendar year the operation upon entering Pit 2 encountered variation to plan, this impacted on the quantum of saleable coal. The company is working closely with Noble the supply chain provider to optimise the supply chain performance. The geological model has been recalibrated to reflect the in-pit variances encountered.

Throughout the period, BNU continued to produce its premium hard coking coal product. BNU coal has consistently delivered hard coking coal at 9.5% ash with G value >75, CSN averaging 9.0 and favourable ash chemistry results. BNU has also delivered hard coking coal at 10.5% ash to end users during this period in an effort to work with the market under depressed price conditions and contributing to a yield increase.

BNU operations also commenced commercial quantities of 5,500 kcal/kg NAR thermal coal during the period. This coal exhibits low sulphur (<0.8%) and ash (<26%) whilst maintaining strong volatile matter, energy and ash fusion temperature characteristics.

Terra Energy has continued to expand its presence in Mongolia in 2015 and early 2016 calendar years through the acquisition of 5 additional mineral leases.

TerraCom Australia

Queensland Tenements

A focus on cost conservation on projects as a result of the 2015 Strategic Review has restricted exploration for the reporting period. The North Galilee and Springsure Project remains the focus and there have been discussions with potential joint venture or offtake partners to self-fund these projects through the development phase into operating mines. The Company continues to seek investment partners for the next stage of development of its Australian assets.

Directors Report (continued)

TerraCom Business Development
Through the implementation of the strategic review performed by the Company, a number of cash producing operating assets have been identified as potential additions to the Company's portfolio to support the BNU coking coal mine in Mongolia.

Australia
The Company, through a third party, has assumed their negotiated position to acquire a mature mining operation. The operation of the mine is currently suspended and the facilities on care and maintenance. The project has all necessary regulatory approvals to recommence operations. The transaction is currently still under assessment with respect to its capacity to deliver immediate positive cash flows to the company.

Indonesia
The company operating metallurgical coal project on the island of Kalimantan in Indonesia is under detailed investigation by the Company for potential acquisition. The Project enables growth and cash flow coupled with a substantial upside opportunity. The production licence for the project has a remaining life of 12 years. A non-binding term sheet has been executed and diligence is continuing. The transaction is being assessed and contemplated on its capacity to deliver immediate positive cash flows to the Company.

Mongolia
Terra Energy Management has an extremely strong operational and project delivery reputation within Mongolia. The team has been in active discussions with an existing mine site owners / operators, with an objective of Terra Energy taking over the operation as the 'mine operator'. If successful, this activity could supply supplemental positive cash flow from the Mongolian Business Unit.

Dividends Paid or Recommended

No dividends were paid or declared for future payment during the financial period.

Risks Relating to the Group'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 TerraCom 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 TerraCom are 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.

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, ongoing interest and principal payments and capital expenditure commitments at the BNU mine development, additional funding will be required. If adequate funds are not available on acceptable terms, the Company may be unable to fund its operations and/or any expansion plans. The Company has agreed with Noble and OCP to defer certain principal payment obligations (refer Note 10).

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.

Directors Report (continued)

Resources and Reserves Risk

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

Exploration and Evaluation Risk

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

Directors Report (continued)

Key Management Personnel Risk

If TerraCom is unable to attract and retain qualified employees, loses key personnel, fails to integrate replacement personnel successfully, or fails to manage its employee base effectively, it may be unable to support or maintain its current activities, effectively expand its business, or otherwise maintain or increase its revenues.

Events Subsequent to Reporting Date

- In collaboration with the Supply Chain manager Noble, a new supply chain has been set up providing an alternate import agent, coal beneficiation process (CHPP) and trucking provider. It is noted that TerraCom is actively involved in the technical management of the CHPP to ensure the yield performance is optimised.
- On 12 January 2016 the Amendment and Implementation Deed relating to the Company's EGM held in October 2015 was executed. Following on from this, from commencement of trade on 2 March 2016 the new detachable warrants were issued (126,308,306 warrants) and the old detachable warrants were cancelled (66,762,962 warrants).
- On 21 January 2016 SPG Investment Holdings Limited (SPG) exercised its right to terminate the Subscription Agreement due to the Company not meeting all of the Conditions Precedent by the Conditions End Date.
- 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.
- 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 $0.0065. These shares were issued under rule 7.1 and rule 7.1A. The issue price of the shares was at least 75% of the 15 day VWAP.
- On 1 February 2016, the Company secured a new short term loan of US$ 5 million from OL Master (Singapore) Limited, an affiliate of OCP Asia (Hong Kong) Ltd. The maturity date of the loan is 2 May 2016 and interest payable is 12% p.a. The loan, including all accrued interest, will be repaid by the Company through the issuance of Bonds (as defined below) to OL Master (Singapore) Pte. Limited.
- On 8 February 2016, the Company executed an Amended and Restated Facilities Agreement (the Amendment) with Noble Resources International Pte. Ltd. The Amendment refers to the facilities agreement between the Company, certain subsidiaries and Noble Resources International Pte. Ltd. dated 4 September 2012, as amended or varied from time to time including as amended and restated on 24 September 2012, 18 December 2013 and 4 February 2015 (the Facilities Agreement). As at the date of the Amendment, the principal outstanding under the Facilities Agreement was US$ 41 million. The Amendment extends the maturity of the loans described in the Facilities Agreement and defers all associated interest and any other amounts due to 23 December 2016. Interest payable with respect to the Facilities Agreement is fixed at 12.5% p.a. from 1 February 2016 until maturity.
- On 26 February 2016, the Company issued Island Sands Corporation 60,447,310 fully paid ordinary shares in satisfaction of commission's payable at an issue price of $0.007 per share. These shares were issued under rule 7.1A. The issue price of the shares was at least 75% of the 15 day VWAP which was $0.009 per share.
- 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.
- 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.
- Further to the binding term sheet executed on 23 December 2015, the Company is in the process of entering into a Deed of Release and Termination with the parties to the Note Trust Deed dated 20 December 2013 governing Amortising Notes of US$55,000,000 and Convertible Notes of US$10,000,000. The deed will release the Company from its obligations under the Note Trust Deed and all associated agreements. The facilities will be refinanced with the Bond discussed above.
- The Company has agreed to enter into a letter agreement with the trustee of the Amortising Notes and Convertible Notes whereby all interest and fees accrued but not yet due and payable or any unpaid interest and fees accrued on these instruments will be irrevocably waived. This transaction will significantly reduce current liability by US$ 13.2 million (equivalent at reporting date AU$ 18.1 million).

Except for the above, no other matters or circumstances have arisen since the end of the financial period which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Directors Report (continued)

Auditor's Independence Declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the half year ended 31 December 2015 has been received and can be found on the proceeding page of the interim financial report.

This director's report is signed in accordance with a resolution of the Board of Directors.

....

The Hon. Craig Wallace
Chairman
Thirroul, 15 March 2016

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Auditor's Independence Declaration to the Directors of TerraCom

As lead auditor for the review of TerraCom Limited for the half-year ended 31 December 2015, 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 review; and

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

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

Ernst & Young

Ernst & Young

K McKenzie

Kellie McKenzie
Partner
Brisbane
15 March 2016

Interim Consolidated Statement Comprehensive Income

	Note	31 December 2015 AUD	31 December 2014 AUD
Sales	2	**6,796,634**	-
Costs of sales	3	**(9,008,642)**	-
Gross profit		**(2,212,008)**	-
Other income	2	**5,686**	14,651
Employee benefits expense	3	**(1,602,829)**	(1,352,364)
Depreciation and amortisation expense		**(3,141,681)**	(485,745)
Legal and professional fees	3	**(1,110,676)**	(454,269)
Marketing fees		**(1,067,336)**	-
Management fees		**-**	(415,502)
Rent expense		**(366,995)**	(400,722)
Consulting fees		**(521,419)**	(257,108)
Travel expense		**(379,936)**	(92,544)
Impairment losses	3	**(36,808,252)**	(284,448)
Other operating expenses	3	**(3,534,246)**	(3,086,098)
Finance costs	3	**(15,997,989)**	(3,156,835)
Foreign currency loss	3	**(7,233,005)**	(16,398,634)
Loss on disposal of subsidiary		**-**	(1,052,594)
Share of profit of associates company		**(1,974)**	-
Loss for the period before income tax		**(73,972,660)**	(27,422,212)
Income tax expense		**(208)**	(348)
Loss for the period from continuing operations		**(73,972,868)**	(27,422,560)
Loss for the period		**(73,972,868)**	(27,422,560)
Other comprehensive income, net of income tax			
Items that will be reclassified to profit or loss when specific conditions are met			
Exchange differences on translating foreign controlled entities		**2,524,525**	9,864,773
Other comprehensive income for the period, net of tax		**2,524,525**	9,864,773
Total comprehensive loss for the period		**(71,448,343)**	(17,557,787)
Loss for the period attributable to:			
Members of the parent entity		**(73,618,240)**	(27,416,200)
Non-controlling interest		**(354,628)**	(6,360)
Total loss		**(73,972,868)**	(27,422,560)
Total comprehensive loss attributable to:			
Members of the parent entity		**(71,029,879)**	(17,992,712)
Non-controlling interest		**(418,464)**	434,925
Total comprehensive loss		**(71,448,343)**	(17,557,787)
Earnings Per Share			
Basic earnings/ (loss) per share (cents)		**(6.72)**	(3.23)
Diluted earnings/ (loss) per share (cents)		**(6.72)**	(3.23)

The accompanying notes form part of these financial statements.

Interim Consolidated Statement of Financial Position

		31 December 2015 AUD	30 June 2015 AUD
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**365,243**	686,987
Inventory	**6**	**2,312,656**	-
Trade and other receivables		**2,515,134**	21,671
Other assets		**-**	2,226,820
TOTAL CURRENT ASSETS		**5,193,033**	2,935,478
NON-CURRENT ASSETS			
Trade and other receivables		**7,541,342**	5,887,350
Property, plant and equipment	**7**	**117,284,324**	129,140,549
Investment in associate		**1,388,429**	1,390,404
Intangible assets		**859,183**	417,256
Exploration and evaluation assets	**8**	**50,030,205**	58,573,488
TOTAL NON-CURRENT ASSETS		**177,103,483**	195,409,047
TOTAL ASSETS		**182,296,516**	198,344,525
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	**9**	**61,735,114**	32,919,590
Short-term provisions		**-**	53,695
Borrowings	**10**	**160,084,263**	93,519,349
TOTAL CURRENT LIABILITIES		**221,819,377**	126,492,634
NON-CURRENT LIABILITIES			
Borrowings	**10**	**4,277,160**	44,340,796
Long-term provision		**1,152,775**	1,015,548
Other liabilities		**-**	-
TOTAL NON-CURRENT LIABILITIES		**5,429,935**	45,356,344
TOTAL LIABILITIES		**227,249,312**	171,848,978
NET ASSETS		**(44,952,796)**	26,495,547
EQUITY			
Issued capital	**11**	**186,354,850**	186,354,850
Reserves		**(29,001,891)**	(31,590,252)
Retained earnings		**(206,551,450)**	(132,933,210)
Total equity attributable to equity holders of the Company		**(49,198,491)**	21,831,388
Non-controlling interest		**4,245,695**	4,664,159
TOTAL EQUITY		**(44,952,796)**	26,495,547

The accompanying notes form part of these financial statements.

Interim Consolidated Statement of Changes In Equity

	Note	Issued capital	Accumulated losses	Acquisition reserve	Foreign currency translation reserve	Option reserve	Share based payments reserve	Total attributable to Equity holders of the Company	Non-controlling interests	Total
		$	$	$	$	$	$	$	$	$
Balance at 1 July 2015		**186,354,850**	**(132,933,210)**	**(36,684,681)**	**(2,864,418)**	**7,958,847**	**-**	**21,831,388**	**4,664,159**	**26,495,547**
Profit/(Loss) attributable to equity holders of the Company		**-**	**(73,618,240)**	**-**	**-**	**-**	**-**	**(73,618,240)**	**-**	**(73,618,240)**
Profit/(Loss) attributable to non-controlling interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(354,628)**	**(354,628)**
Total other comprehensive income for the half year		**-**	**-**	**-**	**2,588,361**	**-**	**-**	**2,588,361**	**(63,836)**	**2,524,525**
Balance at 31 December 2015		**186,354,850**	**(206,551,450)**	**(36,684,681)**	**(276,057)**	**7,958,847**	**-**	**(49,198,491)**	**4,245,695**	**(44,952,796)**

	Note	Issued capital	Accumulated losses	Acquisition reserve	Foreign currency translation reserve	Option reserve	Share based payments reserve	Owners of the parent	Non-controlling interests	Total
		$	$	$	$	$	$		$	$
Balance at 1 July 2014		170,466,514	(89,843,600)	(29,675,375)	(10,938,329)	7,958,847	42,066	48,010,123	(674,594)	47,335,529
Profit/(Loss) attributable to equity holders of the Company		-	(27,416,200)	-	-	-	-	(27,416,200)	-	(27,416,200)
Profit/(Loss) attributable to non-controlling interests		-	-	-	-	-	-	-	(6,360)	(6,360)
Purchase of non-controlling interest		-	-	-	-	-	-	-	-	-
Other comprehensive income for the year		-	-	-	9,423,488	-	-	9,423,488	441,285	9,864,773
Shares issued during the year		9,276,375	-	-	-	-	-	9,276,375	-	9,276,375
Disposal of subsidiary		-	-	-	-	-	-	-	(1,328,694)	(1,328,694)
Share based payment		-	-	-	-	-	-	-	-	-
Balance at 31 December 2014		179,742,889	(117,259, 800)	(29,675,375)	(1,514,841)	7,958,847	42,066	39,293,786	(1,568,363)	37,725,423

The accompanying notes form part of these financial statements.

Interim Consolidated Statement of Cash Flows

	31 December 2015	31 December 2014
	$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**6,796,634**	-
Payments to suppliers and employees	**(8,488,360)**	(4,953,752)
Interest received	**5,686**	14,651
Net cash provided by (used in) operating activities	**(1,686,040)**	(4,939,101)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	**(8,559,215)**	(4,356,712)
Payments for exploration and evaluation expenditure	**(530,156)**	(695,628)
Payments for acquisition of intangible assets	**(8,289)**	-
Net cash flow from disposal of subsidiary	**-**	(101)
Net cash provided by (used in) investing activities	**(9,097,660)**	(5,052,441)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from non-controlling interest share contribution	**-**	-
Proceeds from issuing of shares	**-**	9,276,375
Repayment of borrowings	**-**	-
Proceeds from borrowings	**10,439,109**	-
Finance costs	**-**	(6,240,943)
Net cash provided by (used in) financing activities	**10,439,109**	3,035,432
Net increase/ (decrease) in cash and cash equivalents held	**(344,591)**	(6,956,110)
Cash and cash equivalents at beginning of period	**686,987**	9,140,971
Net foreign exchange difference	**22,847**	39,849
Cash and cash equivalents at end of financial period	**365,243**	2,224,710

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

Note 1 Corporate Information, Basis of Preparation and Changes to the Group's Accounting Policies

The interim consolidated financial statements of TerraCom Limited (TerraCom) and its subsidiaries (collectively, the Group) for the six months ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 15 March 2016.

TerraCom Limited (the Company) is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded. The Group's principal activities are mine site operations and exploration of tenements.

At the Company's EGM on 30 October 2015 shareholders approved the change of name from Guildford Coal Limited to TerraCom Limited. The Company's securities began trading under the ASX code TER (previously GUF) on 19 November 2015.

(a) Basis of Preparation

These general purpose interim financial statements for the half year reporting period ended 31 December 2015 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest interim financial statements of TerraCom Limited and its controlled entities (referred to as the "consolidated group" or "group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2015, together with any public announcements made during the following half year.

The significant accounting policies used in the preparation and presentation of these interim 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 period.

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

(b) 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.

While there is uncertainty as to whether the below will occur, the accounts have been prepared on a going concern basis as the directors believe there are reasonable grounds such actions will be successful and the additional funding required will be obtained. On this basis, the directors believe the going concern basis of presentation is appropriate. 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.

The Company's 30 June 2015 financial statements outlined various steps that were required for the Group to meet its debt repayment requirements, minimum exploration, development and administrative costs, provide the necessary funding to the BNU mine and continue to operate as a going concern at that time. The below outlines these steps and provides an update on events during the half year ended and subsequent:

- Renegotiate the terms of the Noble debt facilities beyond 30 September 2015. – *This was completed and is ongoing (refer Debt Restructuring below);*
- Utilise existing facility capacity to manage current funding requirements (redraw debt repayments previously made). – *This was achieved (in the 6 months to 31 December 2015 – AU$ 10.4m (US$7m approx.) with support from Noble and OCP;*
- Renegotiate payment terms with creditors to manage working capital and short term funding requirements. – *This was achieved and is ongoing (the Group did not receive any payment demands from suppliers during the period);*

Notes to the Financial Statements **(continued)**

- Restructure the current debt through a bond raising for at least US$100m within the time frames agreed with Noble and OCP. – *The work on this has been ongoing with a targeted completion with OCP in March 2016 (refer Debt Restructuring below). The investment proposal has also been marketed to wholesale investors internationally through this process;*
- Raise additional funds through additional loans, equity and/or convertible debt arrangements. – *This was achieved (post 31 December 15 - US$6.3m debt / interest / fees to equity conversion and US$5m loan) and is ongoing (refer Debt Restructuring below);*
- Operate the BNU North project to generate cash inflows from coal sales (including the use of prepayment facilities to manage credit and liquidity risk). – *This has been achieved*; and
- Develop other mining operations in the South Gobi region to ensure the financial capacity to service the restructured debt requirements. – *The acquisition of the Khar Servegen (KS) Coking Coal Resource which adjoins the BNU mine was completed and development is ongoing (see note 5).*

As the Group has achieved commercial production at the Baruun Noyon Uul (BNU) mine the historical operating losses results reported by the Group are anticipated to change to operating profits as the current price cycle bottoms and over time it is expected the Group will generate positive cash flows.

As at 31 December 2015 the Group's current liabilities exceed the current assets by $216,626,344 due substantially to the current nature of the Group's USD denominated debt repayments which total $160,084,263 (US$116,957,561) and interest and financing costs payable which total $26,918,665 (US$19,666,666).

Additionally as at 31 December 2015 the Group's net assets position is negative $44,952,796 due substantially to:
- Impairment recorded against the Australian Exploration assets (non-cash generating) since 2014 which total $57,017,268 resulting from current valuations of coal exploration assets in a low pricing environment; and
- Unrealized foreign exchange losses on USD denominated borrowings since 1 July 2014 total $32,875,921 resulting from the AUD weakness since 2014.

While the company has recorded impairment this reporting period in Mongolia for $23,447,808, it relates to exploration assets in Mongolia and in the case of the South Gobi CGU the asset value recorded included interest capitalised over time- with the impairment recorded being less than previous interest capitalised.

The impairments recorded reflect the current downturn in coal and commodity prices. Any future improvement in coal pricing, all things being equal, may result in a reversal of these impairments which will also increase the Group's net asset position.

The Group has continued to work closely with financiers on Debt Restructuring that will improve the Group's balance sheet and has completed the following Debt Restructuring post 31 December 2015:
- 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.
- Further to the binding term sheet executed on 23 December 2015, the Company is in the process of entering into a Deed of Release and Termination with the parties to the Note Trust Deed dated 20 December 2013 governing Amortising Notes of US$55,000,000 and Convertible Notes of US$10,000,000. The deed will release the Company from its obligations under the Note Trust Deed and all associated agreements. The facilities will be refinanced with the Bond discussed above.
- The Company has agreed to enter into a letter agreement with the trustee of the Amortising Notes and Convertible Notes whereby all interest and fees accrued but not yet due and payable or any unpaid interest and fees accrued on these instruments will be irrevocably waived. This transaction will significantly reduce current liability by US$ 13.2 million (equivalent at balance date AU$ 18.8 million).
- On 8 February 2016, the Company executed an Amended and Restated Facilities Agreement (the Amendment) with Noble Resources International Pte Ltd. The Amendment refers to the facilities agreement between the Company, certain subsidiaries and Noble Resources International Pte. Ltd. dated 4 September 2012, as amended or varied from time to time including as amended and restated on 24 September 2012, 18 December 2013 and 4 February 2015 (the Facilities Agreement). As at the date of the Amendment, the principal outstanding under the Facilities Agreement was US$ 41 million. The Amendment , once all conditions precedent are met, will extend the maturity of the loans described in the Facilities Agreement and defers all associated interest and any other amounts due to 23 December 2016. Interest payable with respect to the Facilities Agreement is fixed at 12.5% p.a. from 1 February 2016 until maturity.

Notes to the Financial Statements (continued)

- 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.
- On 29 January 2016, OL Master (Singapore) Limited, an affiliate of OCP Asia (Hong Kong) Ltd transferred interest and fees with a value of US$ 1.1 million into 221,489,379 new shares of the Company, reducing the Company's debt by a corresponding amount.
- On 1 February 2016, the Company secured a new short term loan of US$ 5 million from OL Master (Singapore) Limited, an affiliate of OCP Asia (Hong Kong) Ltd. The maturity date of the loan is 2 May 2016 and interest payable is 12% p.a. It has been agreed the loan will be repaid by the Company through the issuance of Bonds (as defined above) to OL Master (Singapore) Pte. Limited.

Refer Note 10 Borrowings for further details on current arrangements with financiers.

For the Group to meet its restructured debt repayment requirements, development, exploration and administrative costs, provide the necessary funding to the BNU mine and continue to operate as a going concern, the following must occur:
- Renegotiate the terms of the Noble debt facilities beyond 23 December 2016 or restructure them into the Bonds. To this end the Group is in ongoing discussion with Noble;
- Renegotiate payment terms with creditors to manage working capital and short term funding requirements;
- Complete long form documents underlying the Bonds and related transactions outlined above;
- Raise additional funds through additional facilities, equity and/or convertible debt arrangements, or from the support of current financiers;
- Continue to operate the BNU North project to generate cash inflows from coal sales (including the use of prepayment facilities to manage credit and liquidity risk);
- Develop other mining operations in the South Gobi region to ensure the financial capacity to service the restructured debt requirements; and
- Continue to progress cash generating acquisition options to augment and ensure the financial capacity to service the restructured debt requirements and continue the strategic development of the South Gobi Coking Coal region in Mongolia.

The directors are undertaking the following actions to achieve the above outcomes:
- Holding ongoing discussions with Noble on debt restructuring and future opportunities;
- Working with OCP to finalise the debt restructure outlined above and to support future opportunities;
- Raising additional funds for short term creditor repayments and renegotiating payment terms with creditors to manage working capital requirements as required;
- Finalise the process of issuing the secured unlisted bonds;
- Continued assessment of various options for optimising the Company's capital structure and assessing its future requirements. In this regard the Company is in ongoing discussions with established financiers and considers additional capital can be secured in a timely manner if required; and
- In Mongolia complete the mine development planning of the Khar Servegen (KS) Coking Coal Resource which adjoins the BNU mine as part of the strategic development of the South Gobi Coking Coal region in Mongolia.

(c) Adoption of new and revised accounting standards

The Group has adopted all mandatory new and amended standards and interpretations applicable for the current period. The adoption of these standards and interpretations had no material impact on these financial statements or on the financial position or performance of the Group.

The Group has not elected to early adopt any other new Standards or Amendments that are issued but not yet effective.

(d) Principals of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (TerraCom Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Notes to the Financial Statements (continued)

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

Note 2 Sales and Other Income

	31 December 2015 $	31 December 2014 $
Sales		
- Coal Sales	**6,796,634**	-

During the reporting period the Company's BNU Mine in Mongolia achieved commercial production. The Company can no longer capitalize costs in the same way as when it was in the development (or commissioning) phase. In accordance with accounting standards, prior to commercial production the Group would capitalize its revenue to mine development to reduce the cost base. Following the achievement of commercial production the Group is required to recognize revenue in the Statement of Comprehensive Income.

Other Income		
- Interest Received	**5,686**	14,651

Note 3 Expenses

The following expense items are relevant in explaining the financial performance for the interim period:

	31 December 2015 $	31 December 2014 $
Cost of Sales		
- Cost of Coal Sales	**9,008,642**	-

During the reporting period the Company's BNU Mine in Mongolia achieved commercial production. The Company can no longer capitalize costs in the same way as when it was in the development (or commissioning) phase. Following the achievement of commercial production the Group is required to recognize costs of production in the Statement of Comprehensive Income.

Finance costs:		
- interest expense on interest bearing loans	**3,685,181**	662,382
- interest expense on convertible bonds and amortising notes	**10,118,726**	1,959,161
- other costs	**2,194,082**	535,292
	15,997,989	3,156,835

During the prior period, $6,437,897 was capitalised to mine development at a capitalisation rate of 72%.

Legal and professional fees:		
- legal fees	**1,061,621**	288,350
- accounting fees	**49,055**	128,767
- other professional fees	**-**	37,152
	1,110,676	454,269

Notes to the Financial Statements (continued)

Employee benefits expense:		
- salaries and wages	**1,039,506**	1,086,362
- bonuses	**-**	-
- directors' fees	**382,515**	103,537
- payroll tax	**22,601**	32,846
- other employee expenses	**158,207**	129,619
- share-based payments	**-**	-
	1,602,829	1,352,364

Other operating expenses		
- listing fees and charges	**37,053**	105,642
- donations and community sponsorship	**-**	115,234
- Mongolian administration and operating expenses	**2,376,836**	1,155,830
- insurance costs	**62,020**	68,693
- project costs	**874,902**	747,149
- Mark to market valuation on convertible option	**-**	835,028
- other expenses	**183,435**	58,522
	3,534,246	3,086,098

Foreign currency loss	**7,233,005**	16,398,634

The Foreign currency loss arises from the Group's United States Dollar denominated borrowings being translated to Australian dollars at reporting date and reflects the movement in the exchange rate between the USD and AUD. This amount is exclusive of unrealised exchange gains on intercompany loans with foreign controlled subsidiaries which are disclosed in the Foreign Currency Translation Reserve (Equity).

Impairment losses		
- South Gobi CGU	**19,701,150**	-
- Mid Gobi	**3,746,658**	847,801
- Australian tenements	**13,360,444**	(563,353)
	36,808,252	284,448

Refer Note 7 for additional disclosure.

Notes to the Financial Statements (continued)

Note 4 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.

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 after 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 extraction activities within Australia.
Mongolia	Coal exploration and extraction activities within Mongolia.

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 maker 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.

(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. Segment liabilities include trade and other payables, and borrowings are not allocated to segments.

Notes to the Financial Statements (continued)

(d) Segment performance

Six Months Ended 31 December 2015	Australia	Mongolia	Total Segments	Unallocated	Consolidated
Reconciliation of segment net loss to consolidated net loss after tax:					
Revenue	-	6,796,634	6,796,634	-	6,796,634
Cost of sales	-	(9,008,642)	(9,008,642)	-	(9,008,642)
Other income	1,807	3,879	5,686	-	5,686
Other expense	(167,870)	(3,444,172)	(3,612,042)	(4,604,400)	(8,216,442)
Depreciation & Amortisation	(27,731)	(3,113,950)	(3,141,681)	-	(3,141,681)
Exploration permits for coal	(204,091)	-	(204,091)	(162,904)	(366,995)
Impairment	(13,360,444)	(23,447,808)	(36,808,252)	-	(36,808,252)
Finance costs	-	-	-	(15,997,989)	(15,997,989)
Foreign exchange loss	-	-	-	(7,233,005)	(7,233,005)
Loss on disposal of subsidiary	-	-	-	-	-
Share of loss of associate	(1,974)	-	(1,974)	-	(1,974)
Income taxes	-	(208)	(208)	-	(208)
Net loss after tax per Statement of Comprehensive Income	**(13,760,303)**	**(32,214,267)**	**(45,974,570)**	**(27,998,298)**	**(73,972,868)**

Six Months Ended 31 December 2014	Australia	Mongolia	Total Segments	Unallocated	Consolidated
Reconciliation of segment net loss to consolidated net loss after tax:					
Revenue	-	-	-	-	-
Cost of sales	-	-	-	-	-
Other income	11,177	3,474	14,651	-	14,651
Other expense	(176,346)	(1,160,230)	(1,336,576)	(4,321,309)	(5,657,885)
Depreciation & Amortisation	(27,131)	(458,614)	(485,745)	-	(485,745)
Exploration permits for coal	(360,413)	-	(360,413)	(40,309)	(400,722)
Impairment	563,353	(847,801)	(284,448)	-	(284,448)
Finance costs	-	-	-	(3,156,835)	(3,156,835)
Foreign exchange loss	-	-	-	(16,398,634)	(16,398,634)
Loss on disposal of subsidiary	(1,052,594)	-	(1,052,594)	-	(1,052,594)
Share of loss of associate	-	-	-	-	-
Income taxes	-	(348)	(348)	-	(348)
Net loss after tax per Statement of Comprehensive Income	(1,041,954)	(2,463,519)	(3,505,473)	(23,917,087)	(27,422,560)

Finance costs, foreign exchange losses, business development and corporate costs are included in “Unallocated”. They are not allocated to individual segments are they are managed at the group level.

Notes to the Financial Statements (continued)

(e) Segment assets and liabilities

	Australia 31 Dec 2015 $	Mongolia 31 Dec 2015 $	Total Segments 31 Dec 2015 $	Unallocated 31 Dec 2015 $	Total 31 Dec 2015 $
Segment assets					
Plant and equipment	157,377	117,126,947	117,284,324	-	117,284,324
Exploration and evaluation assets	35,805,302	14,224,903	50,030,205	-	50,030,205
Trade and other receivables	646,561	9,409,915	10,056,476	-	10,056,476
Cash and cash equivalents	346,527	18,716	365,243	-	365,243
Investment in associate	1,388,429	-	1,388,429	-	1,388,429
Intangible assets	-	859,183	859,183	-	859,183
Inventory	-	2,312,656	2,312,656	-	2,312,656
Total assets per Statement of Financial Position	**38,344,196**	**143,952,320**	**182,296,516**	**-**	**182,296,516**
Segment Liabilities					
Trade payables	2,166,035	32,650,414	34,816,449	26,918,665	61,735,114
Borrowings	-	-	-	164,361,423	164,361,423
Provisions	-	1,152,775	1,152,775	-	1,152,775
Total liabilities per Statement of Financial Position	**2,166,035**	**33,803,189**	**35,969,224**	**191,280,088**	**227,249,312**

	Australia 30 Jun 2015 $	Mongolia 30 Jun 2015 $	Total Segments 30 Jun 2015 $	Unallocated 30 Jun 2015 $	Total 30 Jun 2015 $
Segment assets					
Plant and equipment	153,100	128,987,449	129,140,549	-	129,140,549
Exploration and evaluation assets	48,984,850	9,588,638	58,573,488	-	58,573,488
Trade and other receivables	297,542	5,611,479	5,909,021	-	5,909,021
Cash and cash equivalents	189,847	497,140	686,987	-	686,987
Investment in associate	1,390,404	-	1,390,404	-	1,390,404
Intangible assets	32,797	384,459	417,256	-	417,256
Other assets	-	-	-	2,226,820	2,226,820
Total assets per Statement of Financial Position	51,048,540	145,069,165	196,117,705	2,226,820	198,344,525
Segment Liabilities					
Trade payables	4,206,490	16,599,927	20,806,417	12,113,173	32,919,590
Borrowings	-	-	-	137,860,145	137,860,145
Provisions	53,696	1,015,547	1,069,243	-	1,069,243
Total liabilities per Statement of Financial Position	4,260,186	17,615,474	21,875,660	149,973,318	171,848,978

Notes to the Financial Statements (continued)

(f) Segment cash flow information

	Australia		Mongolia		Total	
	31 December 2015 $	31 December 2014 $	**31 December 2015 $**	31 December 2014 $	**31 December 2015 $**	31 December 2014 $
Payments for property, plant and equipment	**211,521**	108,810	**8,347,694**	4,247,902	**8,559,215**	4,356,712

Note 5 Business Combination

Acquisition of Enkhtunkh Orchlon LLC

On 30 September 2015, the Group completed all conditions precedent, and effectively acquired 100% of the share capital of Enkhtunkh Orchlon LLC (EO) from Noble Resources International Pte Ltd. The Group acquired EO for consideration of USD$6,000,000 and the payment of a royalty in future periods pursuant to the Royalty Deed dated 18 December 2013 upon the mining of the tenement. EO holds the highly prospective 12600 exploration licence, now known as Khar Servegen (KS), Coking Coal Resource and associated mining application, which is adjacent to the Group's BNU Mine in the South Gobi. This proximity is of high strategic importance due to potential capital and operating cost synergies. The acquisition of this lease will result in operational synergies with the adjacent BNU Mine as the coal seams are contiguous.

The Group has acquired EO as it plays a significant role in the expansion plans of TerraCom, and completes a strategic play that provides TerraCom with a strong presence, and continuous access to coking coal resources in the South Gobi region.

The provisional fair value of identifiable assets and liabilities of Enkhtunkh Orchlon LLC as at the date of acquisition were:

	AUD$
Assets	
Cash	150
Trade Receivables	203,343
Property, Plant & Equipment	781,470
Intangibles	78,105
Exploration & Evaluation	8,550,000
	9,613,068
Liabilities	
Trade & Other Payables	(60,447)
Borrowings	(4,453,491)
	(4,513,938)
Total Identifiable Net Assets at Fair Value	5,099,130
Goodwill Attributable to E&E (refer below)	3,455,190
Purchase Consideration	8,554,320

The fair value of Enkhtunkh Orchlon LLC assets and liabilities has been measured provisionally at acquisition date, pending final completion of independent valuation.

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. It is expected that such information may necessitate the recording of future royalty payments should adjustments be made to the fair value of exploration and evaluation assets.

The fair value of exploration and evaluation assets is represented by the value of 12600 exploration license and application for mining license as at acquisition date. It reflects the value of 15mt inferred JORC resource.

If the Group has not brought the 12600 project into commercial production by 8 May 2018, then the Group has the option to retain the tenement and pay Noble 5 annual payments of US$ 11.8 million or return the tenement to Noble. Further, if the acquisition consideration payment of $8,201,296 (USD$6,000,000) is not made in line with the terms agreed there is provision to transfer the shares of the entity to Noble.

Notes to the Financial Statements (continued)

The fair value of borrowings represents the full fair value of total loans payable to Noble Resources International Pte Ltd of $US3m, and is the maximum payable amount negotiated by TerraCom, of previous Noble loans to Enkhtunkh Orchlon LLC. The goodwill of $3,455,190 attributable to E&E comprises of the expected synergies and strategic benefit the 12600 exploration license and application for mining license provides to the BNU mine, and broader South Gobi coking coal operation.

From the date of acquisition, Enkhtunkh Orchlon LLC has contributed NIL revenue and $170,000 of profit before tax, arising predominantly out of unrealised foreign exchange gains on the USD denominated payable to Noble. If the business combination had taken place at the beginning of the year, adjustments to revenue from continuing operations would be NIL and loss before tax would be $177,000 less. Transaction costs of $100,000 were expensed and are included in consulting fees and other operating expenses in the period.

The Group has not paid consideration to Noble, and a payable outstanding of $8,201,296 (USD$6,000,000) is recorded in Trade and Other Payables in current liabilities.

Note 6 Inventory

	31 December 2015 $	30 June 2015 $
Coal inventory	**2,312,656**	-

During the reporting period the Company's BNU Mine in Mongolia achieved commercial production. The Company can no longer capitalize costs in the same manner when it was in the development (or commissioning) phase. Accordingly, the Company is required to record coal inventory as a separately identifiable asset on its Statement of Financial Position. Coal inventory has been valued at the lower of cost or net realizable value.

Note 7 Property, plant and equipment

	31 December 2015 $	30 June 2015 $
LAND AND BUILDINGS		
At cost	**165,128**	165,128
Accumulated depreciation	**(114,228)**	(102,969)
	50,900	62,159
CAPITAL WORKS IN PROGRESS		
At cost	**12,538,520**	12,328,921
PLANT AND EQUIPMENT		
At cost	**5,213,515**	4,753,676
Transfer to development costs	**(198,328)**	(440,568)
Accumulated depreciation	**(814,574)**	(582,192)
	4,200,613	3,730,916
MINE DEVELOPMENT		
At cost	**118,868,912**	113,018,553
Accumulated amortisation	**(2,898,040)**	-
Accumulated impairment	**(15,476,581)**	-
	100,494,291	113,018,553
	117,284,324	129,140,549

Notes to the Financial Statements (continued)

(a) 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 half year:

	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	**155,228**	**-**	**59,828**	**4,330,818**	**4,545,874**
Effects of foreign exchange on opening balance	**224,380**	**-**	**59,798**	**1,151,204**	**1,435,382**
Disposal	**-**	**-**	**(689)**	**-**	**(689)**
Acquisition of subsidiary	**-**	**-**	**781,470**	**-**	**781,470**
Transfers from exploration and evaluation assets and plant and equipment	**(170,009)**	**-**	**(198,328)**	**368,337**	**-**
Impairment expense	**-**	**-**	**-**	**(15,476,581)**	**(15,476,581)**
Depreciation/ amortisation expense	**-**	**(11,259)**	**(232,382)**	**(2,898,040)**	**(3,141,681)**
Balance at 31 December 2015	**12,538,520**	**50,900**	**4,200,613**	**100,494,291**	**117,284,324**

	Capital works in progress $	Buildings $	Plant and equipment $	Mine development $	Total $
Balance at 1 July 2014	9,611,500	86,527	3,316,076	57,755,938	70,770,041
Additions	1,100,795	-	792,561	29,404,819	31,298,175
Effects of foreign exchange on opening balance	1,624,288	-	513,931	7,604,569	9,742,788
Disposal	(7,662)	-	(416,030)	-	(423,692)
Transfers from exploration and evaluation assets and plant and equipment	-	-	(440,568)	18,253,227	17,812,659
Depreciation expense	-	(24,368)	(35,054)	-	(59,422)
Balance at 30 June 2015	12,328,921	62,159	3,730,916	113,018,553	129,140,549

(b) Impairment

At each reporting period, the Company assesses whether there are indicators of impairment with respect to its mining assets. When indicators of impairment 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.

(i) Mining Assets

The South Gobi mining and exploration assets are considered one cash generating unit (CGU) for the purposes of impairment testing. As at 31 December 2015, indicators of impairment were identified on this CGU as a result of the significant volatility and weak market prices experienced in the coal industry.

Recoverable amount has been determined based on an Independent Technical Specialist's Report (ITSR) prepared by Xenith Consulting Pty Ltd and used in an Independent Experts Report by DMR Corporate which was included in the Company's Notice of EGM announcement in relation to the ongoing debt restructuring, released 12 December 2015. 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.

The key assumptions used in this valuation are an average coal price of US$103.42/t over the period from 2016 to 2022, an average AUD to USD foreign exchange rate of 0.71 over the same period, and a post-tax discount rate of 16.5%. This has resulted in a non-cash impairment expense of $15,476,581 to the South Gobi CGU at 31 December 2015. The recoverable amount of the asset is its fair value less costs of disposal.

Notes to the Financial Statements (continued)

(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.

During the period certain exploration and evaluation assets have been impaired to fair value less cost of disposal based on the ITSR discussed above which indicated the carrying value of certain assets may not be recoverable in full.

This has resulted in a non-cash impairment expense of $21,331,671:
(a) South Gobi CGU – $4,224,569
(b) Mid Gobi Tenements – $3,746,658
(c) Australian Tenements – $13,360,444

(iii) Summary

The non-cash impairment expense for the reporting period is made up as follows:

		Mining Assets	Exploration Assets	Total
South Gobi	(a)	15,476,581	4,224,569	19,701,150
Mid Gobi	(b)	-	3,746,658	3,746,658
Australia	(b)	-	13,360,444	13,360,444
		15,476,581	21,331,671	36,808,252

(a) In accordance with accounting standards the Group has capitalized interest to the South Gobi mining assets throughout the life of its development. The amount previously capitalized is $26,033,616. Accordingly the impairment recorded is less than the interest previously capitalized. Also includes impairment of goodwill recorded at acquisition (refer to Note 5).

(b) The Mid Gobi and Australian impairments are for non-cash generating assets of the Company. The current period impairment is reflective of the depressed market conditions and lower coal prices. The Group expects the mining industry to rebound out of its depressed state and therefore views the assets as having long term value to the Group.

As all CGUs have been written down to their recoverable amount at 31 December 2015, any future unfavourable change in the key assumptions will result in further impairment. Likewise any future favourable change in the key assumptions will result in a reversal of prior impairment. The recoverable amount of the South Gobi and Exploration assets are $117 million and $50 million (respectively).

Note 8 Exploration and evaluation assets

	31 December 2015 $	30 June 2015 $
Exploration and evaluation assets - at cost	**50,030,205**	58,573,488

(a) Movements in carrying amounts of exploration and evaluation assets

During the 6 months ended 31 December 2015, the Group capitalised $630,706 (2015: $731,210) worth of expenditure as exploration expenditure (excludes acquisition of subsidiary). 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:

	31 December 2015 $	30 June 2015 $
Beginning of financial period/year	**58,573,488**	79,392,258
Exploration expenditure	**630,706**	731,210
Disposal	**(8,502)**	(734,021)
Disposal of subsidiary	**-**	(3,611,111)
Transfer to development assets	**-**	(17,812,659)
Acquisition of subsidiary	**12,005,190**	-
Write-off	**-**	(227,871)
Impairment losses (refer Note 7)	**(21,331,671)**	(284,448)
Effects of foreign exchange on opening balance	**160,994**	1,120,130
End of financial period/year	**50,030,205**	58,573,488

Notes to the Financial Statements (continued)

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. The acquisition of subsidiary relates to the acquisition of Enkhtunkh Orchon LLC as discussed in note 5.

(b) Interest in mining tenements

Tenure Number	Location	Percentage Interest 31 December 2015	Percentage Interest 30 June 2015
1250	Charters Towers, Queensland Australia	64.4%	64.4%
1260	Charters Towers, Queensland Australia	64.4%	64.4%
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%
1822	Rockhampton, Queensland Australia	100%	100%
1870	Rockhampton, Queensland Australia	-	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%
2003	Rockhampton, Queensland Australia	100%	100%
2046	Mount Isa, Queensland Australia	-	100%
2047	Mount Isa, Queensland Australia	100%	100%
2048	Charters Towers, Queensland Australia	-	100%
2049	Charters Towers, Queensland Australia	100%	100%
2057	Dalby, Queensland Australia	-	100%
2058	Dalby, Queensland Australia	-	100%
2105	Charters Towers, Queensland Australia	100%	100%
2256	Charters Towers, Queensland Australia	100%	100%
2503	Charters Towers, Queensland Australia	100%	100%
2504	Charters Towers, Queensland Australia	100%	100%
12929X	Mid Gobi, Mongolia	100%	100%
13352X	South Gobi, Mongolia	100%	100%
13780X	South Gobi, Mongolia	100%	100%
14522X	South Gobi, Mongolia	100%	100%
15466X	Mid Gobi, Mongolia	100%	100%
5262X	South Gobi, Mongolia	70%	70%
5264X	South Gobi, Mongolia	100%	100%
17163X	South Gobi, Mongolia	100%	100%
17162	South Gobi, Mongolia	100%	100%
16971	South Gobi, Mongolia	70%	70%
12600X	South Gobi, Mongolia	100%	-
018111XV	South Gobi Mongolia	100%	-

Note 9 Trade & other payables

		31 December 2015 $	30 June 2015 $
Trade Payables and Accrued Expenses	(a)	34,816,449	20,806,417
Finance Costs Accrued	(b)	26,918,665	12,113,173
Finance Costs Accrued		61,735,114	32,919,590

Notes to the Financial Statements (continued)

(a) The increase in Trade Payables and Accrued Expenses is as a result of the Group's BNU Mine achieving commercial production during the period, renegotiating payments terms with creditors to manage working capital and short term funding requirements, and the payment of the acquisition of EO (equivalent at balance date is AU$8,201,296).

(b) The finance costs outstanding with the financiers as at balance date is US$ 19,666,666. Subsequent to period end, it was agreed the outstanding finance costs accrued would be converted to equity, irrevocably waived or payment deferred to 23 December 2016. During the reporting period there were no payment demands issued by suppliers.

Note 10 Borrowings

		31 December 2015 $	30 June 2015 $
CURRENT			
Working capital facility	(a)	23,268,546	22,135,418
Interest bearing loans	(b)	43,193,484	31,249,999
Convertible loan	(c)	13,687,380	13,020,787
Amortising notes	(d)	79,934,853	27,113,145
		160,084,263	93,519,349
NON-CURRENT			
Interest bearing loans	(b)	-	-
Convertible loan	(c)	-	-
Amortising notes	(d)	-	44,340,796
Non-Interest Bearing Loans	(e)	4,277,160	-
		4,277,160	44,340,796
Total Borrowings		164,361,423	137,860,145

BORROWINGS EXPRESSED IN USD (DENOMINATED CURRENCY)

		USD$	**USD$**
CURRENT			
Working capital facility	**(a)**	**17,000,000**	**17,000,000**
Interest bearing loans	**(b)**	**31,557,160**	**24,000,000**
Convertible loan	**(c)**	**10,000,000**	**10,000,000**
Amortising notes	**(d)**	**58,400,401**	**20,822,860**
		116,957,561	**71,822,860**
NON-CURRENT			
Interest bearing loans	**(b)**	**-**	**-**
Convertible loan	**(c)**	**-**	**-**
Amortising notes	**(d)**	**-**	**34,053,731**
Non-Interest Bearing Loans	**(e)**	**3,000,000**	**-**
		3,000,000	**34,053,731**
Total Borrowings		**119,957,561**	**105,876,591**

(a) Working Capital Facility

Working capital facility: On 24 September 2012, the company entered into a working capital facility agreement for US$10,000,000 with Noble International Pte Ltd ("Noble"). The facility originally bore an annual interest rate of LIBOR (London Interbank Offered Rate) plus a margin of 7.25% however from June 2014 this was increased to 10.5% after commencement of negotiations to defer the principal repayment. This facility was due for repayment on 1 October 2015 based on renegotiated terms. During the period the Group remained in active discussions with Noble on extending repayment terms and on 8 February 2016 the Company agreed with Noble to defer the principal and interest until 23 December 2016. The interest rate on the facility for this period will be 12.5%.

As at 31 December 2015, the entire US$10,000,000 facility had been drawn down, with AU$666,547 in unrealised foreign exchange losses being recognised this reporting period.

Notes to the Financial Statements (continued)

Additional working capital facility: On 6 February 2015, the Company entered into an additional working capital facility agreement for US$7,000,000 with Noble International Pte Ltd ("Noble") which was fully drawn down. The facility bore an annual interest rate of LIBOR+10.5%. This facility was due for repayment on 1 October 2015 based on renegotiated terms. During the period the Group remained in active discussions with Noble on extending repayment terms and on 8 February 2016 the Company agreed with Noble to defer the principal and interest until 23 December 2016. The interest rate on the facility for this period will be 12.5%.

As at 31 December 2015, the entire US$7,000,000 facility had been drawn down, with AU$446,583 in unrealised foreign exchange losses being recognised this reporting period.

(b) Interest Bearing Loans

Long-term debt facility: On 31 October 2012, the company entered into a long-term debt facility agreement for US$10,000,000 with Noble. The facility originally bore an annual interest rate of LIBOR (London Interbank Offered Rate) plus a margin of 7.25% however from June 2014 this was increased to 10.5% after commencement of negotiations to defer principal repayments. This facility was due for repayment on 1 October 2015 based on renegotiated terms. During the period the Group remained in active discussions with Noble on extending repayment terms and on 8 February 2016 the Company agreed with Noble to defer the principal and interest until 23 December 2016. The interest rate on the facility for this period will be 12.5%.

As at 31 December 2015, US$10,000,000 facility had been drawn down, with US$1,111,111 principal being re-drawn during the reporting period (this principal had been previously repaid in prior periods). $614,610 in unrealised foreign exchange losses are being recognised this reporting period.

Fuel Exclusivity: On 14 November 2013, the company entered into a Fuel Exclusivity agreement with Noble International Pte. Ltd for US$8,000,000. The facility bears an implied annual interest rate of 9.7% and the principal repayment of this facility has been scheduled to be repaid over the 2016 and 2017 financial years. During the period the Group remained in active discussions with Noble on extending repayment terms and on 7 March 2016 the Company agreed with Noble to defer all outstanding principal on this facility for a further 45 days to 21 April 2016.

As at 31 December 2015, US$7,557,160 facility had been drawn down, with US$4,890,312 principal being re-drawn during the reporting period (this principal had been previously repaid in prior periods). $614,640 in unrealised foreign exchange losses have been recognised in the current period.

Long-term additional debt facility: On 18 December 2013, the company entered into a long-term additional debt facility agreement with Noble International Pte. Ltd for US$14,000,000.The facility originally bore an annual interest rate of LIBOR plus a margin of 7.25% however from June 2014 this was increased to 10.5% after commencement of negotiations to defer principal repayments. This facility was due for repayment on 1 October 2015 based on renegotiated terms. During the period the Group remained in active discussions with Noble on extending repayments terms and on 8 February 2016 the Company agreed with Noble to defer the principal and interest until 23 December 2016. The interest rate on the facility for this period will be 12.5%.

As at 31 December 2015, US$14,000,000 facility had been drawn down, with US$1,555,555 principal being re-drawn during the reporting period (this principal had been previously repaid in prior periods). $816,496 in unrealised foreign exchange losses have been recognised in the current period.

(c) Convertible Loans

On 8 January 2014 the Group entered into a debt facility with "OCP Asia" to issue convertible notes with a face value of USD$10,000,000. Proceeds were used to fund working capital requirements in the Group's Mongolian operations. The Convertible Notes bear an interest rate of 12% p.a. and mature on the 8 July 2015. During the reporting period, and subsequent, the convertible loans maturity date was extended:

A. USD$ 5,000,000 – maturity date extended to 31 January 2016; and converted to equity on 29 January 2016; and
B. USD$ 5,000,000 – subsequent to 31 December maturity extended to 31 January; and then on 28 February 2016 maturity extended to 31 March 2016. Notwithstanding this, it is expected this amount will be re-financed by a 5 year interest only bond (refer Note 15 for additional disclosure).

$666,593 in unrealised foreign exchange losses have been recognised in the current period.

Notes to the Financial Statements (continued)

(d) Amortising notes

On 8 January 2014 the Group also entered into an agreement with "OCP Asia" to issue amortising notes with a face value of USD$55,000,000. The facility was fully drawn down with proceeds used to settle the previous convertible loans and to fund working capital requirements in the Group's Mongolian operations. The Amortising Notes bear an interest rate of 12% p.a. and mature on 8 January 2017. During the period certain repayments due in December 2015 were not made and agreement was reached with OCP Asia to refinance the full face value of the notes into a 5 year interest only bond (refer Note 15 for additional disclosures).

$4,070,182 in unrealised foreign exchange losses has been recognised in the current period.

(e) Non-interest bearing loans

This amount relates to US$3m due by the Group to Noble and is payable by the recently acquired Enkhtunkh Orchlon LLC. This amount is due for payment within 5 years.

(f) Securities pledged

As part of the security package in relation to the Noble facility agreements, TerraCom's subsidiaries have provided Mongolian law pledges over the coal stockpile held by Tellus Marketing Pte. Ltd., Tellus Commodities Pte. Ltd., Terra Energy LLC, Alag Tvesh LLC and Tsagaan Uvuljuu LLC in favour of Noble.

TerraCom (together with its relevant subsidiaries) has also provided Mongolian law share pledges in favour of Noble over:
- 100% of the shares in Alag Tvesh LLC held by Tellus Marketing Pte. Ltd.; and
- 100% of the shares in Tsagaan Uvuljuu LLC held by Terra Energy LLC.

The other securities provided include:
- Singapore law charges of proceeds accounts (from Tellus Commodities Pte. Ltd.);
- Singapore law assignments of contracts (from Tellus Marketing Pte. Ltd. and Tellus Commodities Pte. Ltd.); and
- New South Wales law guarantee and indemnity (from Tsagaan Uvuljuu LLC).

The security provided by TerraCom to OCP Asia in relation to the Note Trust Deed includes a General Security Agreement entered into with TerraCom itself, and certain of its subsidiaries, attaching to all Australian mining tenements held or controlled by TerraCom or its subsidiaries.

Note 11 Issued Capital

	31 December 2015 $	30 June 2015 $
1,095,928,523 Ordinary Shares	**186,354,850**	186,354,850

(a) Ordinary shares

Beginning of financial period/ year	**186,354,850**	170,466,514
Rights issue on 7 August 2014	**-**	5,000,000
Exercise of option on 11 November 2014	**-**	4,345,340
Rights issue on 26 February 2015	**-**	6,597,686
Share issuances expenses	**-**	(54,690)
End of financial period	**186,354,850**	186,354,850

(b) Capital Management

Management controls the capital of the Group in order to maintain a manageable debt to equity ratio, provide the shareholders with adequate returns and 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.

Management effectively manages 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, distributions to shareholders and share issues.

Notes to the Financial Statements (continued)

Note 12 Fair Value Measurement

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	Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	Unobservable inputs for the asset or liability.

The table below shows the assigned categorisation within the fair value hierarchy for each financial asset and liability held by The Group:

31 December 2015	Level 1 $	Level 2 $	Level 3 $	Total $
Recurring fair value measurements				
Options on convertible notes	-	-	-	-

30 June 2015	Level 1 $	Level 2 $	Level 3 $	Total $
Recurring fair value measurements				
Options on convertible notes	-	-	-	-

The fair value of the interest bearing loans, working capital facilities, convertible notes and amortising notes approximates their present value at 31 December 2015 due to their short term nature The fair value of the loan owed by EO to Noble is US$3m which needs to be repaid within 5 years from the 23 June 2015 (Share Purchase Agreement execution date). The fair value of all other financial instruments approximates their carrying values at 31 December 2015 due to their short term nature.

Note 13 Related Party Disclosures

There are no significant changes to related party transactions during the period.

Note 14 Contingencies

Contingent Liabilities

The Group had the following contingent liabilities at 31 December 2015:

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, 1573, 1574, 1576, 2046, 2047, 2048, 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 (QLD) Pty Ltd tenements. No amount has been paid or accrued as at 31 December 2015.

The Share Purchase Agreement between Guildford Coal Limited (name changed to TerraCom Limited) and Resco Projects Pty Limited, for the purchase of 50.52% ownership in Springsure Mining Pty Limited, provides for contingent payments of $2,200,000 (“Initial additional consideration”) for each of the first five tranches of 10Mt of JORC (Joint Ore Reserves Committee) Indicated Resource and $1,800,000 (“Final additional consideration”) for each of the next five tranches of 10Mt of JORC Indicated Resource to a maximum of $20,000,000 (payable in cash or TerraCom shares). These contingent payments are in addition to the initial purchase consideration of $250,000.

Notes to the Financial Statements (continued)

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 the Company to Resco Projects Pty Limited (Resco) under the Springsure Share Sale Agreement by which Springsure was acquired by The Company (Springsure Settlement).

Resco had assigned the Springsure Settlement to TheChairmen1 Pty Ltd ("TheChairmen1"). Resco's assignment of the Springsure agreement to TheChairmen1 extinguished the corresponding liability that Resco had to TheChairmen1, stemming from Resco's agreement to purchase shares in Springsure from TheChairmen1. The Company 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 Springsure Settlement was to have been $11million (being payments of $2.2 million for each 10Mt tranche up to a maximum 50Mt of JORC Indicated Resource). However, the Company would only make payments for four 10Mt tranches (totaling $8.8m) as TheChairmen1 had agreed to forego, after negotiations with TerraCom, any settlements for the fifth 10Mt tranche;
- The Company was released from any obligation to pay the fifth 10Mt tranche; and
- Payment was made by the issue to TheChairmen1 of fully paid ordinary shares in The Company, not a cash settlement.

Pursuant to a deed poll dated 19 December 2012 made by TerraCom in favour of Resco, Bluestone Global Limited and Gleneagle Securities Nominees Pty Ltd, Guildford:

- acknowledged the assignment by Resco of its rights to receive the Final additional Consideration in respect of the last five 10Mt Milestones to Gleneagle Securities Nominees Pty Ltd.

As announced on 5 April 2010, TerraCom has granted a call option to certain affiliated funds of Och Ziff Capital Management Group LLC (the Och Ziff funds) with respect to Terra Energy Limited. The Call Option Deed provides the Och Ziff funds with the right to acquire a 25% interest stake in Terra Energy Limited (which is now a wholly owned subsidiary of TerraCom) for AU$25 million. The option expires immediately prior to a qualifying IPO, otherwise there is no expiration date.

TerraCom has entered into a range of arrangements with Noble in respect of Exploration Licence 12600X, the Khar Servegen (KS) Coking Coal Resource, located adjacent to the South Gobi Project. The arrangements are linked to the Noble Facility Agreement and include a Royalty Deed. Under the Royalty Deed royalty is payable to Noble based on the number of tonnes of coal produced and sold from the KS Project, 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; and
- thereafter, US$1.25 per tonne of coal produced and sold, until such time as the aggregate royalty amount paid to Noble equals US$65m.

Note 15 Events after the end of the Interim Period

- In collaboration with the Supply Chain manager Noble, a new supply chain has been set up providing an alternate import agent, coal beneficiation process (CHPP) and trucking provider. It is noted that TerraCom is actively involved in the technical management of the CHPP to ensure the yield performance is optimised.
- On 12 January 2016 the Amendment and Implementation Deed relating to the Company's EGM held in October 2015 was executed. Following on from this, from commencement of trade on 2 March 2016 the new detachable warrants were issued (126,308,306 warrants) and the old detachable warrants were cancelled (66,762,962 warrants).
- On 21 January 2016 SPG Investment Holdings Limited (SPG) exercised its right to terminate the Subscription Agreement due to the Company not meeting all of the Conditions Precedent by the Conditions End Date.
- 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.
- 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 $0.0065. These shares were issued under rule 7.1 and rule 7.1A. The issue price of the shares was at least 75% of the 15 day VWAP.
- On 1 February 2016, the Company secured a new short term loan of US$ 5 million from OL Master (Singapore) Limited, an affiliate of OCP Asia (Hong Kong) Ltd. The maturity date of the loan is 2 May 2016 and interest payable is 12% p.a. The loan, including all accrued interest, will be repaid by the Company through the issuance of Bonds (as defined below) to OL Master (Singapore) Pte. Limited.

Notes to the Financial Statements (continued)

- On 8 February 2016, the Company executed an Amended and Restated Facilities Agreement (the Amendment) with Noble Resources International Ltd. The Amendment refers to the facilities agreement between the Company, certain subsidiaries and Noble Resources International Pte. Ltd. dated 4 September 2012, as amended or varied from time to time including as amended and restated on 24 September 2012, 18 December 2013 and 4 February 2015 (the Facilities Agreement). As at the date of the Amendment, the principal outstanding under the Facilities Agreement was US$ 41 million. The Amendment extends the maturity of the loans described in the Facilities Agreement and defers all associated interest and any other amounts due to 23 December 2016. Interest payable with respect to the Facilities Agreement is fixed at 12.5% p.a. from 1 February 2016 until maturity.
- On 26 February 2016, the Company issued Island Sands Corporation 60,447,310 fully paid ordinary shares in satisfaction of commission's payable at an issue price of $0.007 per share. These shares were issued under rule 7.1A. The issue price of the shares was at least 75% of the 15 day VWAP which was $0.009 per share.
- 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.
- 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.
- Further to the binding term sheet executed on 23 December 2015, the Company is in the process of entering into a Deed of Release and Termination with the parties to the Note Trust Deed dated 20 December 2013 governing Amortising Notes of US$55,000,000 and Convertible Notes of US$10,000,000. The deed will release the Company from its obligations under the Note Trust Deed and all associated agreements. The facilities will be refinanced with the Bond discussed above.
- The Company has agreed to enter into a letter agreement with the trustee of the Amortising Notes and Convertible Notes whereby all interest and fees accrued but not yet due and payable or any unpaid interest and fees accrued on these instruments will be irrevocably waived. This transaction will significantly reduce current liability by US$ 13.2 million (equivalent at reporting date AU$ 18.1 million).

Except for the above, no other matters or circumstances have arisen since the end of the financial period which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Directors Declaration

The directors of the Company declare that:

1. The financial statements and notes of TerraCom Limited for the half-year ended 31 December 2015 are in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
   (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

2. Subject to achieving the matters set out in note 1(b) to the financial report 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.

On behalf of the board

………………………………………………………….

The Hon. Craig Wallace

Date: 15 March 2016

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To the members of TerraCom Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of TerraCom Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of TerraCom Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of TerraCom Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 1b in the financial report which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern. In particular the consolidated entity's current liabilities exceed current assets by $216,626,344 and, as identified in note 1b, the entity's ability to continue as a going concern is reliant on obtaining additional funding and renegotiating current debt arrangements with its two financiers. In order for this to occur a number of outcomes must be successfully achieved. As a result of these matters there is significant uncertainty whether the 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 entity not continue as a going concern.

Ernst & Young

Ernst & Young

KMcKenzie

Kellie McKenzie
Partner
Brisbane
15 March 2016