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Supplemental Release –

Annual Financial Statements

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

In summary for the period TerraCom continued with the implementation of the strategic plan with completion of the restructuring of the balance sheet, and substantial progress has been made towards operating three coal mines in three different regions.

SIGNIFICANT HIGHLIGHTS SINCE YEAR END

Blair Athol Mine Acquisition

Subsequent to year end on 4th July 2016 the Company announced its wholly owned subsidiary Orion Mining Pty Limited (Orion) had reached agreement to acquire the Blair Athol Coal Mine from the Blair Athol Coal Joint Venture (BACJV). Further, on 23rd September 2016 the Company announced Orion had executed a binding Sale and Purchase Agreement to acquire the Blair Athol Coal Mine.

Key elements of the transaction include the following:

- $1 purchase price for the mining lease, licences, land, contracts and all mining plant & equipment including a dragline to deliver the forecast production schedule and the progressive rehabilitation, as well as all site infrastructure including offices, workshops and stores associated with the mine.
- $80m paid by BACJV to TerraCom to meet the sites rehabilitation obligations as determined by the Queensland's Department of Environment and Heritage Protection in November 2015. The financial assurance will be the $80m TerraCom received, which

will be placed in a bank account approved and controlled by the Queensland Department of Natural Resources and Mines.

This acquisition, when completed, is a significant milestone for TerraCom, bringing the following benefits:-

- Generates positive cash flow and strengthens the Group's Balance Sheet.
- Progressive rehabilitation of one of Queensland's oldest coal mines.
- The resumption of coal mining and export sales from the Blair Athol Coal mine will provide the local, state and federal economies with increased economic activity in the form of:
  - Estimated over 100 local people will be engaged at the operation with a focus on regional employment;
  - Local Government rates and charges - Isaac Regional Council;
  - State and federal tax revenues;
  - Significant royalties;
  - Boost to local suppliers and contractors; and
  - Local population boost.

The Company is currently going through the regulatory approvals process. Subject to this, production is scheduled to recommence in the last quarter of 2016 calendar year.

The Blair Athol Mine Acquisition provides the Group with comprehensive mine facilities and an established mining operation as a regional hub in Queensland to support expansion plans.

Substantial Improvement in benchmark coal prices

Since 30 June the thermal and metallurgical commodity prices have rebounded substantially with spot prices for thermal and metallurgical coal at US$73 and US$209 per tonne respectively representing a 40% and 115% increase respectively when compared to the spot prices at 30 June 2016.

Strengthening of AUD to USD foreign currency

The Australian dollar has traded around $0.77 to the USD. If the dollar remains at this level at the next reporting date the TerraCom Group would recognise ~$6.3 million in unrealised foreign exchange gains – thereby offsetting the foreign exchange losses which have been recognised in prior reporting period.

SIGNIFICANT HIGHLIGHTS DURING THE FINANCIAL YEAR

Before analysing the operating performance of the TerraCom Group for the year it is important to recognise the following significant highlights during the financial year:

i. **US$112 million (equivalent AU$150.8 million) of debt extinguished through issue of new long term debt of five year maturity.**

On 30 June 2016 the Company finalised its Balance Sheet Restructure through the issue of 3 new facilities which was used to extinguish all existing facilities except for the Fuel Exclusivity and non-interest bearing loan derived from the Enkhtunkh Orchlon LLC acquisition.

The repayment of the old facilities and deferral of circa 90% of the secured debt for 5 years demonstrates the substantial value that stakeholders (in this case financiers) see in the TerraCom asset portfolio. The new facilities were executed at a commodity price cycle bottom; when many other mining companies were unable to refinance their facilities.

ii. **$39.7 million income from interest, fees and penalties irrevocably waived on the extinguished facilities.**

The Company's financiers continued to unequivocally support the Company during the mining downturn by waiving all of accrued but not paid interest, fees and penalties on the facilities which were extinguished on 30 June 2016 by the three new note facilities.

iii. **US$14.6 million (equivalent AU$20.2 million) of cash was contributed by the Company's principal financiers.**

This support from financiers shows the value proposition the Company has to offer within its existing asset portfolio, and impending acquisitions.

iv. **US$7.0 million (equivalent AU$8.9 million) conversion of debt to equity.**

This includes conversion of 50% of the US$10.0 million convertible note facility, 50% of the outstanding convertible note interest paid via equity issue, and commissions due and payable to Island Sands Corporation. This support of the Company shows the value proposition the Company has to offer within its existing asset portfolio, and impending acquisitions.

The remaining 50% of the convertible note was extinguished via the new facilities completed on 30 June 2016. Had the convertible note been converted to equity and instead remained as debt, the number of shares on issue would have increased by 48%. Therefore shareholder dilution has been substantially limited.

NET ASSET ANALYSIS

The total net assets of the Group as at 30 June 2016 was a deficit of $17.7 million. This represents a decrease of $44.1 million when compared to the net assets of the Group as at 30 June 2015. Management has summarised items below which contribute to the movement of the net assets.

The key contributors to the decline in the net assets of the Group are principally non-cash items. Impairment loss recognised on mine development and exploration assets ($36.8 million) represents approximately 83% of the net asset movement. This item is a non-cash accounting adjustment and will not have any bearing on the future cash outflows of the Group.

Further, the Group holds strategic exploration assets in Queensland, Australia. Even though the Group has no intention of divesting these assets accounting standards still require the fair value of these assets to be recorded as if divested as at reporting date. Therefore, the commodity price downturn over the past few years has placed significant pressure on the carrying value of these assets.

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.

INCOME STATEMENT ANALYSIS

The Group loss for the year was $51.8 million compared to the prior year Group loss of $43.3 million. A range of factors negatively impacted the result. These include:

- A net impairment of $36.8 million (2015: impairment of $0.3 million).
    - $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 thermal and metallurgical commodity prices have rebounded substantially to spot prices for thermal and

metallurgical coal of US$73 and US$209 per tonne respectively – thereby representing a 40% and 115% increase respectively when compared to the spot prices at 30 June 2016.

- Depreciation and amortisation expense of $3.9 million (2015: $0.1 million). During the year the Company's BNU Operation commenced commercial production and accordingly began to amortise the Mine Development asset from 30 September 2015.
- Gross loss from BNU Operations of $4.5 million. As communicated in ASX releases throughout the year as the monthly production volumes from the BNU Mine increased the Group encountered variances to plan in the third party road transport, and washing capacity and capability. This led to the Groups decision to halt mine production to implement an alternative supply chain in Mongolia. The BNU Mine continued to sell coal from stockpile into the Chinese market during this period. The decision to do this by the Group will have substantial long term benefits through delivery a more efficient, lower cost and more reliable supply chain.

SOUTH GOBI OPERATIONS

Production for the year from the BNU Mine in South Gobi, Mongolia is as follows:

	2015/16 Financial Year
Rom coal production (tonnes)	368,773
Overburden removed (BCM)	4,551,716
Coal trucked to China (tonnes)	318,079
Coal washed (tonnes)	207,618
Overall gross product yield	88%
Prime HCC delivered to Customers (tonnes)	131,399
Other Coal delivered to customers (tonnes)	70,577
EOM ROM Stocks (tonnes)	40,049

One of the most important highlights for the Group during the year was the achievement of commercial production at the BNU Mine on 30 September 2015.

Following this achievement the BNU Mine encountered variability to coal extraction increased as volumes increased month to month, being:

1. Variability in third party CHPP washing yield;
2. Variability in the 'in pit' coal reconciliation; and
3. Closure of the third party logistics line.

During Quarter 3, 2016 the Company made a decision to implement an alternative supply chain as a counter measure to the variances it had experienced over the preceding quarter. As a result of the mine reaching historically high stockpile levels the decision was made to limit mining activities at the site to ensure the new supply chain was implemented as effectively and efficient as possible.

Notwithstanding this, the Group has accomplished a number of key cost achievements during the year achieved at the BNU Mine include the following:

- September 2015 quarter: direct mining costs of sub US$2 per cubic metre of total material achieved.
- December 2015 quarter: direct mining costs of US$28 per run of mine tonne achieved – this represented a 12% reduction compared to the September 2015 quarter.

The BNU Mine also continues its exemplary safety record by recording 1.65 million man hours without a lost time injury. This highlights industry leading health and safety training, as well as robust systems and multi-layered risk management process.

Mongolia Exploration Licences

During the current year, TerraCom's Mongolian subsidiaries were granted a number of new exploration licences, complementing the current portfolio of mining and exploration licences the Company already holds. This includes:

- Conversion of the resource area in exploration licence 12600X into Mining Licence MV-019149 (Khar Servegen, KS North).
- Granted exploration licence number XV-018513 which is located in the South Gobi coal basis, only 81.5km east of the Group's existing BNU Mine.
- During quarter 3 of 2016 financial year the Group was awarded the licences in Uvs (XV-20281), East Gobi (XV-020281 and XV-020329) and South Gobi (XV-020268).

TerraCom now holds 15 mineral licences across 3 project areas: 1. South Gobi, 2. Middle Gobi, and 3. Uvs Provinces. The South Gobi Project now holds 10 licences being 3 mineral licences, 4 exploration licences and 3 application for mining licences.

These licences support the Company's commitment to acquire opportunities in Mongolia, allowing it to utilise existing infrastructure and bolster medium term production.

Strategic Direction for Mongolian Assets

The Company has a clear strategic direction for its Mongolian assets. This includes achievable objectives it plans to implement during the next five years:

i. Continue to position the BNU hard coking coal brand as a leading value in use coal in Asian markets, particularly China.

ii. Cost effectively expand the production profile in the South Gobi region by utilising existing infrastructure to achieve 1.5Mt in 2016, 3Mt in 2017 and target a sustainable 5Mt per annum by 2020.

iii. Extend the life of the South Gobi project to greater than 12 years.

iv. Investigate strategic acquisitions that complement the existing portfolio, are accretive to shareholders and support these objectives.

BUSINESS DEVELOPMENT

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

- As discussed previously in this Announcement the Company through its wholly owned subsidiary has executed a binding Sale and Purchase Agreement to acquire the Blair Athol Coal Mine.
- The Company is also evaluating a hard coking coal mining operation in Kalimantan, Indonesia. The mine's production license has a 12 year remaining life and is located in close proximity to road, barge and port infrastructure which connects into the seaborne coal market. The mine has a capability of delivering 500,000 tonnes per annum of hard coking coal.

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TerraCom has fully commissioned the Baruun Noyon Uul (BNU) coking coal mine in the South Gobi Mongolia. The Company's goal is to become one of the largest and highest quality coking coal producers in Mongolia, providing exceptional value for its steel-producing customers.

TerraCom is also focused on developing two priority projects in Queensland, Australia: the large thermal coal Northern Galilee Project and the high energy prime thermal coal Springsure Project.

In order to support further growth and expansion, TerraCom continues to evaluate cash generative assets for potential acquisition. In this regard, the Company recently announced that it has entered into an agreement to acquire the Blair Athol Coal Mine in Queensland, Australia from the Blair Athol Joint Venture, with production scheduled to recommence in 2016. The Company is also evaluating the acquisition of a hard coking coal mine in Kalimantan, Indonesia, a 500,000 tpa operation located in close proximity to road, barge and port infrastructure connecting it to the seaborne coal market.

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