



TERRACOM

**TERRACOM LIMITED
CHAIRMAN'S ADDRESS TO
EXTRAORDINARY GENERAL MEETING
12 JANUARY 2016**

INTRODUCTION

Ladies and Gentlemen,

Good morning and welcome to this Extraordinary General Meeting for TerraCom.

Let me introduce myself - I am Craig Wallace, Chairman of TerraCom Limited and will Chair this meeting on behalf of the Company.

As we have the necessary quorum I declare this meeting open.

I propose that after making my preliminary comments and outlining some housekeeping matters for the conduct of this meeting that I will proceed with the formal aspects of the meeting as described in the Notice of Meeting you have all received.

It would be appreciated if you could please turn off your mobile phone now if you have not already done so as a courtesy to your fellow shareholders.

Before proceeding, let me introduce you to Mr Nathan Boom, Acting Company Secretary of TerraCom. Also present is Mr Aaron Calder, a representative of Link Market Services – TerraCom's share registrar – who will be acting as returning officer should a poll be called.

I note also that due to the diverse geographical spread of the Directors of the Board and in the interest of saving travel costs we have elected to have the remaining Directors dial in to this meeting.

We are all pleased you have joined us today for the meeting which is in compliance with the Corporations Act, formal in nature and restricted to the resolutions detailed in the notice of meeting.

UPDATE TO SHAREHOLDERS ON THE EGM

I will now present an update regarding the resolutions presented for consideration at this EGM.

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In the face of ongoing challenging global conditions for the resource sector, the Company remains focused and on track to deliver all aspects of the 2015 strategic review, both on a corporate and an operational level.

In particular, we continue to pursue and explore alternative options to restructure our finances and reduce our debt burden. This process has required more frequent meetings of our shareholders than would normally be the case, and we are grateful for your participation and support. As you will know, at our recent EGM on 30 October 2015 (**October EGM**) Shareholders supported the efforts of management to amend arrangements with our financiers to provide time for the Company to implement this financial restructuring.

At that meeting, we explained more about the financial restructuring options the Company is considering and evaluating. During this period, the Company has had, and it continues to have, a strong and supportive working relationship with our financial backers in connection with our existing obligations and debt restructuring plan.

This meeting of Shareholders is essentially focused on two further key steps in the Company's financial restructuring plan – the conversion of the Company's existing convertible notes into fully paid ordinary shares (Shares) in the Company, and the placement of additional Shares to SPG Investment Holdings Ltd (**SPG**) which we recently announced to the market, to raise AUD\$7 million in funding for the Company for additional working and development capital (**Placement**).

Resolution 1: Approval of the issue of Shares to Morning Crest Capital pursuant to the conversion of Convertible Notes

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

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

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

Shareholders will be aware that the conversion pricing applicable to the Convertible Notes is a formula calculated on the basis of the Company's share price at the time a conversion notice is given. As no conversion notice had been received by the Company at the date of the Notice of Meeting for this EGM and to ensure that Shareholders are as well informed as possible:

- we included both upside and downside cases (together with their relevant assumptions) in the Explanatory Memorandum, indicating to shareholders the percentage of Shares which in each case would be issued to Morning Crest Capital; and
- we are asking Shareholders to vote on the downside case – meaning that Shareholders would have the opportunity to consider the scenario where the largest number of Shares would be issued to Morning Crest Capital.

The scenarios indicate that Morning Crest Capital together with its associated entities (which for this purpose includes SPG) would through the conversion of the Convertible Notes acquire a voting power in the Company of between 16.64% (upside case) and 31.83% (downside case).

We seek Shareholders' approval for the downside case.

Section 606(1) of the Corporations Act prohibits the acquisition of voting shares in a listed company if that acquisition results in a person's voting power increasing above 20%, however section 611 (Item 7) of the Corporations Act provides an exception to this prohibition where shareholders approve the acquisition. Shareholder approval to the issue of Shares pursuant to the conversion of the Convertible Notes is therefore being sought by the Company pursuant to this exception.

Shareholders should appreciate that this resolution represents your approval to issue these Shares to Morning Crest Capital in the event it acquires and then converts the Convertible Notes as explained above. It does not mean that either of those steps will occur.

I am pleased to advise that the first resolution has been unanimously supported by the directors of the Company. The conversion of the Convertible Notes will have a positive effect on the Company's balance sheet and is a condition precedent to the Placement.

Resolution 2: Placement

The second resolution for consideration at this EGM is the proposed Placement, which will raise AUD\$7 million in funding for the Company. We announced this to the market on 19 October 2015. This is a key step for the Company in its debt restructuring plans.

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

Again, the Company is not able to determine the exact number of Shares that would be issued to SPG in respect of the Placement if Shareholders vote to approve the placement. This is because the Placement is for a fixed monetary amount rather than a fixed percentage of the Shares and therefore movements in the Share price up to the time the Placement is made will affect the number of Shares that would be issued. However, to ensure that Shareholders are as well informed as possible:

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- we included both upside and downside cases (together with their relevant assumptions) in the Explanatory Memorandum, indicating to Shareholders the percentage of the Company's Shares which in each case would be issued to SPG; and
- we are again asking Shareholders to vote on the downside case – meaning that Shareholders would have the opportunity to consider the scenario where the largest number of Shares would be issued to SPG.

The scenarios show that SPG together with its associated entities (which for this purpose includes Morning Crest Capital) would through the Placement acquire a voting power in the Company of between 12.63% (upside case) and 23.18% (downside case).

Shareholders are reminded that the Placement is conditional upon the satisfaction of a number of conditions. In broad terms the key conditions are:

- completion of the current debt restructuring process on terms which are within certain specified parameters; and
- conversion of all of the existing Convertible Notes issued by the Company into Shares.

I also point out that as always with conditional agreements, there is a risk that notwithstanding the approval of Shareholders at the EGM, the Placement will not proceed. That is not the Company's expectation, but Shareholders should be aware of that possibility.

The second resolution has also been unanimously supported by the directors of the Company. Whilst acknowledging the Placement price of \$0.012 was, at that time, at a discount to the Company's prevailing share price on 19 October 2015 when the Placement terms were agreed, the directors consider that considerable advantages will accrue from it. These considerations were clearly set out in further detail in the Explanatory Memorandum.

Interconditionality

The resolutions being put to Shareholders at this EGM are inter-conditional. Therefore, the transactions contemplated by Resolution 1 and Resolution 2 will only occur if Shareholders approve both Resolutions.

Independent Expert's Report

An independent expert's report was prepared by DMR Corporate Pty Ltd (**DMR**) in connection with the proposed issue of Shares to Morning Crest Capital pursuant to the conversion of Convertible Notes and the issue of Shares to SPG through the Placement. The report accompanied the Notice of Meeting and Explanatory Memorandum. DMR concluded that the Convertible Note conversion to Morning Crest Capital and the Placement are both fair and reasonable. As set out in the Independent Expert's Report, DMR's principal reasons for reaching this opinion are:

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The basis for the fair conclusion is as follows:

- DMR has valued the TerraCom Shares before the Placement at \$0.0004 per share on a control basis;
- DMR has valued the TerraCom Shares after the restructure and the Placement on a minority basis at \$0.006 per share;
- as the value of the non-associated Shareholders' interests in TerraCom on a post transaction minority basis (\$0.006) is greater than the value of TerraCom pre-transaction on a control basis (\$0.0004), DMR considers that the Placement is fair.

The key reasons for DMR's reasonable assessment are:

- TerraCom needs to increase its equity base to strengthen its balance sheet and borrowing capacity;
- the Placement represents the best and most appropriate funding package that management has been able to negotiate;
- TerraCom expects to have a new US\$115 million bond facility and no capital repayments will be required over the next 5 years; and
- SPG's major shareholder has a strong network in the coal and steel sectors (both private and state owned entities) in China and this should assist TerraCom in their South Gobi coking coal basin expansion and increased exports into China.

I will now move on to the formal part of the meeting.