TERRACOM

2016 ANNUAL REPORT

ON THE COVER

Sunrise over the South Gobi Desert, Mongolia.

TerraCom's Mongolian subsidiary Terra Energy, controls both coking coal and thermal coal tenements located in the coal bearing basins of the South and Middle Gobi.

TERRACOM RESOURCES
CORPORATE DIRECTORY

PEOPLE

DIRECTORS
Cameron McRae
Craig Wallace
Michael Avery
David Stone
Tsogt Togoo
Loo Hwee Fang
Philip Forrest

COMPANY SECRETARY
Nathan Boom

CORPORATE INFORMATION

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COUNTRY OF INCORPORATION
Australia

AUSTRALIAN BUSINESS NUMBER
ABN 35 143 533 537

STOCK EXCHANGE LISTING
Australian Securities Exchange Ltd
ASX Code : TER

SERVICE PROVIDERS

SHARE REGISTRY
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Australia

SOLICITORS
Herbert Smith Freehills
101 Collins Street
Melbourne Victoria 3000
Australia

BANKERS
Westpac Banking Corporation Ltd
Shop 6, 270 Princes Highway
Corrimal, New South Wales, 2518
Australia

AUDITORS
Ernst & Young
200 George Street
Sydney, New South Wales, 2000
Australia

TERRACOM RESOURCES
CONTENTS

SECTION

COMPANY OVERVIEW

CAMERON McRAE,
Executive Chairman

On behalf of the Board of Directors and senior management of TerraCom Limited (ASX : TER), it is with pleasure that I present the Annual Report to shareholders for the year ended June 30, 2016.

COMPANY OVERVIEW

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

Since our last Annual Report, there have been significant developments at TerraCom.

In November 2015, we officially changed our name from Guildford Coal Australia (ASX : GUF) to TerraCom Resources Limited (ASX : TER). This change represented the opening of a new chapter as we make the step change from explorer to producer, across global locations.

TerraCom's deep management experience and strong resource base has placed it in a position poised to grow. Our recent announcement of signing binding agreements for the acquisition of Blair Athol Coal Mine from the Blair Athol Joint Venture is an exciting example of how we plan to grow through opportunistic, selective inorganic growth.

I was appointed Chairman in early June, taking over from the Honourable Craig Wallace. I would like to personally thank Craig for his leadership of TerraCom during the period of debt restructuring and through a very difficult period in the commodity cycle. I appreciate Craig's ongoing support as deputy Chairman and the support of the board and its advisors who are active in their review of our activities, strategies and plans.

Since my appointment we have announced further organisational changes in our management team, finalised the debt restructuring, raised additional equity and converted the Blair Athol opportunity into a binding agreement. The BNU coal mine is also close to recommencing mining operations after a period used to running down surplus stocks during a period of very low prices and to enable

OPPOSITE PAGE *Overland Conveyor located at the Washplant at Xincheng, Ceke, China.*

the establishment of a more effecient supply chain.

The management team have worked tirelessly and diligently in putting TerraCom onto a stronger and sustainable footing. This is evidenced in the improvement in our balance sheet and the opinion of our external auditors.

2015-16 was a very difficult year - with the global coal industry's dilemma continuing for a third consecutive year. A very soft trading environment impacted all miners, many well-run "icon" companies are facing bankruptcy or going through debt restructuring. All remain focused on cost containment and balance sheet management.

During 2015-16 the TerraCom team managed costs in a very stringent manner. This was critical during the period of debt renegotiation and suspended operations. For TerraCom it was a year of repositioning - the good news is that the balance sheet repair is largely behind us, we enjoy the confidence of financiers and we have exciting growth projects in front of us.

We have completed last year's strategic review initiatives and in late June 2016, we announced the successful restructure of $141 million of existing and soon to be due debt facilities. The new arrangements significantly improved our balance sheet, allowing us to raise additional equity over the past few months.

The Blair Athol acquisition is a very significant growth initiative for TerraCom, representing transformational change, and the announcement of binding agreements being signed is the culmination of complex negotiations over many months. The BA deal structure also gave our major lenders the confidence to convert our debt facilities into a 5-year bond.

Our ability to acquire the assets for $1, and to have the full rehabilitation liability provided for in cash is testament to the management team's ability to drive a value-adding deal. This structure will also allow us to generate working capital loans off the back of the asset values in Blair Athol.

The Board of TerraCom is cautiously optimistic of a recovering coal market. We are well positioned to leverage this upturn. TerraCom's group of small, but highly skilled employees are committed to delivering shareholder value through its existing pipeline of projects and through potential acquisitions.

We remain committed to the health and well being of all our employees and I am pleased to announce that we have now achieved two years of injury free work at our Mongolian operations.

Together with the Board, I would like to thank the dedicated staff that TerraCom employ and our shareholders for their ongoing commitment. With a portfolio of high quality coal projects and a first class management team, we believe we will continue to deliver our strategic objectives and provide our supporters with the opportunity of future growth.

Yours sincerely

Cameron McRae
Executive Chairman

OPPOSITE PAGE *Core Samples drilled at our Australian Projectss*


WHITE MTS
to 738.38m

COAL HAULAGE TRUCKS
South Gobi, BNU
Operations, Mongolia

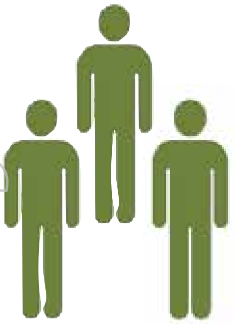
COMPANY OVERVIEW

KEY HIGHLIGHTS

2015-16 has been a challenging year for TerraCom Resources, due to the ongoing global shift in the commodities market. Despite this, we have continued to improve the business through the successful delivery of our 2014-2015 strategic review and our debt restructuring. We have added to our management team through the acquisition of a new Executive Chairman which has added key management experience to our already extensively experienced Management Team. We have also appointed a Chief Financial Officer and reogranised our management team.

The key initiative for the 2015/16 year was to manage our debt in order to fund our development pipeline and secure our exciting new potential acquisition of the Blair Athol Coal Mine, located in Clermont, Queensland.

A recent number of small equity raisings has shown increased positive interest and enthusiasm for our business. TerraCom now also has broker coverage providing more visibility on our business and stock.



PEOPLE & ORGANISATION

- Appointed new Executive Chairman, Cameron McRae, June 2016
- Reorganisation of our Management Team Structure, to provide three focus areas: first class operations; growth through acquistion and financial control
- Appointed Chief Financial Officer, Karl Arnold, July 2016, after Karl joined us at our Mongolian Operations in September 2015

OPERATIONS & SAFETY

- 2 years and 1.65 million man hours Lost Time Injury Free at our Mongolian Operations
- BNU mining operations shutdown Feb 2016 to run down full coal stockpiles and to establish a more effecient supply chain during the price cycle low
- Mongolian Baruun Noyon Uul (BNU) coal sales price increase
- Detailed planning and negotiation of key contracts for the immediate return of the Blair Athol Coal Mine to operational status post acquisition

GROWTH

- Acquisition of the Blair Athol Coal Mine
- Successful balance sheet restructure, positioning for future growth through acquisitions
- Equity raising
- Share price increase from the initial announcement of the Blair Athol acquisition with an expectation that further growth will continue once the transaction closes

COMPANY OVERVIEW

VISION, STRATEGY & OUTLOOK

VISION

We will deliver superior returns to our shareholders, partners and investors.

STRATEGY

TerraCom is an emerging mid-tier resource and energy company that leads shareholder value by responsibly and sustainably acquiring, building and operating assets in the resource & energy sector in multiple jurisdictions. We will expand our business through innovative and efficient actions that optimise the vertical integration capacity of our operating assets.

OUTLOOK

Despite the 2016 financial year providing many challenges for TerraCom Resources Limited we are re-energised by a recent uplift in the resources sector and are optimistic about the coming year. Our recent announcement to acquire the Blair Athol Coal Mine is a transforming acquisition for our business, given the recent changes to the market we believe that it signifies a shift in the coal sector and we hope to capitalise on this acquisition through organic growth of the project and given our experienced and connected management team we believe we are well placed to make future opportunistic acquisitions.

Coking coal prices have recently exploded, with spot prices increasing to over US$200/t. This is about a 200% increase on where prices were 7 months ago. The rapid rise in the market is due to an imbalanced market which has seen demand increasing in China and India, and supply reducing in China and Australia.

Chinese coking coal capacity has been significantly impacted by Government-mandated policy changes that has seen mine operating days reduced to a maximum of 276 days for all Chinese mines. The market has also seen significant structural changes in the buying patterns of major buyers such that more are exposed to the spot market, which has resulted in the buying frenzy that has ensued upon the realisation of the supply shortages being experienced.

The next quarterly benchmark prices are being negotiated now with expectations that prime hard coking coal will settle close to US$180/t, which will be an almost 100% increase on the previous quarter's pricing of US$92.50.

General market sentiment is that the prices will stay firm over the balance of the year. China and India both have very low stocks at the moment and it will take some time to rebuild these levels. Australia is heading into the wet season period and it is anticipated that there will be some weather related disruptions in the coming months. While prices above US$200 for the long term do not seem realistic, we do not expect the price to fall back to levels seen earlier this year due to a continued tightness in supply. While China appears to again be the market that could change this easily, they have released some positive news recently that will see major infrastructure spending the coming years, resulting in continued demand for steel.

COMPANY OVERVIEW
OUR BOARD

CAMERON McRAE
Executive Chairman

Mr McRae has had an extensive and distinguished career in the mining industry globally. Cameron has deep experience as a CEO, company director and Joint Venture representative on many large mining ventures across 3 continents.

He was born in Melbourne, Australia, was schooled in Australia and Africa and obtained an MBA (Monash University/ Mount Eliza) and a Bachelor of Financial Administration (University of New England).

Cameron was CEO-President of Oyu Tolgoi (OT) copper-gold business in Mongolia, CEO of Richards Bay Minerals in South Africa, Managing Director of Murowa Diamonds in Zimbabwe and Project Director for the Hail Creek Coal Mine Expansion Project in Central Queensland. In 1995 he was also a key member of the M&A team that brought RTZ plc and CRA Limited together to form the dual listed Rio Tinto.

CRAIG WALLACE
Deputy Chairman

Mr Wallace served as the State Minister for Main Roads, Fisheries and Marine Infrastructure from 2009 to 2012. His departments delivered major infrastructure projects across Queensland including the Gateway Bridge and rebuilding of Queensland Road assets following major floods.

He was a member of the Executive Council of Australia, a member of Roads Australia and a Patron of the Committee for Infrastructure and Logistics Australia.

In 2012 he formed Shanghai Commonwealth Investment and Consulting (which is operating mainly in China). The company has a focus on building trade ties between China and Australia with a particular focus on food products.

COMPANY OVERVIEW
OUR BOARD

MICHAEL AVERY
Executive Director

DAVID STONE
Executive Director

Michael has been involved in the establishment and management of successful public and private companies in mining, exploration & development, mining consulting services and mining contractor services. Michael is a 30 year plus mining industry veteran with BE Mining (1st Class Honours) from UNSW and an MBA from Mt Eliza Business School.

Michael is a qualified Coal Mine Manager and a member of the Australian Institute of Mining and Metallurgy. Michael has worked for blue-chip mining companies (mostly Rio Tinto and BHP Billiton) at operations in Australia and internationally. These roles covered the full life cycle of open cut and underground mines from resource exploration and evaluation, through conceptual design, pre-feasibility, feasibility, construction, operation and management. Michael joined TerraCom in 2010.

David was schooled in NSW and has multiple qualifications in Mining Engineering and Risk Management, with a diploma from the Australian Institute of Company Director. He has over 25 years experience working for MIM/Xstrata, BHP and Anglo America. He has been responsible for several of Xstrata's mining complexes and Xstrata's underground operations globally. He has held COO positions in several organisations and has consulted on business development opportunities.

David has lived and worked in Australia, United Kingdom and the USA and has been appointed to numerous government and industry committees and boards. He has held Mine Manager, Senior Site Executive and statutory qualifications. David joined TerraCom in May 2015.

COMPANY OVERVIEW
OUR BOARD

LOO HWEE FANG
Non-Executive Director

Loo Hwee Fang is an experienced legal practitioner. Ms Loo graduated from the University of Sheffield, England, with an LLB (Hons) Degree in 1996 and is also a qualified Barrister-at-law.

Ms Loo was a Partner in a Singapore based law firm, Lee and Lee, specialising in corporate finance, capital markets and fund management. Since 2013, Ms Loo is Group General Counsel of Yoma Strategic Holdings Ltd, which is listed on the main board of the Singapore Exchange.

Ms Loo is currently an Independent Director of HL Global Enterprises Limited, which is also listed on the main board of the Singapore Exchange.

TSOGT TOGOO
Non-Executive Director

Mr Tsogt has 20 years of experience in the Mongolian public sector. He worked in the senior management of the Mongolian National Oil company and was in charge of the commercial and operational functions of the company.

Mr Tsogt also worked as the head of the Privatisation Division of the State Property Committee and has played extensive roles in the privatisation of Mongolia's most valuable state-owned companies. He was in charge of the privatisation of the national oil and aviation companies, restructuring power generation and energy distribution enterprises and the deregulation of the energy, oil, aviation and mining sectors.

Mr Tsogt has a Masters of Business Administration from the Leeds University Business School, United Kingdom and Master of Economics and Bachelor of Economics degrees from the Mongolian State University of Agriculture with First Class Honours.

PHILIP FORREST
Non-Executive Director

Philip Forrest has lived in South East Asia for over 30 years and has contributed to the commercial relationship between Australia and Asia.

Since 1991, Mr Forrest has headed three international banks (Westpac, NatWest and ANZ), with wide-ranging regional responsibilities. His most recent banking position was Asia Head for ANZ Bank, with responsibility for all of the Bank's activities in eleven countries ranging from Japan to Indonesia.

Philip is currently a Director of The Australian Chamber of Commerce, Singapore and a Member of the Governing Council of the Singapore Institute of Directors. Philip is a Fellow of the Australian Institute of Company Directors, and CPA.

OPPOSITE PAGE

The Locals, South Gobi Desert, Mongolia

COMPANY OVERVIEW

MANAGEMENT TEAM OVERVIEW

CAMERON McRAE
Executive Chairman

Mr McRae has had an extensive and distinguished career in the mining industry globally. He was born in Melbourne, Australia, was schooled in Australia and Africa and obtained an MBA (Monash University/ Mount Eliza) and a Bachelor of Financial Administration (University of New England).

Cameron has served a 28 year career at Rio Tinto, holding executive level positions in 5 countries. Cameron was CEO-President of Oyu Tolgoi (OT) copper-gold business in Mongolia, CEO of Richards Bay Minerals in South Africa, Managing Director of Murowa Diamonds in Zimbabwe and Project Director for the Hail Creek Coal Mine Expansion Project in Central Queensland. In 1995 he was also a key member of the M&A team that brought RTZ plc and CRA Limited together to form the dual listed Rio Tinto.

MICHAEL AVERY
Vice President - Corporate Development

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Michael is a qualified Coal Mine Manager and a member of the Australian Institute of Mining and Metallurgy. Michael has worked for blue-chip mining companies (mostly Rio Tinto and BHP Billiton) at operations in Australia and internationally. These roles covered the full life cycle of open cut and underground mines from resource exploration and evaluation, through conceptual design, pre-feasibility, feasibility, construction, operation and management. Michael joined TerraCom in 2010.

DAVID STONE
Vice President - Operations

David was schooled in NSW and has multiple qualifications in Mining Engineering and Risk Management, with a diploma from the Australian Institute of Company Director. He has over 25 years experience working for MIM/Xstrata, BHP and Anglo America. He has been responsible for several of Xstrata's mining complexes and Xstrata's underground operations globally. He has held COO positions in several organisations and has consulted on business development opportunities.

David has lived and worked in Australia, United Kingdom and the USA and has been appointed to numerous government and industry committees and boards. He has held Mine Manager, Senior Site Executive and statutory qualifications. David joined TerraCom in May 2015.

MANAGEMENT TEAM OVERVIEW

JULIEN LAWRENCE
Chief Development Officer

Julien was born and schooled in Clermont, Queensland and has multiple qualifications including first class honours in Mining Engineering from the University of Queensland and a Masters in Engineering Science specialising in Project Management from the University of New South Wales. He has worked throughout Australia and Asia across multiple commodities including coal, iron ore, gold and most base metals. He is a Member of the Australian Institute of Mining and Metallurgy and has worked for BHP-Billiton, Xstrata and Leightons (now part of the CIMIC group).

Julien has deep experience in mining project development including development of several coal mines. He joined Terra Energy in March 2013 to oversee commissioning of the BNU coal project in the South Gobi.

KARL ARNOLD
Chief Financial Officer

Karl has over 20 years of mining industry experience working in Australia, Ghana, Burkina, Mali, Guinea, Chile, Peru, Argentina, Bolivia, Philippines and Kazakhstan. Prior to joining TerraCom in September 2015 Karl was Regional CFO for the Glencore Australian Zinc Division (comprising 5 operating mine sites in Queensland and the Northern Territory).

Karl's extensive experience includes: Financial Planning & Analysis, Strategic Planning & Scenario Modelling, Major Project Valuations, Acquisitions & Mergers and Business Metrics Design & Implementation. Karl completed a Bachelor of Business (Majoring in Accounting) through the University of Central Queensland.

NATHAN BOOM
Financial Controller & Company Secretary

Nathan holds a Bachelor of Commerce (Accounting) from University of Wollongong, and is a qualified Chartered Accountant with a strong resources sector background.

His 12 year career working at large multinationals such as Xstrata Coal and Tenova Delkor has provided him with extensive exposure in business restructuring and associated implementation of recovery plans also leading finance and commercial aspects of the business. Having also led business development projects and re-financing packages with banking consortiums, Nathan has substantial experience in financial system implementation and integration. Nathan was appointed as Company Secretary in January 2016 and joined TerraCom in July 2015.

COMPANY OVERVIEW

MANAGEMENT TEAM OVERVIEW

MARK REYNOLDS
General Manager - Corporate Development

Mark has a Bachelor of Business (from Queensland University of Technology) and is a CPA. He was born in Queensland and schooled in Brisbane. Mark has worked for both Rio Tinto and Xstrata, is experienced across multiple commodities, and has held both commercial and business development roles in Australia and the Americas.

Mark has deep experience, understanding and insight of the mining business from the early project stage to mature operations. He joined TerraCom in 2013 initially as Project Director North Queensland.

JONATHON McCARTHY
General Manager - South Gobi Operations

Jonathon graduated from the University of Queensland with an honors degree in Mining Engineering and a Business Management degree majoring in economics. He also holds a graduate diploma in applied finance and is a Chartered Professional (Mining) with the Australian Institute of Mining and Metallurgy.

Jonathon has over 10 years of mining industry experience across Australia, Asia and North America. Jonathon has worked in several large scale open pit operations across multiples commodities with a strong focus on coal mining.

REECE HENRY
Development & Geology Manager

Reece is a qualified JORC competent geologist with more than 15 years mining and exploration experience on multiple projects throughout Australia and Asia. Projects have included both mining operational open cut and underground through to exploration greenfield projects within multiple commodities including coal, evaporites and base metals. Reece joined TerraCom in 2011 on Australian Projects before moving to Mongolian projects and operations.

Reece graduated from the University of Newcastle with a Bachelor of Science (Geology) and holds a Diploma in Business Management. He is a member of the Australian Institute of Mining and Metallurgy.

OPPOSITE PAGE

Zag Tree, South Gobi Desert, Mongolia

This plant has one of the most important niches in the Gobi Desert, as it is one of the only available water sources in the desert.

SECTION

COMPANY UPDATE

OPPOSITE PAGE

Eagle, South Gobi Desert, Mongolia

COMPANY UPDATE
OPERATIONS

KEY HIGHLIGHTS

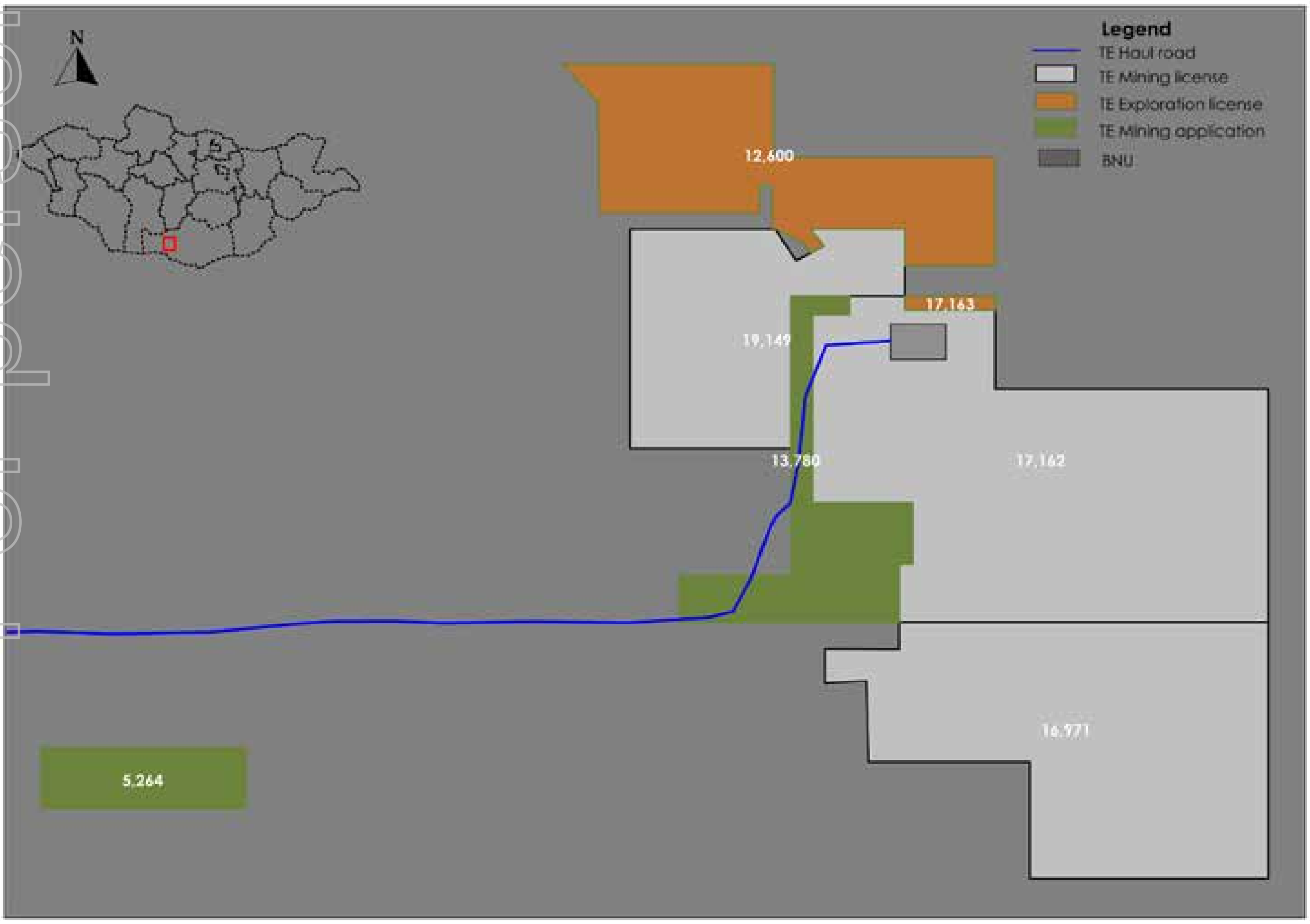
- Development of Pit 2 at BNU has delivered increased coal volumes in line with the strategic direction for the South Gobi Operations.
- Commissioning of the new supply chain into Chinese hard coking coal markets has delivered improved yield results, middling's recovery and ash control on BNU Coal to generate additional value within the coal chain.
- Through value maximisation in the operation and supply chain, a price increase in hard coking coal has been achieved for Q2 2016 sales after several quarters of flat or downward price movements.
- Two exploration licenses in the final stages of approval with MRPAM (Mineral Resource and Petroleum Agency of Mongolia). Once approved a total of five mining licenses will be held on the South Gobi Project.
- BNU multi pit strategy has been supported by exploration delineating potential target pits proximal to BNU.

Operation Name : Baruun Noyon Uul (BNU) Coal Mine

OWNERSHIP	100% TerraCom Limited through Mongolian Subsidiary Terra Energy Limited
LOCATION	South Gobi Desert, Mongolia
TENEMENTS	MV-17162
COAL RESOURCES	83Mt (JORC 2012 & 2004) BNU 15 Mt Measured, 9 Mt Indicated and 15 Mt Inferred (JORC 2012) KS North 15 Mt Inferred (JORC 2012) Huvguun 41 Mt Inferred (JORC 2004)
STATUS	Operation
EMPLOYEES	During Operation : 348 FTE (152 employees; 196 contractors) During Shutdown : 211 FTE (136 employees; 75 contractors)

The Baruun Noyon Uul (BNU) Mine is part of the strategic South Gobi Project. The mining operations are based within the highly prospective Noyon Basin Region. Shallow target coal of the Dellin Shand Suite outcrops across the licenses along 50 kilometers of basin edge coal bearing stratigraphy.

In FY2015, the BNU mine and haul road to China was fully commissioned to enable operations. In FY2016, the Company has continued its ramp up mining activities at the BNU mine and market penetration into hard coking coal markets in China. Progress has included the ramp up of the BNU mine to 1Mtpa annualised rates and the development of a new supply chain. These improvements have enabled the BNU operation to deliver enhanced value from the sales of hard coking coal in China through greater control of product specifications and processing yield.



ABOVE

BNU Coal Operations, South Gobi Desert, Mongolia

In FY2016, BNU shipped coal to six (6) different regional customers within China. This included shipments of 131,399 tonnes of premium low ash hard coking coal to Jiuquan Iron & Steel (Group) Co Ltd (JISCO) and Jiuquan Haohai Coal Chemical Co Ltd (Haohai).

Further FY2016 highlights at the BNU mine, include:

- On 22 July 2015, the first coal was successfully mined from Pit 2.
- On 21 September 2015, reached 250,000 tonnes export from the BNU mine.
- On 21 January 2016, established new supply chain after a review of the existing supply chain. The volume increases from BNU placed stress on the third party trucking and washing capabilities, leading to a review of the capacity and suitability of the existing supply chain from mine to market and ultimately to the development of the new supply chain. The new supply chain was implemented to optimise 'pit to end user' control with a number of significant milestones achieved. In addition to the existing supply chain providers, agreement was reached with new haulage contractors, import agents and coal processing facilities to enable first coal delivery in April 2016 from the new supply chain.
- On 13 June 2016, reached 500,000 tonnes export from the BNU mine.
- On 30 June 2016, successfully reached 88,622 tonnes of coal exported through the new supply chain. This supply chain enables Terra Energy to have greater control on product yield and end user specifications.
- On 13 May 2016 and 21 June 2016, the new supply chain was successfully commissioned as an end-to-end solution with end user sales completed to Haohai and JISCO respectively.

BNU coal continues to be well accepted in the market by continually demonstrating high coal

quality specifications including the following key parameters:

- Total moisture (as received) 8.0%
- Ash (air dried) 9.5% - 10.5%
- Volatile matter (air dried) 26.0%
- Total sulphur (air dried) <0.7%
- G caking index >80
- Sapoznhikov test >22
- Coke strength after reaction (CSR) >55

These specifications make BNU coal a product within a select global group that are highly sought after as part of a blend of coals for coke oven feeds.

The annual production results from the BNU operation are highlighted in the table below.

	FY2016
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

Health & Safety

BNU operations finished FY2016 with a strong safety result, delivering the full year LTI free and reaching over 1.65 million man hours without a lost time injury. This result was acknowledged in December 2015 as BNU was awarded a 1st place prize for "Mining Company of Mongolia focused on Health and Safety – 2015" by the Mineral Resources Authority of Mongolia (MRAM).

Environment & Community

Sustainable development of the BNU operations remains at the core of all activities undertaken and is key to the operations improving financial performance. The BNU operations provides training, equipment, resources and systems to its employees to ensure environmental awareness whilst also participating in local environmental programs. In addition to regional and site based sustainable development programs, the BNU operation provided full-time employment to 87 people from the local area.

As part of our dedication to sustainable development, Terra Energy LLC (TerraCom's Mongolian subsidiary) was a participant and signatory to the 'Voluntary Code of Practice for Water Use in the Gobi Desert'. This was developed in conjunction with the International Finance Corporation, part of the World Bank Group.

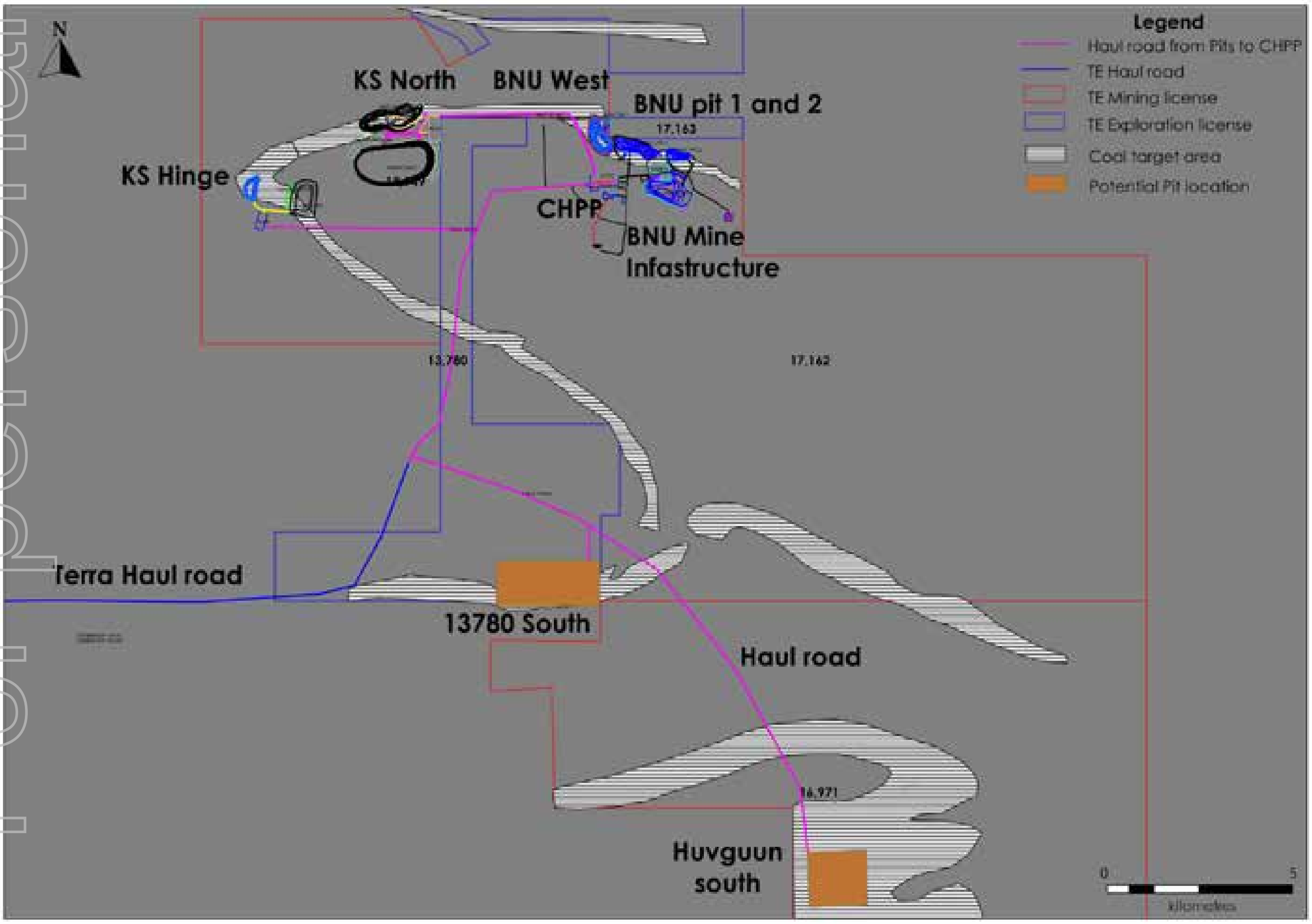
Strategic Direction - South Gobi Operations

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

OPPOSITE PAGE

Terra Energy employees on community visits

i. 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 1.5 Mt in 2016, 3 Mt in 2017 and target a sustainable 5 Mt per annum by 2020.
iii. Extend the life of the South Gobi Project to greater than 12 years.
iv. Continued definition and pit development along the prospective 50 kilometres of shallow basin edge coal in line with the multi pit strategy.



ABOVE

Terra Energy multi pits strategy.

OPPOSITE PAGE

GER tents at our Mining Camp.

ABOVE
Terra Energy Mining Equipment

COMPANY UPDATE
CORPORATE DEVELOPMENT

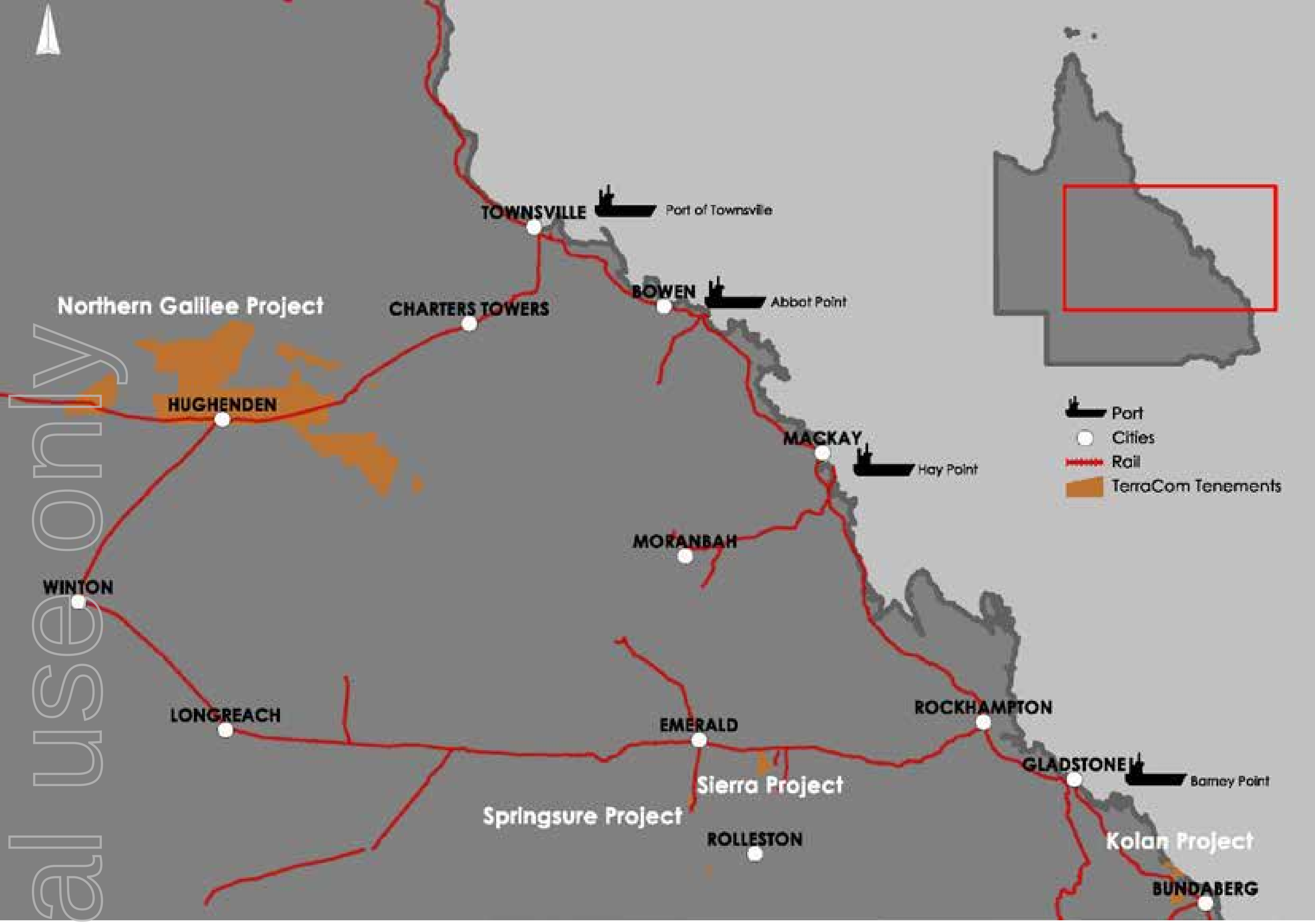
The 2015/2016 Financial year has been a challenging year for TerraCom Limited due to our balance sheet restructure, resulting in little movement or growth in our Corporate Development. Despite this, positive progress made on potential acquisition of cash flow positive assets in Central Queensland and Indonesia to supplement cash flow and de-risk TerraCom from single mine company.

The North Galilee and Springsure Projects remain 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.

A continuing focus on cost conservation on projects as a result of the 2015 strategic review has restricted exploration for the reporting period. The company has reduced its EPC holdings over the past 12 months and is evaluating a further reduction of holdings to further reduce costs.

As part of the plan to resume active exploration of the key projects the company continues to seek investment partners for the next stage of development of the Australian assets.

The Company is nearing completion of its desktop due diligence on a hard coking coal mining operation in Indonesia. The mine's production licence 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.



ABOVE

TerraCom Limited's Queensland, Australia Tenements

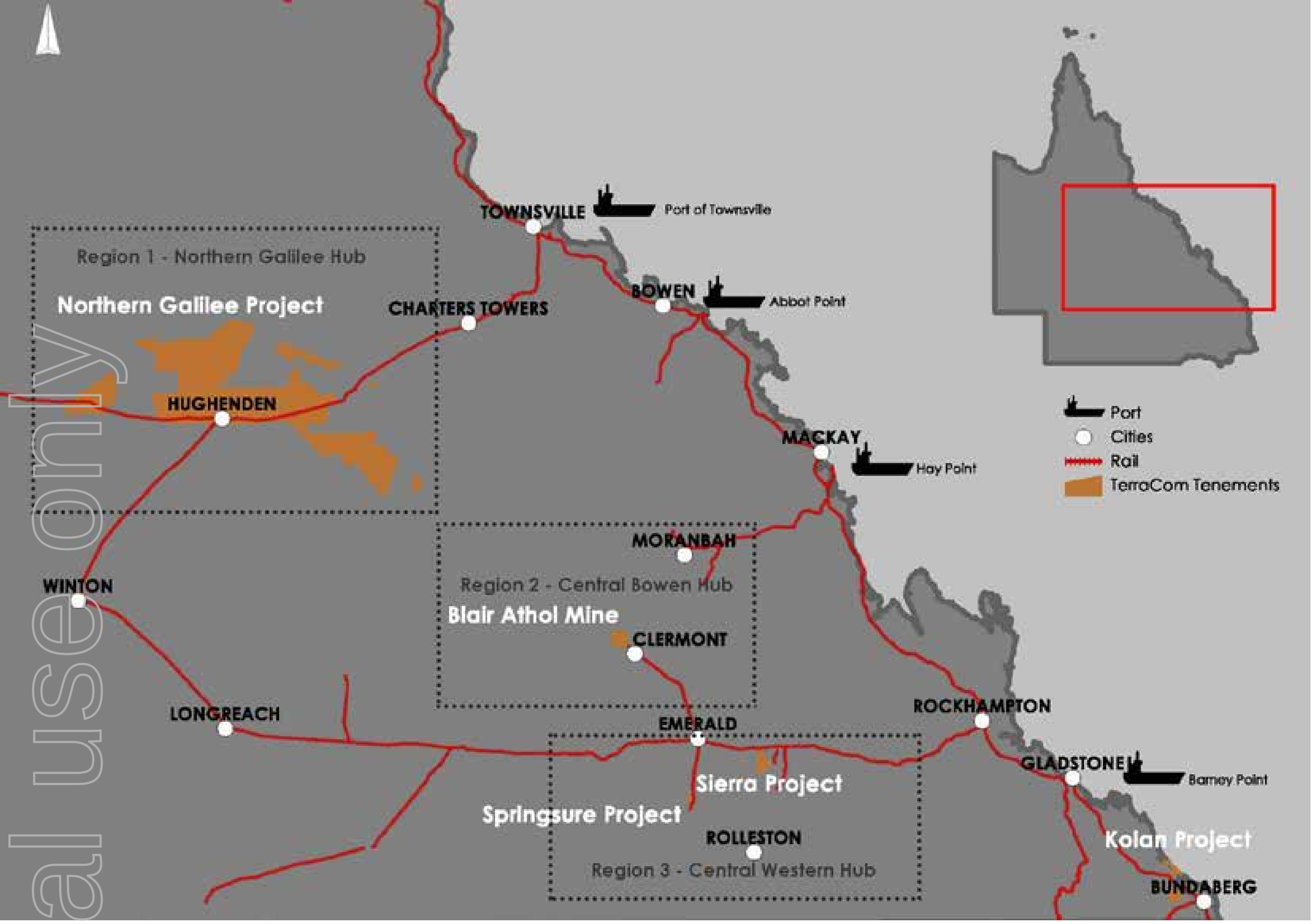
AUSTRALIA

In July 2016, TerraCom Limited announced that it has reached agreement to acquire the Blair Athol Coal Mine (mine) in Queensland, Australia from the Blair Athol Coal Joint Venture (BACJV).

TerraCom Limited has a three region approach to its Queensland Corporate Development with future growth opportunities identified to complement the existing tenement and project holdings.

Region 1 - Northern Galilee Hub

- Massive thermal coal resources
- Multiple mining locations
- Significant infrastructure synergies and options
- The next large scale export and domestic (power station option) coal producing basin
- Opportunities to increase portfolio and realise synergies with other Mineral Development



ABOVE

*TerraCom's Queensland Regional Hub Strategy, including Blair Athol Project. *Note: Blair Athol Mine acquisition is subject to final approval of all Blair Athol Joint Venture partners and relevant Government Approvals*

Leases and resource projects.

- Existing rail upgradeable to two port options
- Established coal port at Abbot Point and potential coal port at Townsville

Region 2 - Central Bowen Hub

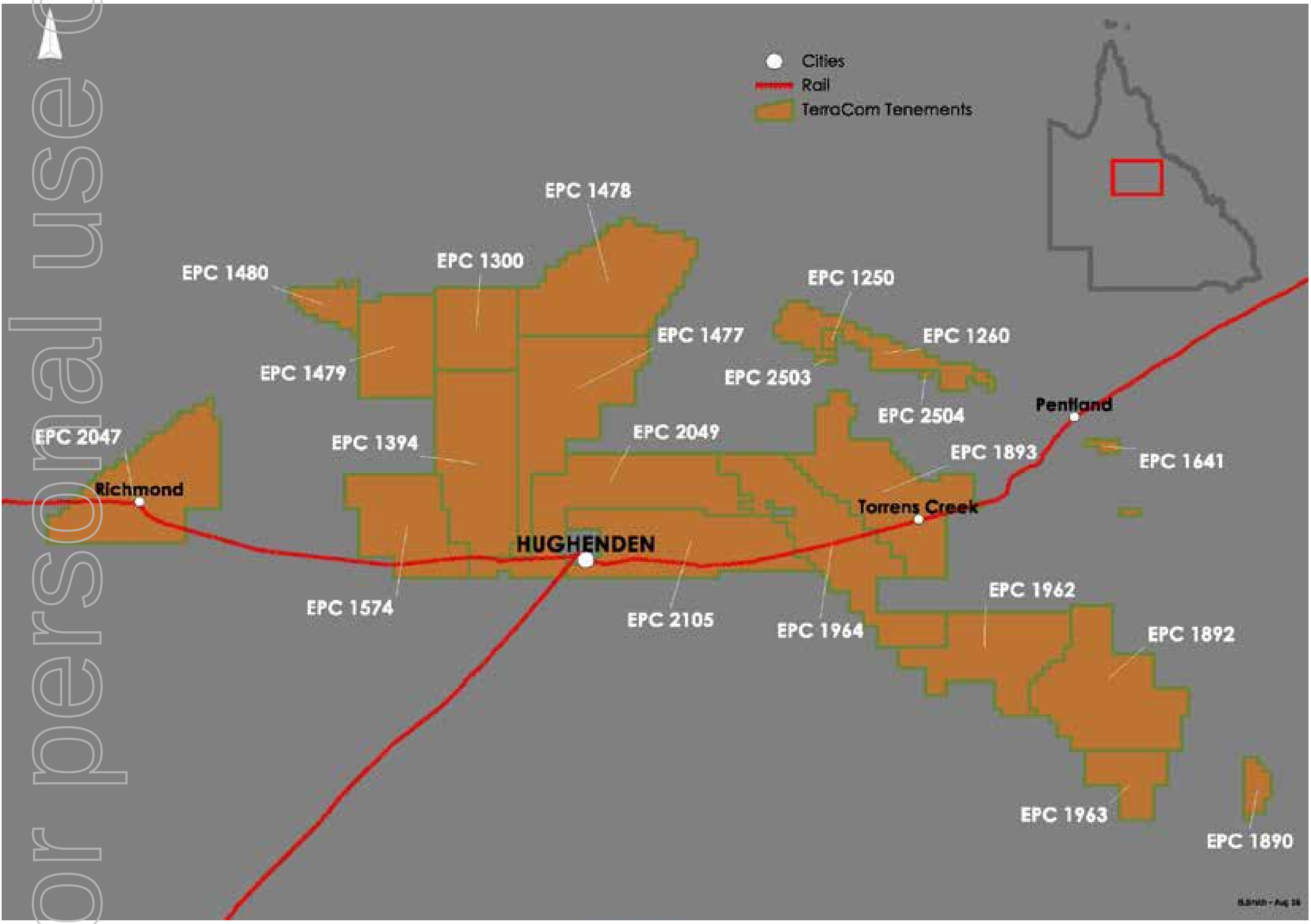
- Thermal Coal
- Large JORC resource
- Rail access

Region 3 - Central Western Hub

- JORC resources
- Proximity to existing mines and projects
- Rail Access to Gladstone Coal Export terminals

BELOW

TerraCom's Northern Galilee Hub Tenements



NORTHERN GALILEE PROJECT
HUGHENDEN PROJECT

Hughenden Project has the scale and potential to support multiple underground mining operations producing substantial export thermal coal tonnages. Resource is at moderate to deep mining depth. Project located in close proximity to key supporting infrastructure such as the Mount Isa to Townsville rail line. This rail line does not currently carry coal and the Townsville port is currently not available for coal loading.

PROJECT NAME	Hughenden Project
JORC INFERRED RESOURCE	1,209 Mt 133 Mt Indicated; 1,076 Mt Inferred
COAL TYPE & QUALITY	Thermal
LOCATION	Galilee Basin Hughenden, Queensland
TENEMENTS	EPC 1300, EPC 1394 EPC 1477, EPC 1478 EPC 1479, EPC 1480 EPC 1574, EPC 2047 EPC 2049, EPC 2105
OWNERSHIP	FTB (QLD) Pty Ltd a wholly owned Subsidiary of TerraCom Limited
AREA	6,423.2 Kms^2

NORTHERN GALILEE PROJECT

PENTLAND PROJECT

The Pentland Project will benefit from the same strategic opportunities as its sister projects at Hughenden and Clyde Park with it location relative to existing infrastructure. An exploration scout drilling program is planned. The objective of this drill program is to further explore coal occurrences within the project area targeting Jurassic Ronlow Beds and Permian Betts Creek Beds within the Galilee Basin.

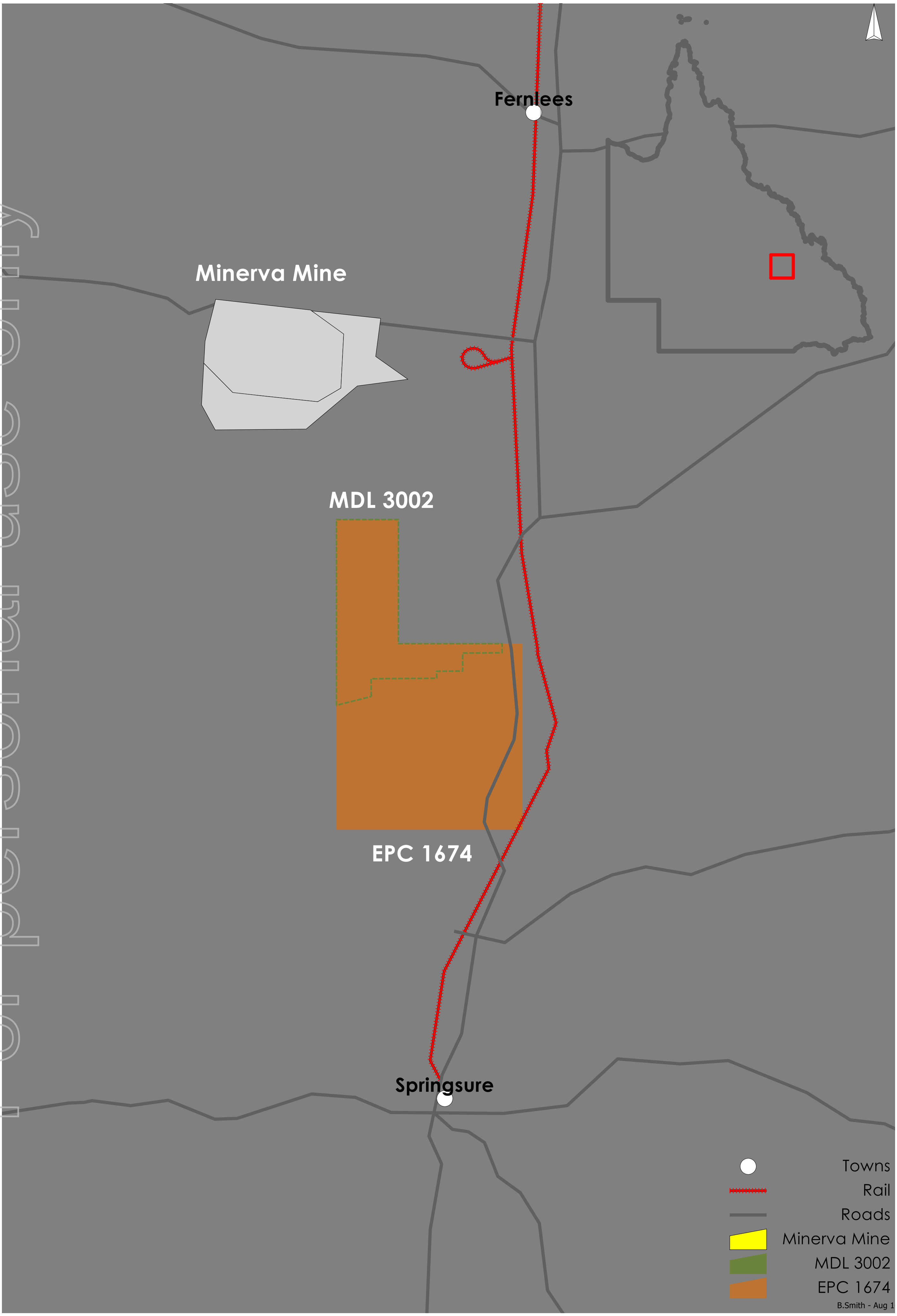
PROJECT NAME	Pentland Project
JORC INFERRED RESOURCE	Exploration Target estimate of 0.3 Bt to 2.89 Bt
COAL TYPE & QUALITY	Thermal
LOCATION	Northern end of the Eromanga and Galilee Basins Pentland, Queensland
TENEMENTS	EPC1890, EPC1892 EPC1893, EPC1962 EPC1963, EPC1964
OWNERSHIP	Orion Mining Pty Ltd, a wholly owned Subsidiary of TerraCom Limited
AREA	3,441.2 Kms^2

CLYDE PARK PROJECT

TerraCom Limited has drilled 36 boreholes within EPC 1260 as part of the Clyde Park exploration program and of these, 26 boreholes have been included in the most recent geological model. Drill hole spacing varies across the project area and ranges from 0.3 km to 3.4 km.

Eight coal seams and their seam splits have been intersected. Coal quality analysis for three main seams showing a moderate ash (15% adb), moderate calorific value (5,800 kcal/kg adb) and low sulphur (0.5% adb) suggesting export thermal coal potential.

PROJECT NAME	Clyde Park Project
JORC INFERRED RESOURCE	728 Mt 51 Mt Indicated; 677 Inferred
COAL TYPE & QUALITY	Thermal
LOCATION	North Eastern Galilee Basin Hughenden, Queensland
TENEMENTS	EPC 2503, EPC 2504 EPC 1250, EPC 1260
OWNERSHIP	PC 2503 & EPC 2504 wholly owned by TerraCom Limited EPC 1250 & EPC 1260 wholly owned by Clyde Park Coal Pty Ltd. TerraCom Limited owns 64.4% of Clyde Park Coal Pty Ltd.
AREA	366.6 Kms^2



Fernlees
Minerva Mine
MDL 3002
EPC 1674
Springsure
Towns
Rail
Roads
Minerva Mine
MDL 3002
EPC 1674
B.Smith - Aug 1

SPRINGSURE PROJECT

There are eight coal seams within the project area which are the primary exploration targets. These are located in the early Permian aged Reids Dome Beds.

The Minerva rail spur line which transverses the south east corner of the project, provides proximity to rail system to export coal terminals at the Port of Gladstone. The Minerva Mine which is located approximately 3 km to the north, is a multi-seam mine with a production capacity of 2.8 Mtpa high quality thermal coal resources within the Reids Dome Beds coal measures.
During the 2016 financial year, no further development has been undertaken on this project.

PROJECT NAME	Springsure Project
JORC INFERRED RESOURCE	191Mt. 43 Mt Indicated; 148 Mt Inferred
COAL TYPE & QUALITY	Thermal PCI Coal. High volatile Thermal Coal (>30% VM)
LOCATION	Southern Bowen Basin Springsure, Queensland
TENEMENTS	EPC 1674, MDL 3002
OWNERSHIP	Wholly owned by Springsure Mining Pty Ltd. TerraCom Limited owns 35.78% of Springsure Mining Pty Ltd.
AREA	35.8 Kms^2

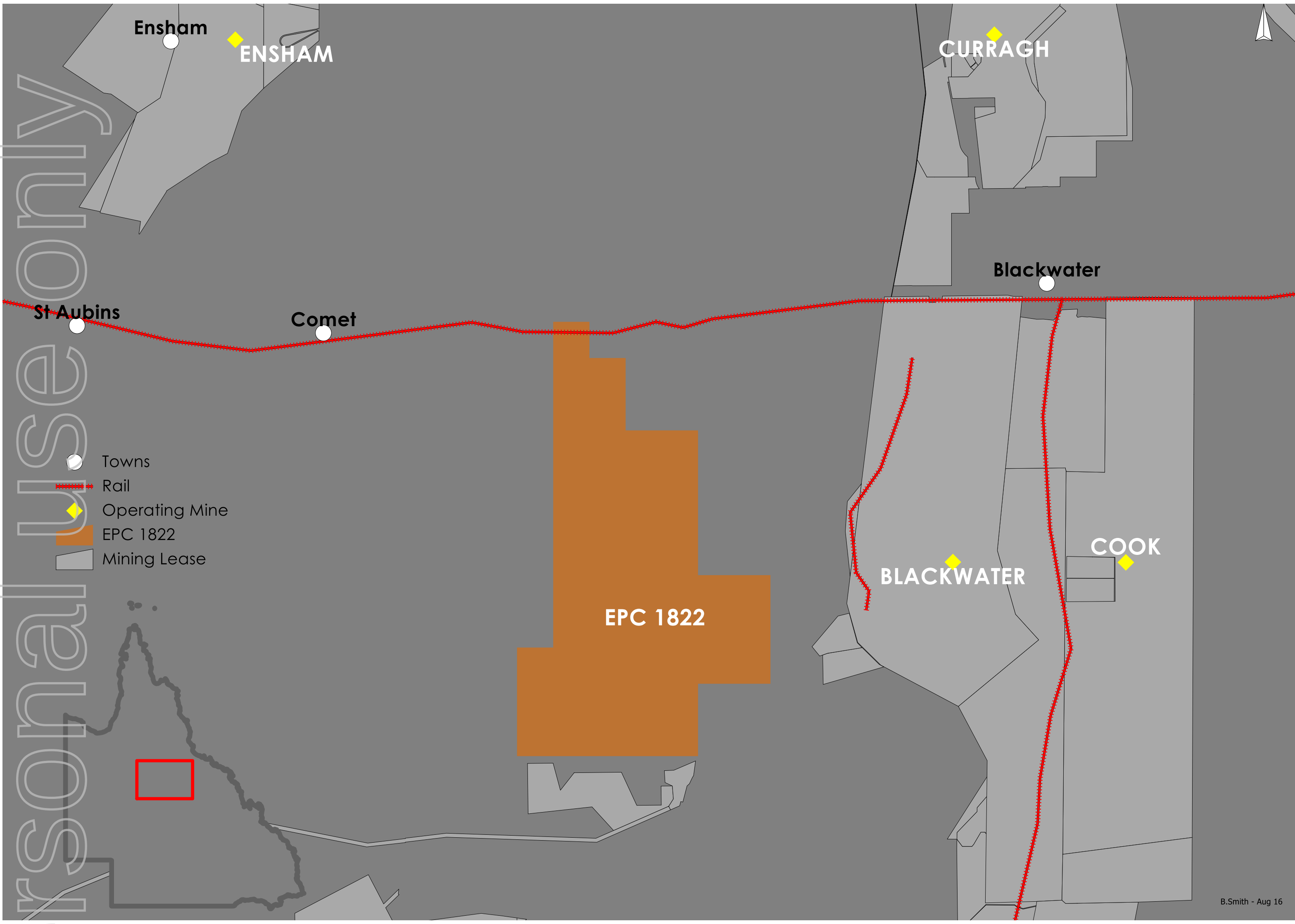
LEFT

TerraCom's Springsure Tenement & Mineral Development License

SIERRA COAL PROJECT

There has been minimal historic and current exploration activity carried out within EPC 1822. Future drilling is planned targeting deeper stratigraphic coal units to help define geological structure. This information will then ascertain the future potential for coking coal resource at economic depth. Currently no JORC resource has been determined.

PROJECT NAME	Sierra Coal Project
JORC INFERRED RESOURCE	None calculated to date
COAL TYPE & QUALITY	Potential for Hard Coking Coal
LOCATION	Bowen Basin Blackwater, Queensland
TENEMENTS	EPC 1822
OWNERSHIP	Sierra Coal Pty Ltd, a wholly owned subsidiary of TerraCom Limited.
AREA	140 Kms[x]



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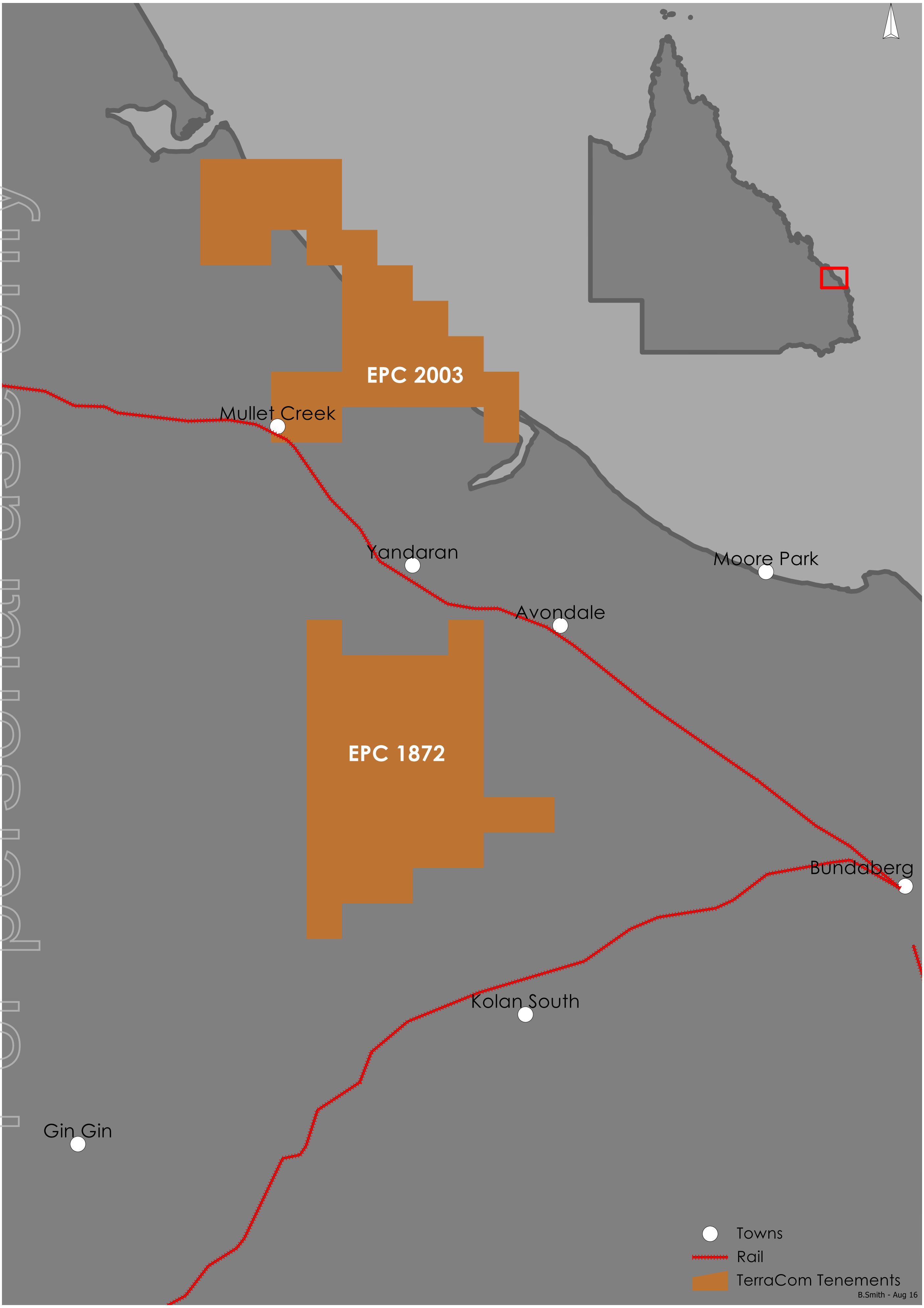
TerraCom's Sierra Coal Tenements


EPC 2003
Mullet Creek
Yandaran
Moore Park
Avondale
EPC 1872
Bundaberg
Kolan South
Gin Gin
Towns
Rail
TerraCom Tenements
B.Smith - Aug 16

KOLAN PROJECT

Potential coking and PCI coal products.

There is currently no JORC resource for this project.

Potentially amenable to thin seam open cut mining.

PROJECT NAME	Kolan Project
JORC INFERRED RESOURCE	None calculated to date
COAL TYPE & QUALITY	Coking Coal
LOCATION	Maryborough Coal basin Bundaberg, Queensland
TENEMENTS	EPC 1872
OWNERSHIP	The Kolan project is owned by Sierra Coal Pty Ltd, a wholly owned subsidiary of TerraCom Limited
AREA	137.7 Km^2

LEFT

TerraCom's Kolan Coal Tenements

COMPANY UPDATE

ACQUISITION ANNOUNCEMENT

On the 23rd September 2016, TerraCom Limited was pleased to announce that its wholly owned subsidiary Orion Mining Pty Ltd, has executed a binding Sale and Purchase Agreement to acquire the Blair Athol Coal Mine (mine) in Queensland, Australia from the Blair Athol Coal Joint Venture (BACJV) under the terms as previously disclosed and subject to Queensland Government approval and certain other conditions precedent.

At completion of the acquisition TerraCom will receive AUD$80m from the BACJV to meet Blair Athol Coal Mine's rehabilitation liability as determined by Queensland's Department of Environment Heritage Protection in November 2015. The Financial Assurance will be provided as cash to be held in a bank account approved and controlled by the Queensland Government.

The acquisition includes the mining lease, licences, land, contracts and all mining plant & equipment, including a dragline, to support the delivery of TerraCom's forecast production schedule and progressive rehabilitation at the mine. All site infrastructure including offices, workshops and stores associated with the mine are also included in the transaction.

TerraCom plans to initially commence over 50 hectares of the site rehabilitation it has assumed, while bringing the mine back into production. Production is being scheduled around a rate of 2Mtpa of coal with a target of operations recommencing in the 4th Quarter 2016.

This acquisition of Blair Athol Mine is a significant milestone for TerraCom, bringing the following benefits:-

RIGHT

Blair Athol Coal Mine's Dragline

- Progressive rehabilitation of one of Queensland's oldest coal mines.
- The resumption of coal mining and export sales from the Blair Athol Coal mine providing the local, state and federal economies with increased economic activity, employment, royalties and taxation.
- Forecast positive cash flow through a low overhead structure and operational efficiencies.

This is a transformational acquisition for TerraCom. The Blair Athol assets provide TerraCom with comprehensive mine facilities and an established mining operation which can act as a regional hub in Queensland to support expansion plans.

TerraCom has begun working positively in the Isaac Regional Council region with the establishment of a Community Consultative Committee which held its inaugural meeting in Clermont recently.

MONGOLIA

ABOVE

TerraCom's Mongolian Development Projects

The TerraCom's Mongolian Subsidiary Terra Energy LLC (Terra Energy) comprises four project areas in Mongolia. Good progress in 2015/2016 was made selectively strengthening existing projects through the granting of eight exploration licenses by the MRPAM (Mineral Resource and Petroleum Agency of Mongolia.) Additional licenses included four on the Uvs Project targeting multiple commodities, two on the South Gobi Project and two on the East Gobi Projects targeting coking coal. South Gobi Coal Bed Methane (CBM) is still progressing and is under contract application. Terra Energy is working with the new Government to finalise the license.

Terra Energy LLC was granted eight new exploration licenses in 2015/2016, complementing the current portfolio of licenses. Licenses granted by MRPAM (Mineral Resource and Petroleum Agency of Mongolia.) are initially granted for a three-year term. A further three years can be granted in stages, up to a total of 12 years. During the 12 years an application for a mining license can take place following definition of approved resource. These new licenses include;

- On 21 July 2015, Terra Energy LLC was granted two exploration licenses XV-18797 and XV-18802 covering an area of 81.9 km2 within the strategic Uvs Project in North Western Mongolia. Target commodities include coal, evaporites (Potash, Halite, Gypsum), Brines (Li, K, Na, Ca, Se, Sr), mineralised clays (Mn, Mg) and a range of other commodities
- On 5 November 2015, Terra Energy LLC was granted exploration license XV-18513 on the South Gobi Project. The new license will be targeting coking coal
- On 1 February 2016, Terra Energy LLC was granted exploration license XV-20139 on the East Gobi Project. The new project area is targeting coking coal
- On 17 February 2016, Terra Energy LLC was granted a second exploration license on the East Gobi project XV-20329. The license targeting coking coal brings the project area to a total of 571 hectares
- On the 17 February, Terra Energy LLC was granted two exploration licenses. XV-20281 on the strategic Uvs Project and XV-20268 on the South Gobi Project
- On the 3 June 2016, Terra Energy LLC through tender was granted license XV-20539 on the Uvs project. The license is the 5th exploration license on the strategic Uvs project bringing the project area to a total of 340 km^2

In FY2016 the Mongolian JORC resources have remained unchanged.

South Gobi

- JORC Code (2012/2004) 83Mt total resource on South Gobi Project
  i. JORC Code 2012 resource of 15 Mt Measured, 9 Mt Indicated and 18 Mt inferred
  ii. JORC Code 2004 resource of 41 Mt Inferred
  iii. JORC Code (2012) exploration target on the South Gobi project of between 26 Mt (Lower) and 45 Mt (Upper)

Mid Gobi

i. JORC Code (2004) resource of 221Mt.
ii. JORC Code (2004) resource of 32 Mt indicated and 189 Mt inferred resource.

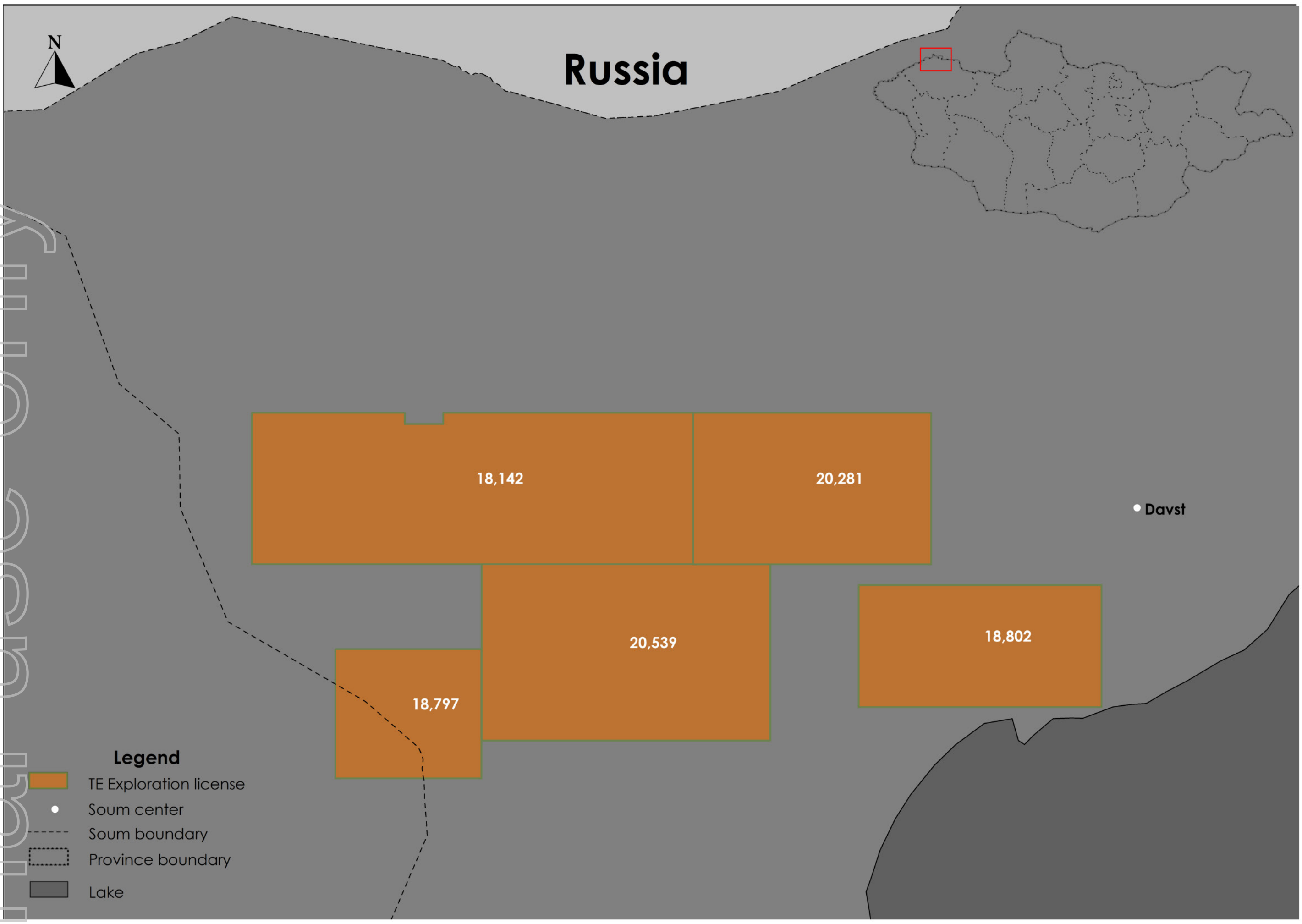
Strategic Direction for Mongolian Assets
The Company has a clear direction to focus on selective regional expansion for its Mongolian assets. These objectives include:

- Continued tendering and bidding of licenses from MRPAM (Mineral Resource and Petroleum Agency of Mongolia) which complement the existing projects and are in line with company strategic direction
- Investigate strategic acquisitions that complement the existing portfolio that are accretive to shareholders and support company objectives
- Continued staged development of assets optimising the best value verse results from exploration
- Licenses and ground that are determined through exploration not to be prospective will be relinquished.

UVS PROJECT

The Project is a new strategic project for Terra Energy spread across five licenses in North West Mongolia. The project has the potential to development multiple commodities in the geologically mixed sedimentary and volcanic units. Local evaporite and coal deposits including the active Tuz Tag salt mine and Shuden Uul salt mines in close proximity to the project. The project target commodities identified include coal, stratabound evaporites (Potash and related minerals), Brines, mineralised clays and a range of other commodities.

PROJECT NAME	Uvs Project
OWNERSHIP	100% TerraCom through Mongolian Subsidiary
LOCATION	Uvs province, Davst sub province, Far west of Mongolia
TENEMENTS	XV-018142; XV-018797; XV-018802; XV-20281; XV-20539
TOTAL AREA SIZE	340.65 km^2
TARGET	Hard Coking Coal, Evaporites, Mineralised Clays and Brines
EXPLORATION STAGE	Detailed Mapping and 3D Ground Based Geophysics



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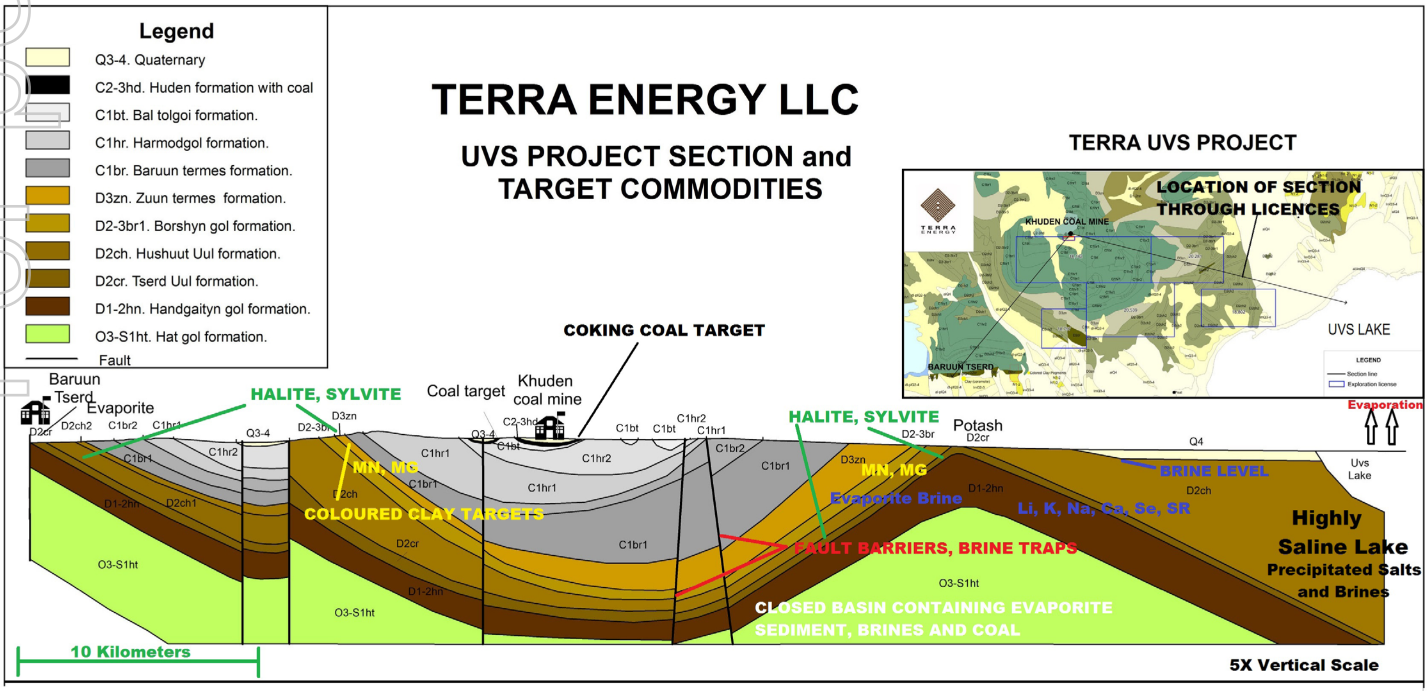
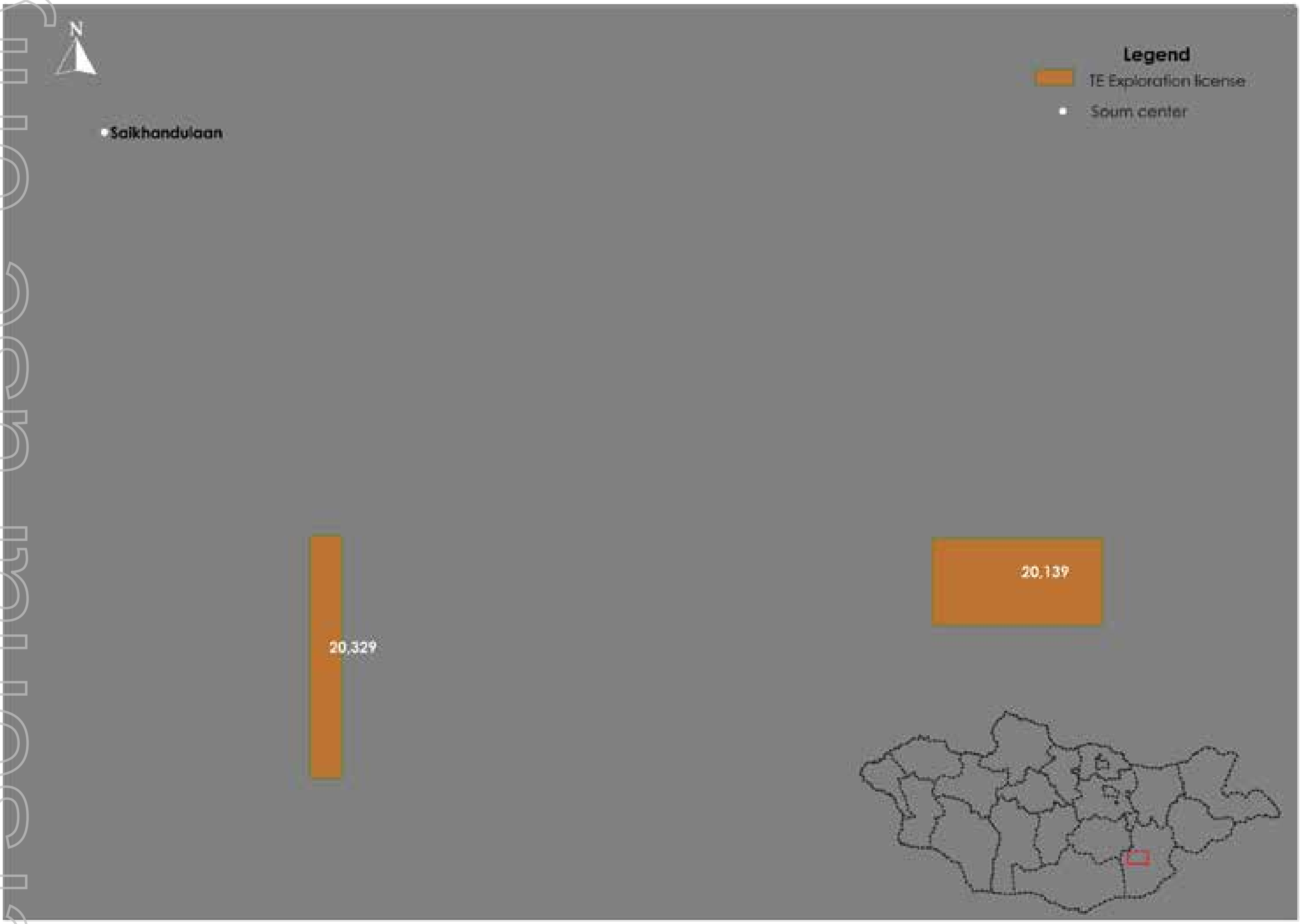
Terra Energy's Uvs Tenements

BELOW

Terra Energy's Uvs Project & Targets





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Terra Energy's East Gobi Exploration Project

EAST GOBI PROJECT

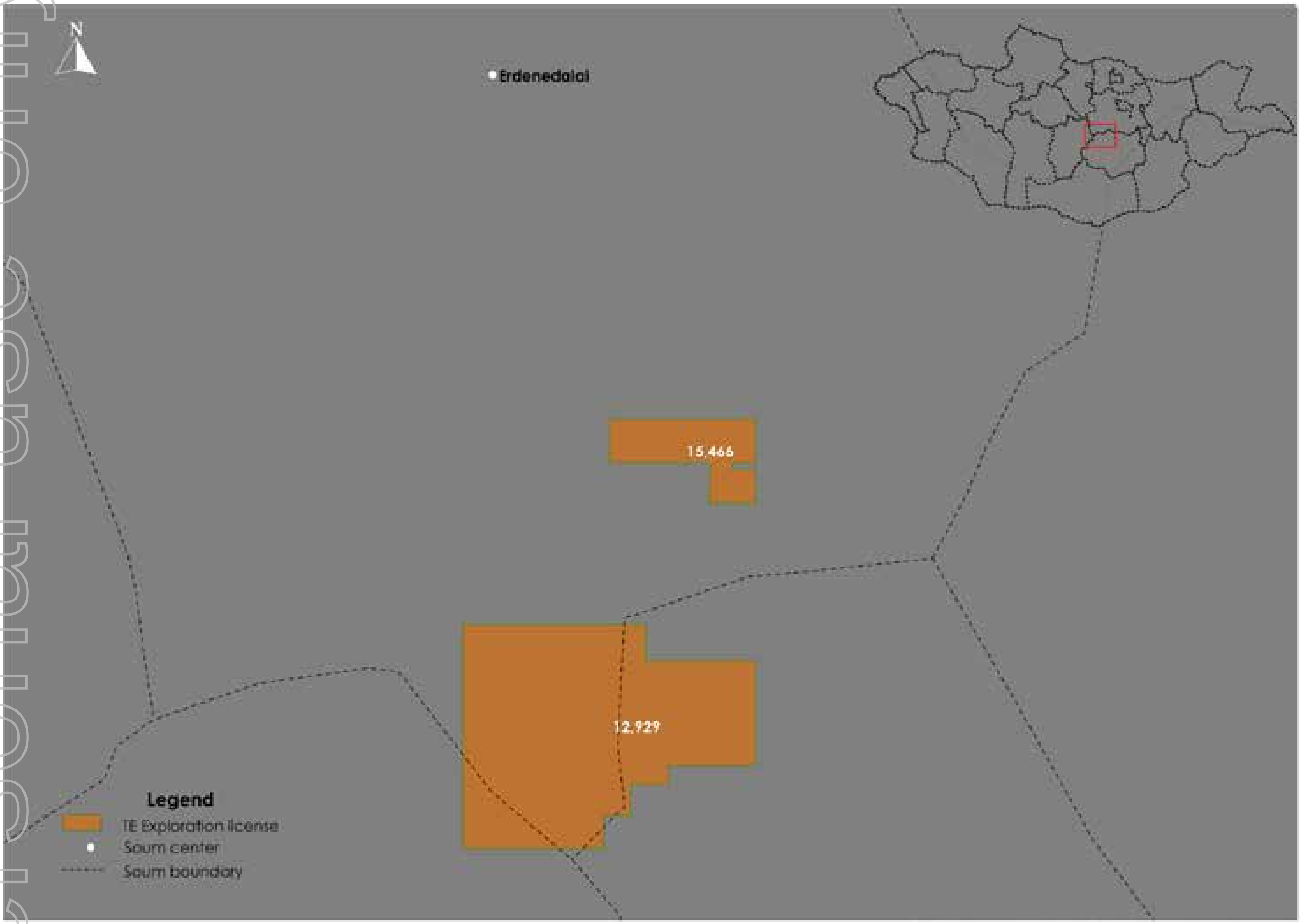
The Dorno (east) Gobi exploration project is a new project made up of two new exploration licenses XV-020139 and XV-020329. The project area is 410 kilometers South East of Ulaanbaatar in South/East Mongolia and 200 kilometers from the Chinese Border crossing at Zamiin Uud. The Tran Mongolian Railway accessing China is 80 kilometers East of the project area. The province is known for its range of mineral deposits including Coal and Copper. The target commodity is Permian coking coal of the target Tavan Tolgoi coal bearing suite. The licenses total 5.71km2 and have been granted a term of three years. Following the three-year term, further three years can be granted in stages, up to 12 years, following approval by MRPAM.

PROJECT NAME	East Gobi Project
OWNERSHIP	100% TerraCom through Mongolian subsidiary
LOCATION	East Gobi province, Saikhandulaan sub province, southern east of Mongolia
TENEMENTS	XV-020139; XV-020329;
TOTAL AREA SIZE	5.71 km^2
TARGET	Hard Coking Coal
EXPLORATION STAGE	Detailed structural mapping and trenching

MID GOBI PROJECT

The Dund (Mid) Gobi Project consists of two exploration licenses XV-12929X and XV-15466X. The Project is located approximately 200 km southwest of Ulaanbaatar and 200 km west of the Trans Mongolian railway with direct access to China. The project has the potential for large scale open cut operations supplying power producers in China and Mongolia. Both licenses are targeting thermal coal of the Jurassic Saikhan Ovoo and Cretaceous Tevshiin Gobi Formations.

PROJECT NAME	Mid Gobi Project
OWNERSHIP	100% TerraCom through Mongolian subsidiary
LOCATION	Mid Gobi province, Delgerkhangai; Saikhanovoo; Erdenedalai sub province of Mongolia
TENEMENTS	XV-015466; XV-12929
TOTAL AREA SIZE	369.5 km^2
TARGET	Thermal Coal
EXPLORATION STAGE	Resource Definition and Feasibility
COAL RESOURCE	221.4 Mt (JORC 2004) Inferred resouce 189.1 Mt Indicated resource 32.3 Mt



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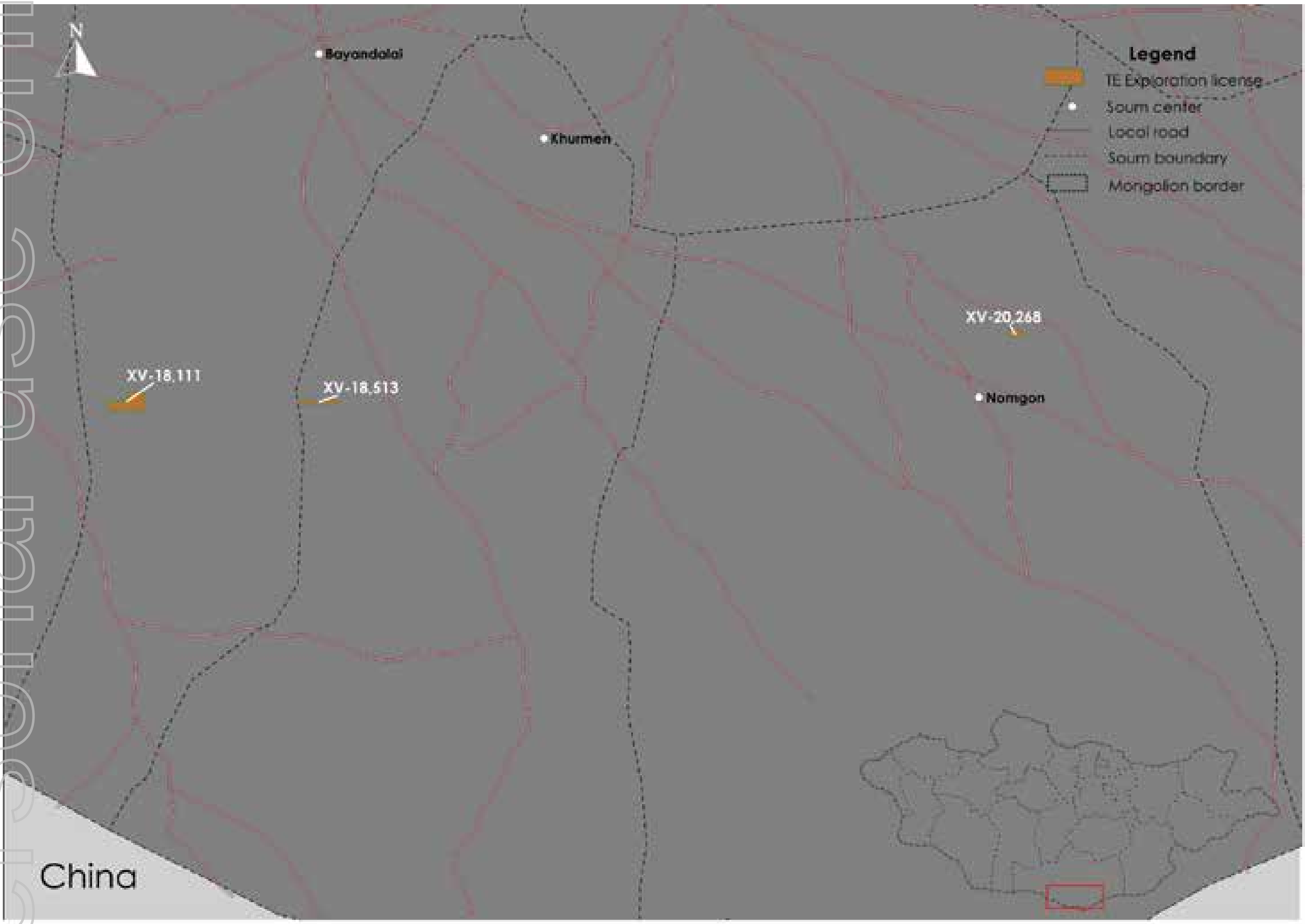
Terra Energy's Mid Gobi Tenements



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Terra Energy's New Additional Assets on South Gobi Project

SOUTH GOBI PROJECT

The South Gobi project is located in the South Gobi Province of Mongolia a strategic resource area containing South Gobi Resources Ovoot Tolgai coal mine and the large MAK coal mine. Terra Energy holds ten licenses in the South Gobi with seven of these around the highly prospective Noyon Basin where the Baruun Noyon Uul (BNU) mine is located. The three additional new assets targeting coking coal are east of BNU. These additional assets compliment the current South Gobi licenses and are located in close proximity to existing Terra Energy Mining infrastructure. The target resource is the Deliin Shand suite which is currently mined at BNU. Initial exploration for 2016 has been positive with coal found to be outcropping at the surface on one of the new assets.

PROJECT NAME	South Gobi Project
OWNERSHIP	100% TerraCom through Mongolian subsidiary
LOCATION	South Gobi province, Khurmen; Nomgon; Bayandalai sub province south of Mongolia
TENEMENTS	XV-018111; XV-018513; XV-020268
TOTAL AREA SIZE	31.26 km^2
TARGET	Hard Coking Coal
EXPLORATION STAGE	Detailed structural mapping and trenching

MONGOLIAN OPERATIONS PROJECT
COAL HANDLING PREPARATION PLANT

PROJECT NAME	Mongolian CHPP
OWNERSHIP	100% TerraCom through Mongolian subsidiary
LOCATION	South Gobi province

TerraCom has significantly advanced the development of a Mongolia based Coal Handling and Processing Plant (CHPP) for the Baruun Noyon Uul (BNU) operations in the South Gobi. The Mongolia CHPP strategy will be a pivotal asset in controlling the volume and quality of coal supplied from BNU through the Shivee Khuren and Ceke border into China. It will also allow TerraCom to claim back full VAT credit from the BNU operating costs, adding significant NPV value to the existing and future projects in the basin.

TerraCom are aiming for successful completion of the engineering and permitting for the CHPP by end of Q3 2016. TerraCom have signed a term sheet and are also in advanced negotiations on long form contracts with Guohua Technology Corporation (GTC), a highly experienced, competent and competitive CHPP provider from Tangshan, China. GTC have designed and built over 500 wash plants in China. GTC currently have more than 10 patented technologies that are widely accepted within the China coking coal processing industry.

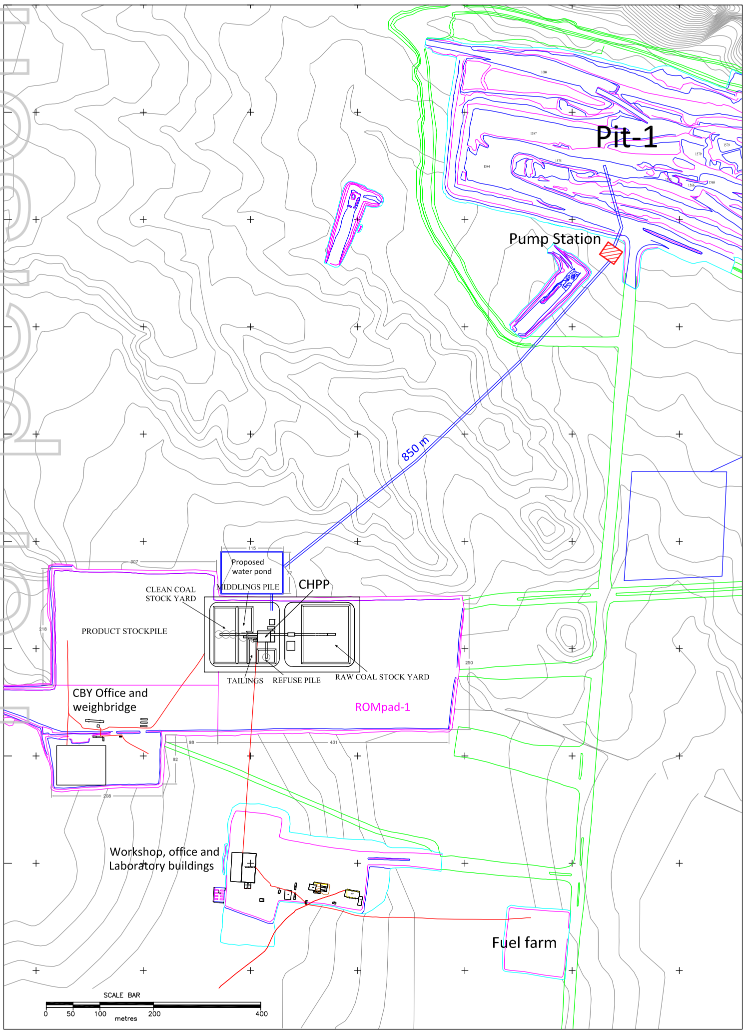
GTC will be incorporating a number of these patented technologies into the BNU CHPP including the "gravity fed three product HM cyclone", the "fine coal HM cyclone", inline analysis and control systems and their patented flotation cell technology. This technology results in lower capital and operating costs compared to conventional Dense Medium Cyclone plants, and also for meaningfully lower water consumption. The plant will produce dry rejects and tailings slime, alleviating the need for a Tailings storage facility with associated complex management systems.

GTC and TerraCom jointly participated in preparation of a feasibility study in compliance with all Mongolian regulations and authorities in order to gain approval to construct the facility. Considerable raw coal washability simulation and analysis was conducted from samples and historical BNU coal performance. The feasibility defined a CHPP with the following key parameters:

Plant Design Parameters		**CHPP Yield**	
Throughput	170tph	High Ash Coking Coal Prime Yield	35%
Annual Mech Availability	6500 hours	Hard Coking Coal Prime Yield	74%
Plant Life	15+ years	High Ash Coking Coal Middlings Yield	15%
Plant Style	Modular	Hard Coking Coal Middlings Yield	13%

GTC and TER have agreed to develop a modular style plant, which allows for the later relocation of the facility to support the multi pit strategy adopted by TerraCom for our South Gobi operations. The modular plant is completely self-sufficient with built in diesel power generation and coal fired boiler heating and can be transported on rail/road trucks without the need for oversize load management. The CHPP will be located in line with our current ROM to customs bonding process, with ready access to water sufficient for the coal processing from the mine operations.

The CHPP Project contributes significant value to the BNU product with a sharp return on the additional capital to be invested and a short payback period. It will only be the 2nd wash plant built in Mongolia, and with its modular configuration and patented and proven technology, it will be a valuable asset to TerraCom and the coal business in Mongolia for many years to come.



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A schematic of the plant location and layout

Disclaimer

Exploration Target

References to Exploration Targets in this document are in accordance with the guidelines of the JORC Code (2004). As such it is important to note that in relation to reported Exploration Targets any references to quality and quantity are conceptual in nature. Exploration carried out to date is insufficient to be able to estimate and report coal resources in accordance with the JORC Code (2004). It is uncertain if further exploration will result in the determination of a Coal Resource. Exploration target on projects with current JORC resource are additional conceptual extension or new conceptual targets in the project area.

Forward Looking Statements

This Announcement contains certain “forward looking statements”. The words “anticipate”, “believe”, “expect”, “project”, “forecast”, “estimate”, “likely”, “intend”, “should”, “could”, “may”, “target”, “plan”, “consider”, “foresee”, “aim”, “will” and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future production, resources, reserves, sales, capital expenditure, earnings and financial position and performance are also forward looking statements. Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of TerraCom Limited.

Coal resources and Competent Person Statements

The estimates of the Coal Resources presented in this announcement are considered to be a true reflection of the Coal Resources as at 31st July 2016 and are available to view on www.terracomresources.com. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcements.

JORC Resource Competent Persons Statement

Technical Information in this Report on Clyde Park and Springsure JORC has been prepared by Kim Maloney who has over 10 years of experience in coal mining and extractive industry throughout Australia. Kim has experience within the Central Queensland coal mines and has held various roles in these mine’s Technical Services, including Exploration Geologist, Mine Geologist and Geology Superintendent. Kim is a Competent Person for coal as defined by the JORC Code (2004). Kim is a Senior Resource Geologist, previously with Moultrie Geology. Her principal qualifications are a Bachelor of Science from James Cook University and a Masters of Business Administration (Human Resource Management) from the Central Queensland University. Kim is a Member of The Australasian Institute of Mining & Metallurgy (# 229120) and a Member of the Bowen Basin Geological Group.

Technical information in this report in relation to the exploration targets and JORC Resources for the Hughenden Project has been compiled by Mr. Mark Biggs, previously Principal Geologist of Moultrie Database and Modelling (formerly a subdivision within Moultrie Group). Mr Biggs now works for ROM Resources Pty Ltd, Mr. Biggs is a member of the Australasian Institute of Mining and Metallurgy (Member #107188) and has over 25 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Minerals Resources and Reserves (JORC) 2004. The resource information in this report is being released to the Australian Securities Exchange. Mark Biggs consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

The estimates of the Coal Resources presented in this Report are considered to be a true reflection of the Coal Resources as at 30thJune 2014 and have been carried out in accordance with the principles and guidelines of the Australian Code for Reporting of Coal Resources and Coal Reserves published in September 2004 (JORC Code).

The information in this report relating to the exploration target tonnage range and coal resources of 12600x is based on information reviewed by Mr Troy Turner who is a member of the Australian Institute of Mining and Metallurgy and is a full time employee of Xenith Consulting Pty Ltd. Mr Turner is a qualified geologist and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Turner consents to the inclusion in the report of the matters based on the information, in the form and context in which it appears.

BNU North

Technical information in this presentation that relates coal resource estimates for the BNU North Deposit is based on information compiled and reviewed by Mr Craig Williams, who is a member of the Australasian Institute of Mining & Metallurgy. Mr Williams, Principal Consultant – Geology and a fulltime employee of HDR|Salva, has sufficient experience that is relevant to the style of mineralisation under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code (2012). Craig Williams consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

South Gobi North

Technical information in this report in relation to coal quality and washability analysis of South Gobi Project and fluorite mineralisation on Mid Gobi Project has been compiled by Mr Peter Goodman, who is a Member of the Australasian Institute of Mining and Metallurgy (Member #307830) and has had sufficient experience which is relevant to the style of mineralisation under consideration and to the activities which are being undertaken to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' . Mr. Goodman is employed by Terra Energy LLC (TerraCom Limited subsidiary) and consents to the inclusion of the matters based on his information in the form and context in which it appears. Mr Goodman has over 10 years' experience in the processing of fluorite type deposits and over 20 years' experience in the design and construction of coal processing facilities.

The information provided by Salva Resources in this report to which this statement is attached that relates to Exploration Results is based on information compiled by Dr Aldo Van Heeswijck, who is a Member of The Australasian Institute of Mining and Metallurgy. Dr Van Heeswijck is employed by Salva Resources and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Dr Aldo Van Heeswijck consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

South Gobi and Middle Gobi

Technical information in this presentation in relation to the exploration targets and JORC Resources for South Gobi and Middle Gobi Projects has been compiled by Mr. Mark Biggs, previously Principal Geologist of Moultrie Database and Modelling. Mr Biggs now works for ROM Resources Pty Ltd, Mr. Biggs is a member of the Australasian Institute of Mining and Metallurgy and has over 25 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Minerals Resources and Reserves (JORC) 2012. The resource information in this report is being released to the Australian Securities Exchange. Mark Biggs consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

Khar Servegen (12600X)

Technical information in this presentation in relation to the exploration target tonnage range and coal resources of 12600X - Khar Servegen, is based on information reviewed by Mr Troy Turner who is a member of the Australian Institute of Mining and Metallurgy and is a full time employee of Xenith Consulting Pty Ltd. Mr Turner is a qualified geologist and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Turner consents to the inclusion in the report of the matters based on the information, in the form and context in which it appears.

SECTION

FINANCIAL REPORT

FINANCIAL REPORT

DIRECTOR'S REPORT

The Directors present their report together with the consolidated financial report of TerraCom Limited (the "Company" or "TerraCom" or the "Group") being the Company and its subsidiaries for the financial year ended 30 June 2016 and the auditor's report thereon.

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.

1 PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were continuing the process of moving from developer to producer in Mongolia and mineral exploration in a number of mining tenements held across Australia.

In the opinion of the directors, there were no significant changes in the state of affairs of the Group that occurred during the financial year that have not been noted in the review of operations. All significant changes in the state of affairs of the Group that occurred after the financial year have been included in the Events Subsequent to Reporting Date.

2 DIRECTORS

2 (a) Directors

The directors of the Company at any time during or since the end of the financial year are:

Names	Position	Appointed/Resigned
Cameron McRae	Executive Chairman Non – Executive Chairman	Appointed 27/06/2016 Appointed 6/06/2016, Resigned 27 June 2016
The Hon Craig Wallace	Deputy Chairman (Non – Executive) Chairman (Non - Executive)	Appointed 6/06/2016 Resigned 6/6/2016
Mr Michael Avery	Executive Director Group Managing Director	Appointed 27/06/2016 Resigned 27/06/2016
Mr Tsogt Togoo	Non-Executive Director	
Mr Philip Forrest	Independent Director	
Ms Loo Hwee Fang	Independent Director	
Mr David Stone	Executive Director Executive Director	Appointed 4/09/2016 Resigned 18/12/2015

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

Cameron McRae	**Executive Chairman** Appointed: 27 June 2016 Non – Executive Chairman (Appointed: 6 June 2016, Resigned: 27 June 2016)
Qualifications	Masters of Business Administration, Bachelor of Financial Administration
Experience	Mr McRae has served a distinguished 28 year career at Rio Tinto, holding executive level positions in 5 countries. Cameron was CEO-President of Oyu Tolgoi (OT) copper-gold business in Mongolia, CEO of Richards Bay Minerals in South Africa, Managing Director of Murowa Diamonds in Zimbabwe and Project Director for the Hail Creek Coal Mine Expansion Project in Central Queensland. In 1995 he was also a key member of the M&A team that brought RTZ plc and CRA Limited together to form the dual listed Rio Tinto. Cameron's career highlight to date was leading the establishment of the OT business – Mongolia's world class mega project in the Gobi Desert. OT commenced construction in 2010 and the US$6 billion project was commissioned ahead of schedule and moved to full production before Cameron left in October 2013.
Interest in Contracts	Nil
Special Responsibilities	Nil

Directorships held in other listed entities during the three years prior to the current year	Nil
The Hon Craig Wallace	**Deputy Chairman (Non-Executive)** Appointed : 6 June 2016 Chairman (Non – Executive) (Resigned 6 June 2016)
Qualifications	Bachelor of Arts
Experience	Mr Wallace served as the Queensland Minister for Main Roads, Fisheries and Marine Infrastructure from 2009 to 2012. His departments delivered major infrastructure projects across Queensland including the Gateway Bridge and rebuilding of Queensland Road assets following major floods. He is a member of the Executive Council of Australia, a member of Roads Australia and a Patron of the Committee for Infrastructure and Logistics Australia. In 2012 he formed Shanghai Commonwealth Investment and Consulting (which is operating mainly in China). The company has a focus on building trade ties between China and Australia with a particular focus on food products.
Interest in Contracts	Nil
Special Responsibilities	Member of the Audit and Remuneration Committees
Directorships held in other listed entities during the three years prior to the current year	Nil
Mr Michael Avery	**Executive Director** (Appointed : 27 June 2016) Group Managing Director (Resigned : 27 June 2016)
Qualifications	Masters of Business Administration Bachelor of Engineering (Mining) (First Class Hons)
Experience	Michael has been involved in the establishment and management of a number of successful public and private companies in mining, exploration and development, mining consulting services and mining contractor services. Michael is a 30 year plus mining industry veteran with BE Mining (1st Class Honours) from UNSW and an MBA from Mt Eliza Business School. Michael is also a qualified Coal Mine Manager and a member of the Australian Institute of Mining and Metallurgy. Michael has extensive experience in the mining sector working in senior management and technical roles for a number of blue-chip mining companies (mostly Rio Tinto and BHP Billiton) at operations in Australia and around the world. These roles covered the full life cycle of open cut and underground mines from resource exploration and evaluation, through conceptual design, pre-feasibility, feasibility, construction, operation and management.
Special Responsibilities	Member of the Remuneration Committee
Interest in Contracts	Nil
Directorships held in other listed entities during the three years prior to the current year	Nil

Mr Tsogt Togoo	**Non-Executive Director**
Qualifications	Masters of Business Administration Master of Economics Bachelor of Economics (First Class Honours)
Experience	Mr Tsogt has close to two decades of experience in the Mongolian public sector. He worked in the senior management of the Mongolian national oil company, overseeing commercial and operational functions, including petroleum product imports and internal distribution to filling stations. Mr Tsogt also led the privatisation division of the State Property Committee and has played extensive roles in the privatisation of Mongolia's most valuable state-owned companies. He was in charge of the privatisation of the national oil company, banks and other state-owned enterprises, restructuring power generation and energy distribution enterprises and the deregulation of the energy and oil sectors.
Interest in Contracts	Mr Tsogt is a nominee of Terra Holdings Ltd which is a major shareholder with 20,000,000 fully paid ordinary shares in the Company. Terra Holdings Ltd also has a 16.13% interest in Mongolian subsidiary TerraCom Resources (Mongolia) Pty Ltd. Terra Holdings Ltd is a guarantor for Mongolian Petroleum Corporation Pte Ltd (“MPC”) which TerraCom had paid a deposit of US$2m in respect of a potential purchase of all the shares of MPC.
Directorships held in other listed entities during the three years prior to the current year	Nil

Mr David Stone	**Executive Director** Re-Appointed: 4 September 2016 Resigned : 18 December 2015
Qualifications	Bachelor of Mining Engineering Diploma in Risk Management Diploma from the Australian Institute of Company Directors
Experience	David Stone is a highly successful leader in mining businesses for global corporations. His impressive career spans over 20 years with expertise in operating resources businesses, either in senior management, project development, operations or closure. He has repeatedly demonstrated transformational ability within these businesses with a sole focus of creating shareholder value and has operated successfully across diverse geographical locations and environments. He has progressed through the mining industry performing most roles within a business including, operations, technical and management. This is in conjunction with being appointed to numerous government and industry committees and boards. He also holds a Mine Managers, Senior Site Executive and statutory qualifications.
Interest in Contracts	Nil
Special Responsibilities	Nil

Directorships held in other listed entities during the three years prior to the current year	Nil
Mr Philip Forrest	**Independent Director**
Qualifications	Fellow of the Australian Institute of Company Directors Certified Public Accountant Bachelor of Commerce (University of Queensland)
Experience	For over 33 years, Philip Forrest has lived in South East Asia and contributed to the Australia/Asia commercial relationship. He is reinforcing that contribution through directorships, involvement in not for profit organisations, and the provision of consultation and advice. Since arriving in Singapore in 1991, he has headed three international banks (Westpac, NatWest and ANZ), with wide-ranging regional responsibilities. His most recent banking position was Asia Head for ANZ Bank, with responsibility for all of the Bank's activities in eleven countries from Japan to Indonesia. Philip's current non-executive directorships include: EA Consulting, Voyager Estate (Singapore), Readymix Holdings International, Gemstar Technology Asia, Clocktower Wealth Fund SPC, and EVOLVE Agribusiness Pte Ltd. He is currently a Director of The Australian Chamber of Commerce, Singapore, and a Member of the Governing Council of the Singapore Institute of Directors. Philip is a Fellow of the Australian Institute of Company Directors, a Fellow of CPA Australia, and a Fellow of the Australian Institute for Business and Economics. He is a Member of the Thai Institute of Directors and of the Singapore Mining Club. He received an award in 2014 for forty years of membership of CPA Australia.
Interest in Contracts	Nil
Special Responsibilities	Member of Audit and Remuneration Committees
Directorships held in other listed entities during the three years prior to the current year	Nil
Loo Hwee Fang	**Independent Director**
Qualifications	University of Sheffield, England (LLB Hons) Barrister-at-law, Gray's Inn, England and Wales
Experience	Loo Hwee Fang is an experienced legal practitioner. She graduated from the University of Sheffield, England, with an LLB (Hons) Degree in 1996 and is also a qualified Barrister-at-Law. Ms Loo was Partner in Singapore law firm, Lee and Lee, specialising in corporate finance, capital markets and fund management. Since 2013, Ms Loo has been Group General Counsel of Yoma Strategic Holdings Ltd which is listed on the main board of the Singapore Exchange.
Interest in Contracts	Nil
Special Responsibilities	Member of the Audit Committee
Directorships held in other listed entities during the three years prior to the current year	HL Global Enterprises Limited (Singapore)

2 (b) Directors Interests

The direct interest of each director in the shares and options issued by the Company, as notified by the directors to the Australian Securities Exchange in accordance with section 205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Ordinary shares	Options over ordinary shares
Mr Cameron McRae(1)		
The Hon Craig Wallace(2)(3)	-	-
Mr Michael Avery(4)	-	-
Mr Tsogt Togoo	-	-
Mr Philip Forrest	500,000	-
Ms Loo Hwee Fang	-	-
David Stone	-	-

Notes:

(1) Cameron McRae, subject to shareholder vote at the 2016 Annual General Meeting, was offered a AU$600,000 sign on bonus in shares. The share sign on bonus is subject to shareholders approval at the 2016 AGM, as well as other vesting conditions. The details of the proposed share issue will be included in the AGM Resolutions.

(2) Craig Wallace is the sole shareholder of Auspicious Future Ventures Ltd (AFV) which held 30,000,000 shares of the Company as at 30 June 2015. He is able, as the sole director of AFV, to control the exercise of a right to vote attached to the shares in the Company held by AFV. He disposed of all 30,000,000 shares on 21 July 2015.

(3) Craig Wallace is also a 16.52% shareholder of C1 Commodities Pte Ltd, which holds 100,000,000 ordinary shares of the Company as at the date of this report.

(4) Michael Avery is a beneficiary of Omaroo Pty Ltd and Crem Pty Ltd who are trustee companies for Omaroo Family Trust and Crema Family Trust respectively. Omaroo Pty Ltd and Crem Pty Ltd hold 7,424,897 and 7,444,620 shares respectively as at the date of this report. In addition, Omaroo Pty Ltd as trustee for the Omaroo Family Trust has a 6.31% interest in C1 Commodities Pte Ltd, which holds 100,000,000 ordinary shares in the Company.

2 (c) Directors Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

	Directors' Meetings		Audit Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr Michael Avery	27	23	NA	NA	1	0
Mr Phillip Forrest	27	27	6	6	1	1
Ms Hwee Fang Loo	27	19	6	5	NA	NA
Mr Cameron McRae	2	2	NA	NA	NA	NA
Mr David Stone	9	9	NA	NA	NA	NA
Mr Tsogt Togoo	27	27	NA	NA	NA	NA
The Hon Craig Wallace	27	26	6	6	1	1

3 OTHER

3 (a) Dividends

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

3 (b) Share options

Unissued shares under options

As at the date of this report, the following options were available to acquire shares in the Company or a controlled entity:

- 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 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.

- On 8 January 2014, the Company entered into a debt facility with OCP Asia to issue amortising notes with a face value of US$55,000,000. The amortising notes carried detachable warrants for an amount equal to 18.5% of the face value of the amortising notes as calculated in Australian dollars at the average USD/AUD exchange rate quoted on Bloomberg on the date of issue of the amortising notes. During the financial year, these warrants were cancelled and replaced with new detachable warrants on 26 February 2016. Principle terms of the new warrants are:
  - 126,308,306 detachable warrants
  - Expiry date: five years from the date of issue, being 26 February 2016 (the "warrant maturity date")
  - Exercise price: is $0.0262 per share, unless a cross listing on the SGX has completed, in which case the exercise price is the lower of the Cross Listing Price and the Market Price.
  - Fully transferrable (either in whole or part) to another sophisticated or professional investor.
  - Exercisable at holder's option in exchange for shares in the Company.

- On 6 September 2016 the Company issued unlisted ordinary share options ("Options") to Fosters Stockbroking Pty Ltd as follows :
  - ➢ 15,000,000 options at a strike price equal to $0.03 and with an expiry date of 31 August 2018, and
  - ➢ 15,000,000 options at a strike price equal to $0.045 and with an expiry date of 31 August 2018.

Other than as set out above, there have been no unissued shares or interests under option in the Company or a controlled entity during or since the reporting date.

3 (c) Indemnification and insurance of officers

Indemnification

The Company has executed deeds of access, indemnity and insurance with each of its directors and key management personnel which provide an indemnity for specified liabilities, costs or expenses including legal fees which they may become liable for while an officer of the Company or the Group.

Insurance premiums

The Company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director or officer of the Company, excluding conduct involving a wilful breach of duty in relation to the Company. The Company indemnifies the directors to the full extent permitted by law. A condition of the contracts requires that the premium payable not be disclosed.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company, or to intervene in any proceedings, to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the financial year.

3 (d) Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

3 (e) Non-audit services

During the previous financial year Ernst & Young, the Company's auditor, has performed certain other services in addition to their statutory duties. There were no additional services provided in the year to 30 June 2016.

The Board of Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditors because the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The value of non-audit services provided are summarised as follows:

In AUD	**Consolidated 2016**	Consolidated 2015
Non-audit services		
Taxation services and other non-audit services	-	10,300

3 (f) Auditors independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 30 June 2016 has been received and can be found on page 27 of the financial report.

4 OPERATING AND FINANCIAL REVIEW

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 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 respectively at 30 June 2016.

Strengthening of AUD to USD foreign currency. The Australian dollar has traded around $0.77. If the dollar remains at this level at the next reporting date the 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.

REVIEW OF FINANCIAL PERFORMANCE

Before analysing the operating performance of the Group for the year it is important to highlight the following:

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 extinguished its existing facilities, enabling the Company to defer the principal repayments for a further 5 years.

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) equity raised through conversion of debt.** The equity raised 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.

  a. 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 instead of remaining as debt the number of shares on issue would have increased by 48%. Therefore shareholder dilution has been substantially limited.

v. **$36.8 million non-cash impairment loss.** The impairment recognised was a reflection of the current commodity price slump. Post 30 June 2016 benchmark thermal and metallurgical commodity prices have increased by circa 40% and 115% respectively – due to stringent accounting standards the commodity price rally has not been able to be reflected in the Company's asset values at 30 June 2016.

NET ASSET MOVEMENT 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.

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). Refer to previous discussion on this point.
- 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 production to implement an alternative supply chain in Mongolia. The decision to do this by the Group will have substantial long term benefits.

CAPITAL MANAGEMENT AND BALANCE SHEET COMMENTARY

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.

In addition to the refinance, during the year the Company secured additional funding in the amount of US$14.6 million (equivalent AU$20.2 million) from its existing financiers. This demonstrated the continued support the Company receives to implement its growth strategy as designated under the 2015 Strategic Review.

REVIEW OF OPERATIONS – CORPORATE

During the previous year a strategic review of the Company was completed. A summary of the actions and outcomes which were implemented in the current financial year include the following:

- Deferral of circa 90% of the Company's existing debt for 5 years through the issuance of new facilities. This enables the Company to focus on the expansion and growth of its existing operations, acquire strategic operations to complement its existing portfolio of assets, and expansion of the exploration of existing tenements.
- As part of the corporate cost reduction strategy the Townsville Corporate Office was closed and it was relocated to Thirroul (located in New South Wales) with a reduced workforce, sufficient to meet the current needs of the Company.
- Re-branding of the brand from Guildford Coal Limited to TerraCom Limited, which was approved by shareholders at the October 2015 EGM.

REVIEW OF OPERATIONS - MONGOLIA

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.

REVIEW OF OPERATIONS – QUEENSLAND EXPLORATION TENEMENTS

Due to the economic downturn in the mining industry the Company made the decision to focus its resources on its Mongolian operation and strategic acquisition opportunities. Therefore, there has been limited expenditure on the Queensland projects.

As outlined in the strategic review of February 2015, the Company is looking to source an equity joint venture partner for its Australian exploration assets. This outcome will secure the continued development of key Queensland projects and also allow the Company to focus current investment on its revenue producing asset, the BNU mine. This joint venture once formed will focus on the Group's two priority projects within the Company's Queensland exploration asset portfolio – being the large thermal coal North Galilee project and the PCI/thermal coal Springsure project.

A significant milestone was reached on the Springsure Project through the granting of a Mineral Development Licence (MDL 3002) over a portion of EPC 1674. The Group is currently implementing a detailed exploration program over the granted MDL area.

EVENTS SUBSEQUENT TO REPORTING DATE

In the interval between the end of the financial year and the date of this report there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years other than the following:

- On 1 July 2016, the Company advised the market that the Bond's issued on 23 June 2016 were listed on Euroclear on 30 June 2016 making it a tradeable security.

- On 4 July 2016 the Company announced it had reached agreement to acquire the Blair Athol Coal Mine for a purchase price of $1 and that TerraCom would receive $80 million from the current owners to meet the sites rehabilitation liability as determined by Queensland's Department of Environment and Heritage in November 2015. The Financial Assurance will be provided as cash to be held in a bank account approved and controlled by the Queensland Government.
- On 14 July 2016, the Company announced a US$1 million placement to Hong Kong private investment company Sea Honour Limited under its existing capacity under listing rules 7.1A. On 8 August 2016, the finalisation of the placement was announced which resulted in 80,849,502 fully paid ordinary shares issued at the final issue price of $0.0166.
- On 23 August 2016 the Company announced a $1.1million placement to three large and prominent Eastern European based private investment companies, led by Light Speed Commercial Inc under its existing capacity under listing rules 7.1 and 7.1A. On 6 September 2016 it was announced the finalisation of the placement which resulted in 55,407,834 fully paid ordinary shares issued at the final issue price of $0.0206469.
- On 29 August 2016, the Company announced a $1.0 million placement with Fosters Stockbroking Pty Ltd private and institutional clients under its existing capacity under listing rules 7.1. On 6 September 2016 it was announced the finalisation of the placement which resulted in 44,411,629 fully paid ordinary shares issued at the final issue price of $0.0215.
- On 6 September 2016 the Company issued unlisted ordinary share options ("Options") to Fosters Stockbroking Pty Ltd as follows :
    - 15,000,000 options at a strike price equal to $0.03 and with an expiry date of 31 August 2018, and
    - 15,000,000 options at a strike price equal to $0.045 and with an expiry date of 31 August 2018.
- On 8 September 2016, the Company announced the reappointment of Mr David Stone to Executive Director effective from 4 September 2016.
- On 23 September 2016, the Company announced it had executed a binding Sale and Purchase Agreement to acquire the Blair Athol Coal Mine. The acquisition is on the same terms as announced on 4 July 2016 being a $1 purchase price, TerraCom to receive $80 million from the current owners to meet the sites rehabilitation liability as determined by Queensland's Department of Environment and Heritage in November 2015, and the Financial Assurance to be provided as cash to be held in a bank account approved and controlled by the Queensland Government. The transaction is subject to Queensland Government approval and certain other conditions precedent. Production is being scheduled around a rate of 2Mtpa with a target of operations recommencing in the fourth quarter of 2016 calendar year.
- On 29 September 2016 the Company announced it had secured US$12 million in new funding to support the commissioning of the Blair Athol Coal Mine. The Facility will be provided according to a progressive drawdown schedule linked to pre-agreed milestones and cash flow requirements in order to expedite the commissioning and start-up of the mine. The Facility incurs interest of 9% per annum and is split into two parts: (i) US$3m repayable over 12 months from the date of commissioning and (ii) US$9m provided on a rolling basis for 5 years. The Facility is being provided by an international group with in-depth knowledge of the Australian mining sector.

OUTLOOK AND LIKELY DEVELOPMENTS

- The Company is developing a growth strategy which includes progressing cash generating acquisition options to augment and ensure the financial capacity to service the restructured debt requirements, continue the strategic development of the South Gobi Coking Coal region in Mongolia, and create an operating presence in Australia through strategic acquisitions and its own tenement development.
- Continued assessment of various options for optimising the Company's capital structure and assessing its future requirements. The Company is currently in advanced discussions with established financiers and considers additional capital can be secured in a timely manner if required.

ENVIRONMENTAL REGULATION

The Group holds licences issued by the relevant environmental protection authorities of the various countries in which it operates. There have been no significant known breaches of the consolidated entities' licence conditions or any environmental regulations.

RISKS RELATING TO TERRACOM'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 Resources 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 Resources 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.

In relation to the construction of the BNU mine, the currently envisaged timeframe or cost may be exceeded for a variety of reasons outside of the control of the Company. There are a number of milestones that need to be met in a timely manner for production to commence and there is a risk that circumstances (including unforeseen circumstances) may cause delay, resulting in the receipt of revenue at a later date than expected.

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, interest and principal payments, capital expenditure commitments at the BNU mine development and commissioning of strategic acquisitions, additional funding will be required. The Company's funding plans and basis of preparation of the financial statements on a going concern basis are disclosed in Note 1(b) of the financial statements. If adequate funds are not available on acceptable terms, the Company may be unable to fund its operations and/or any expansion plans.

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.

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

Potential investors should understand that 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.

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.

5 REMUNERATION REPORT - AUDITED

1. Individual directors and key management personnel (KMP)

Details of directors and key management personnel during the year and up to the date of this report are set out below:

Non - Executive Directors

Names	Position	Appointed/Resigned
Mr Cameron McRae	Non – Executive Chairman	Appointed 6/06/2016 Resigned 27/06/2016
The Hon Craig Wallace	Deputy Chairman (Non – Executive) Chairman (Non - Executive)	Appointed 6/06/2016 Resigned 6/06/2016
Mr Tsogt Togoo	Non-Executive Director	
Mr Philip Forrest	Independent Director	
Ms Loo Hwee Fang	Independent Director	

Executives

Names	Position	Appointed/Resigned
Mr Cameron McRae	Executive Chairman	Appointed 27/06/2016
Mr Michael Avery	Group Managing Director Executive Director / Vice President – Corporate Development	Resigned 27/06/2016 Appointed 27/06/2016
Mr David Stone	Executive Director	Resigned 18/12/2015 Appointed 4/09/2016
	Executive	Appointed 18/12/2015, Resigned 27/06/2016
	Vice President – Operations	Appointed 27/06/2016
Mr Mark Reynolds (1)	Chief Financial Officer	Resigned 27/06/2016
Mr Julien Lawrence	Chief Operating Officer Chief Development Officer	Resigned 1/03/2016 Appointed 1/03/2016
Mr Tony Mooney(2)	Company Secretary/ General Manager Stakeholder Relations	Resigned 6 January 2016
Mr Nathan Boom	Company Secretary/ Financial Controller	Appointed 15 January 2016
Mr Karl Arnold(3)	Chief Financial Officer	Appointed 27 June 2016

(1) New role effective from 27/06/2016 is General Manager – Corporate Development.

(2) New role effective from 6/01/2016 is General Manager – Stakeholder Relations.

(3) Prior to this Mr Karl Arnold held the role of Business Unit Head, Mongolia.

2. Remuneration at a glance

This remuneration report for the year ended 30 June 2016 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Company.

For the purposes of this report, the term “executive” includes Executive Directors, the Group Managing Director, Chief Financial Officer (CFO), Company Secretary, Chief Development Officer, Vice President – Corporate Development, Vice President – Operations and the term “director” refers to non-executive directors only.

At the Company's 2015 and 2014 Annual General Meeting's, a majority of shareholders voted against the remuneration report prepared as a part of the Annual Report. The Company has addressed a number of the concerns through the following actions:

- The Company has suspended implementation of its proposed short and long term incentive schemes until after the finalisation of the strategic review.
- Overheads have been significantly reduced due in part to a reduction of staff numbers and the relocation of the corporate office to Thirroul, New South Wales (closure of the Brisbane and Townsville offices).
- No increase to base remuneration for directors or key management personnel.

3. Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for directors, the executives and other key staff. The Remuneration Committee uses its broad economic, business and industry experience to assess the nature and amount of remuneration of all staff including directors and the executives by reference to relevant employment market conditions and will when necessary seek independent expert advice.

The Remuneration Committee met on two occasions during the year.

4. Remuneration policy

The remuneration policy of the Group has been designed to align the remuneration available to directors and executives with shareholders' interests by providing a fixed remuneration component and the Board may also elect from time to time to pay a cash performance bonus to the Executives linked to the successful performance of the individual and the Group based on key performance indicators. The overall objective of this policy is the retention and attraction of a high quality Board and executive. The Board believes the remuneration policy to be appropriate and effective to attract and retain the best key management personnel to manage the Group as well as to create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- Key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits and other performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been met.
- The Remuneration Committee reviews key management personnel packages annually by reference to the Group's performance, individual performance and comparable information from industry sectors.

Key management personnel receive the superannuation guarantee contribution required by law and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. All remuneration paid to key management personnel is valued at the cost to the Group and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

No remuneration recommendations were received from external providers during the financial year.

5. Equity instruments performance based remuneration

The Board may also elect from time to time to pay a non-cash performance bonus to the Executives linked to the successful performance of the individual and the Group based on key performance indicators.

During the financial year, no equity instruments performance based remuneration were granted. As included in

Section 2(b) of the Directors Report Cameron McRae was offered a AU$600,000 sign on bonus to be paid in shares. The share sign on bonus is subject to shareholders approval at the 2016 AGM.

6. Relationship between performance conditions and Company performance

A snapshot of key Company performance measures for the past five years is set out below:

	2016	2015	2014	2013	2012
Loss attributable to the Group ($000's)	(51,786)	(43,326)	(65,593)	(1,452)	(23,871)
Share price at year end	0.008	0.03	0.06	0.13	0.55
Basic EPS (cents per share)	(3.14)	(4.57)	(9.21)	(0.06)	(4.99)
Diluted EPS (cents per share)	(3.14)	(4.57)	(9.21)	(0.06)	(4.99)

Given the Group primarily has been in exploration and development the directors are of the opinion the above performance measures do not accurately reflect KMP performance.

As per the remuneration policy, the Board can elect from time to time to pay a cash bonus. During the financial year, no bonuses were paid.

The Board and the Remuneration Committee have resolved that future executive remuneration outcomes would be based on an appropriate incentive plan for a company moving into production. The terms and conditions of any such incentive plan are under development but will not be implemented until after the strategic review has been finalised.

7. Employment details of directors and key management personnel

The following table provides employment details of persons who were, during the financial year, key management personnel of the Group. The table also illustrates the proportion of remuneration that was performance and non-performance-based and the proportion of remuneration received in the form of options.

	Position	Salary, non-cash based incentives %	Non-salary, cash based incentives %	Non salary, non-cash based incentive %	Fixed Salary/fees %	Share Based Payment %	Total %
Non-Executive Directors							
The Hon Craig Wallace	Non-Executive Chairman	-	-	-	100	-	100
Mr Philip Forrest	Independent Director	-	-	-	100	-	100
Ms Loo Hwee Fang	Independent Director	-	-	-	100	-	100
Mr Tsogt Togoo	Non-Executive Director	-	-	-	100	-	100
Executives							
Mc Cameron McRae	Executive Chairman	-	-	5	95	-	100
Mr Michael Avery	Vice President – Corporate Development & Executive Chairman	-	-	-	100	-	100
Mr David Stone	Vice President – Operations	-	-	-	100	-	100
Mr Mark Reynolds	Chief Financial Officer (1)	-	-	-	100	-	100
Mr Julien Lawrence	Chief Development Officer	-	-	-	100	-	100
Mr Tony Mooney	Company Secretary / General Manager Stakeholder Relations (2)	-	-	-	100	-	100
Mr Nathan Boom	Financial Controller & Company Secretary (3)	-	-	-	100	-	100
Mr Karl Arnold	Chief Financial Officer (4)	-	-	-	100	-	100

The employment terms and conditions of key management personnel and group executives are formalised in individual contracts of employment.

Terms of employment generally provide for three months' notice for executives and the Company in normal circumstances, one month's notice from the executive in cases of breach of contract by the Company and immediate termination in certain specified circumstances likely to prevent the discharging of the duties of his or her position.

(1) Part year only. Resigned 27 June 2016.

(2) Part year only. Resigned 6 January 2016.

(3) Part year only. Appointed 15 January 2016.

(4) Part year only. Appointed 27 June 2016.

8. Remuneration details for the year ended 30 June 2016

The following table of benefits and payment details, in respect to the financial year, the components of remuneration for directors and key management personnel of the Group.

	Short-term						
	Salary, fees and leave	**Salary non-cash incentives**	**Non salary cash incentives**	**Non salary non-cash incentives**	**Pension and superannuation**	**Share based payments**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
For the year ended 30 June 2016							
Non-Executive Directors							
The Hon Craig Wallace(1)	120,000	-	-	-	-	-	120,000
Mr Philip Forrest	60,905	-	-	-	-	-	60,905
Ms Loo Hwee Fang	60,905	-	-	-	-	-	60,905
Mr Tsogt Togoo	103,028	-	-	-	-	-	103,028
	344,838	-	-	-	-	-	344,838
Executives							
Mr Cameron McRae(2)(a)	16,112	-	-	812	-	-	16,924
Mr Michael Avery(3)	448,973	-	-	-	42,652	-	491,625
Mr David Stone(4)	419,041	-	-	-	39,809	-	458,850
Mr Mark Reynolds(5)	320,000	-	-	-	19,308	-	339,808
Mr Julien Lawrence	682,383	-	-	-	-	-	682,383
Mr Tony Mooney(6)	117,072	-	-	-	11,122	-	128,194
Mr Nathan Boom(7)	93,730	-	-	-	8,904	-	102,634
Mr Karl Arnold(8)	5,056	-	-	-	-	-	5,056
	2,102,367	-	-	812	121,795	-	2,224,974
	2,447,205	-	-	812	121,795	-	2,569,812

Except as disclosed below, the directors and key management personnel of the Group were for the financial year:

(1) Director for the financial year, however held the position of Chairman for period 1 July 2015 to 6 June 2016, and then Deputy Chairman thereafter.

(2) Director from 6 June 2016; however held the position of Non-Executive Chairman for period 6 June 2016 to 27 June 2016, and then Executive Chairman thereafter.

(3) Director for the financial year, however held the position of Managing Director for period 1 July 2015 to 27 June 2016, and then Executive Director/ Vice President - Corporate Development thereafter.

(4) Member of Key Management Personnel for the financial year, however was a Director for period 1 July 2015 to 18 December 2015.

(5) Member of Key Management Personnel for period 1 July 2015 to 27 June 2016, which coincides with resignation as Chief Financial Officer. From 27 June 2016 assumed the position of General Manager - Corporate Development.

(6) Member of Key Management Personnel for period 1 July 2015 to 6 January 2016, which coincides with resignation as Company Secretary. From 6 January 2016 assumed the position of General Manager - Stakeholder Relations.

(7) Member of Key Management Personnel from 15 January 2016, which coincides with the appointment to Company Secretary.

(8) Member of Key Management Personnel from 27 June 2016, which coincides with the appointment to Chief Financial Officer.

(a) As included in Section 2(b) of the Directors Report Cameron McRae was offered a AU$600,000 sign on bonus to be paid in shares. As share sign on bonus is subject to shareholders approval at the 2016 AGM, this amount has not been included in Mr McRae's remuneration for the year ended 30 June 2016.

	Short-term						
	Salary, fees and leave $	Salary non-cash incentives $	Non salary cash incentives $	Non salary non-cash incentives $	Pension and superannuation $	Share based payments $	Total $
For the year ended 30 June 2015							
Non-Executive Directors							
The Hon Craig Wallace	53,120	-	-	-	-	-	53,120
Mr Philip Forrest (appointed 09/04/2015)	13,070	-	-	-	-	-	13,070
Ms Loo Hwee Fang (appointed 09/04/2015)	13,070	-	-	-	-	-	13,070
Mr Tsogt Togoo	83,035	-	-	-	-	-	83,035
Mr Craig Ransley (resigned 29/04/2015)	53,260	-	-	-	-	-	53,260
The Hon Alan Griffiths (resigned 19/11/2014)	38,052	-	-	-	3,615	-	41,667
Mr Kon Tsiakis (resigned 13/11/2014)	23,613	-	-	-	2,243	-	25,856
	277,220	-	-	-	5,858	-	283,078
Executives							
Mr Michael Avery (appointed 15/12/2014)	289,181	-	-	-	4,110	-	293,291
Mr David Stone (appointed 05/05/2015)	24,039	-	-	-	2,284	-	26,323
Mr Mark Reynolds	320,000	-	-	-	18,783	-	338,783
Mr Julien Lawrence	622,880	-	-	-	-	-	622,880
Mr Tony Mooney	227,197	-	-	-	19,720	-	246,917
Mr Peter Kane (resigned 02/03/2015)	343,499	-	-	-	24,215	-	367,714
Mr Chris Munday (resigned 19/06/2015)	247,205	-	-	-	-	-	247,205
Mr Michael Majendie (resigned 03/10/2014)	113,270	-	-	-	5,384	-	118,654
	2,187,271	-	-	-	74,496	-	2,261,767
	2,464,491	-	-	-	80,354	-	2,544,845

8.1. Loans to key management personnel and their related parties

During the current financial year, no loans were provided to key management personnel and their related parties.

9. Movement of equity instruments

During the current financial year there were no share rights granted to executives as remuneration nor were there any rights that vested or lapsed. As included in Section 2(b) of the Directors Report Cameron McRae was offered a AU$600,000 sign on bonus to be paid in shares. The share sign on bonus is subject to shareholders approval at the 2016 AGM.

Share rights do not carry any voting or dividend rights and will be granted if the vesting conditions have been met by the test date.

10. Additional disclosures relating to shares and options and rights over equity instruments

The movement during the year in the number of ordinary shares in the Company held directly, by each KMP, is as follows:

	Held at 1 July 2015	Received as remuneration	Other net change	Held at 30 June 2016
Directors				
Mr Cameron McRae (1)	-	-	-	-
The Hon Craig Wallace(2)(3)	-	-	-	-
Mr Michael Avery(4)	-	-	-	-
Mr David Stone	-	-	-	-
Mr Tsgot Togoo	-	-	-	-
Mr Phillip Forrest	500,000	-	-	500,000
Ms Loo Hwee Fang	-	-	-	-
Executives				
Mr Mark Reynolds	27,346	-	-	27,346
Mr Julien Lawrence	2,129,395	-	-	2,129,395

The following ordinary shares in the Company were held indirectly by the KMPs, through related parties, during the year:

(1) Cameron McRae, subject to shareholder vote at the 2016 AGM, was offered a $600,000 sign on bonus to be paid in shares. The share sign on bonus is subject to shareholders approval at the 2016 AGM.

(2) Craig Wallace is the sole shareholder of Auspicious Future Ventures Ltd (AFV) which held 30,000,000 shares of the Company as at 30 June 2015. He is able, as the sole director of AFV, to control the exercise of a right to vote attached to the shares in the Company held by AFV. He disposed of all 30,000,000 shares on 21 July 2015.

(3) Craig Wallace is also a 16.52% shareholder of C1 Commodities Pty Ltd, which holds 100,000,000 ordinary shares of the Company as at the date of this report.

(4) Michael Avery is a beneficiary of Omaroo Pty Ltd and Crem Pty Ltd who are trustee companies for Omaroo Family Trust and Crema Family Trust respectively. Omaroo Pty Ltd and Crem Pty Ltd hold 7,424,897 and 7,444,620 shares respectively as at the date of this report. In addition, Omaroo Pty Ltd as trustee for the Omaroo Family Trust has a 6.31% interest in C1 Commodities Pte Ltd, which holds 100,000,000 ordinary shares in the Company.

11. Securities received that are not performance related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

End of remuneration report (audited)

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

....

Mr Cameron McRae

Executive Chairman

Dated 30 September 2016

TerraCom Limited publishes their Corporate Governance Statement on its website.

For a copy of the statement please visit : http://terracomresources.com/investors/corporate-responsibility/

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Auditor's Independence Declaration to the Directors of TerraCom Limited

As lead auditor for the audit of TerraCom Limited for the year ended 30 June 2016, 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 audit*;* and

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

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

Ernst & Young

Ernst & Young

Anthony Jones
Partner
30 September 2016

FINANCIAL REPORT

AUDITED ANNUAL FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Financial Year Ended 30 June 2016

	Note	2016 $	2015 $
Sales Revenue	2	9,902,188	-
Cost of goods sold	3	(14,370,135)	-
Gross profit		(4,467,947)	-
Other income	2	39,671,875	21,652
Employee benefits expense	3	(4,148,766)	(2,914,910)
Depreciation and amortisation expense		(3,860,480)	(104,921)
Marketing Fees		(2,057,095)	-
Management fees	30	-	(413,074)
Rent expense	3	(546,941)	(923,853)
Consulting fees	3	(5,234,602)	(2,262,617)
Travel expense		(729,109)	(326,823)
Impairment losses	3	(36,808,252)	(284,448)
Exploration deposit write-off	14	(646,224)	-
Other operating expenses		(2,189,725)	(4,705,188)
Finance costs	3	(27,452,586)	(8,246,912)
Foreign Currency Gain/(Loss)	3	(3,311,870)	(22,261,852)
Loss on disposal of subsidiary	24	-	(1,000,313)
Share of (loss)/profit of an associate	15	(3,949)	98,350
Loss before income tax		(51,785,671)	(43,324,909)
Income tax expense	6	-	(950)
Loss from continuing operations		(51,785,671)	(43,325,859)
Loss for the year		(51,785,671)	(43,325,859)
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translating foreign subsidiaries		(1,282,495)	8,014,137
Other comprehensive income for the year, net of tax		(1,282,495)	8,014,137
Total comprehensive loss for the year, net of tax		(53,068,166)	(35,311,722)
Loss attributable to:			
Equity holders of the Company		(51,407,830)	(43,089,610)
Non-controlling interests		(377,841)	(236,249)
Total loss		(51,785,671)	(43,325,859)
Total comprehensive income attributable to:			
Equity holders of the Company		(52,682,502)	(35,015,699)
Non-controlling interests		(385,664)	(296,023)
Total comprehensive loss		(53,068,166)	(35,311,722)
Earnings per share			
Basic, loss for the year attributable to members of the parent entity (cents)	5	(3.14)	(4.57)
Diluted, loss for the year attributable to members of the parent entity (cents)	5	(3.14)	(4.57)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the Financial Year Ended 30 June 2016

	Note	2016 $	2015 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**1,199,183**	686,987
Inventory	9	**539,220**	-
Trade and other receivables	10	**201,407**	21,671
Other assets	11	**470,073**	2,226,820
TOTAL CURRENT ASSETS		**2,409,883**	2,935,478
NON-CURRENT ASSETS			
Trade and other receivables	10	**8,077,393**	5,887,350
Other assets	11	**2,125,927**	-
Property, plant and equipment	12	**115,197,021**	129,140,549
Intangible assets	13	**761,860**	417,256
Exploration and evaluation assets	14	**49,351,960**	58,573,488
Investment in an associate	15	**1,386,455**	1,390,404
TOTAL NON-CURRENT ASSETS		**176,900,616**	195,409,047
TOTAL ASSETS		**179,310,499**	198,344,525
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	**26,964,353**	32,919,590
Short-term provisions	19	**262,938**	53,695
Borrowings	17	**27,609,366**	93,519,349
TOTAL CURRENT LIABILITIES		**54,836,657**	126,492,634
NON-CURRENT LIABILITIES			
Borrowings	17	**133,547,849**	44,340,796
Other financial liabilities	18	**7,880,454**	-
Long-term provision	19	**696,190**	1,015,548
TOTAL NON-CURRENT LIABILITIES		**142,124,493**	45,356,344
TOTAL LIABILITIES		**196,961,150**	171,848,978
NET (DEFICIENCY)/ASSETS		**(17,650,651)**	26,495,547
EQUITY			
Issued capital	21	**195,276,818**	186,354,850
Reserves	20	**(32,864,923)**	(31,590,251)
Retained earnings/accumulated losses		**(184,341,040)**	(132,933,210)
Total equity attributable to equity holders of the Company		**(21,929,145)**	21,831,389
Non-controlling interests		**4,278,494**	4,664,158
TOTAL (DEFICIENCY)/EQUITY		**(17,650,651)**	26,495,547

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Financial Year Ended 30 June 2016

	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 equity $
Balance at 1 July 2015		**186,354,850**	**(132,933,210)**	**(36,684,681)**	**(2,864,418)**	**7,958,848**	**-**	**21,831,389**	**4,664,158**	**26,495,547**
Loss attributable to equity holders of the Company		**-**	**(51,407,830)**	**-**	**-**	**-**	**-**	**(51,407,830)**	**-**	**(51,407,830)**
Loss attributable to non-controlling interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(377,841)**	**(377,841)**
Other comprehensive income for the year		**-**	**-**	**-**	**(1,274,672)**	**-**	**-**	**(1,274,672)**	**(7,823)**	**(1,282,495)**
Shares issued during the year	**21**	**8,921,968**	**-**	**-**	**-**	**-**	**-**	**8,921,968**	**-**	**8,921,968**
Balance at 30 June 2016		**195,276,818**	**(184,341,040)**	**(36,684,681)**	**(4,139,090)**	**7,958,848**	**-**	**(21,929,145)**	**4,278,494**	**(17,650,651)**
Balance at 1 July 2014		170,466,514	(89,843,600)	(29,675,375)	(10,938,330)	7,958,848	42,066	48,010,123	(674,595)	47,335,528
Loss attributable to equity holders of the Company		-	(43,089,610)	-	-	-	-	(43,089,610)	-	(43,089,610)
Loss attributable to non-controlling interests		-	-	-	-	-	-	-	(236,249)	(236,249)
Purchase of non-controlling interest		-	-	(6,957,024)	-	-	-	(6,957,024)	6,957,024	-
Other comprehensive income for the year		-	-	-	8,073,912	-	-	8,073,912	(59,774)	8,014,138
Shares issued during the year	21	15,888,336	-	-	-	-	-	15,888,336	-	15,888,336
Share based payments	23	-	-	-	-	-	(42,066)	(42,066)	-	(42,066)
Disposal of subsidiary	24(c)	-	-	(52,282)	-	-	-	(52,282)	(1,322,248)	(1,374,530)
Balance at 30 June 2015		186,354,850	(132,933,210)	(36,684,681)	(2,864,418)	7,958,848	-	21,831,389	4,664,158	26,495,547

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Financial Year Ended 30 June 2016

	Note	2016 $	2015 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		**12,684,623**	9,068,458
Payments to suppliers and employees		**(27,622,118)**	(11,908,116)
Interest received		**17,879**	20,464
Net cash used in operating activities	22(b)	**(14,919,616)**	(2,819,194)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property, plant and equipment		**(3,734,802)**	(18,653,518)
Payments for exploration and evaluation expenditure		**(564,532)**	(731,210)
Payments for acquisition of intangible assets		**(307,798)**	(93,564)
Net cash flow from disposal of subsidiary		**-**	(101)
Net cash used in investing activities		**(4,607,132)**	(19,478,393)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuing of shares		**-**	15,888,336
Repayment of borrowings		**(140,056)**	(4,825,236)
Proceeds from borrowings		**20,190,051**	8,747,245
Finance costs		**-**	(7,448,617)
Net cash provided by financing activities		**20,049,995**	12,361,728
Net increase/(decrease) in cash and cash equivalents held		**523,247**	(9,935,859)
Cash and cash equivalents at beginning of year		**686,987**	9,140,971
Net foreign exchange difference		**(11,051)**	1,481,875
Cash and cash equivalents at end of financial year	22(a)	**1,199,183**	686,987

The accompanying notes form part of these financial statements.

The financial report of TerraCom Limited ('TerraCom' or 'Company') and its subsidiaries (collectively, the "Group") for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 30 September 2016. TerraCom Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the ASX. The address of the Company's registered office is 34 Hewitts Avenue, Thirroul, New South Wales, 2515, Australia. The Company is a for-profit entity, and the principal activities are the transition from developer to producer in Mongolia and minerals exploration in a number of mining tenements held across Australia.

The separate financial statements and notes of the parent entity, TerraCom Limited, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. The parent entity summary is included in Note 32.

Note 1 Corporate information, basis of preparation and summary of significant accounting policies

a) Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the requirements of the *Corporations Act 2001*.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

The directors believe the going concern basis of presentation is appropriate and, as detailed below, have operating and financing strategies in place to support the presentation of these accounts on this basis. Whilst there remains uncertainty with the execution of those plans the directors believe such actions will be successful and additional funding required can be obtained.

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.

During the 2016 financial year the Group has:

- On 30 June 2016 the Group has entered 3 new facilities (Listed Bond, Super Senior Note A and Super Senior Note B) and settled all outstanding debt obligations, with the exception of Noble's Fuel Exclusivity agreement and the non-interest bearing loan acquired as part of the Enkhtunkh Orchlon LLC transaction. Details of these facilities are disclosed in note 17 of the financial statements.

- Commenced commercial operations at BNU North. As production ramped up at BNU North a strategic decision was made to suspend production as the Company looked to optimise the supply and washing chain in country. Following completion of this optimisation, production of the mine is expected to recommence in the near term.

- Acquired the Khar Servegen (KS) Coking Coal Resource which adjoins the BNU mine and been granted a fifth exploration licence in the UVS region by the Minerals Resource Authority of Mongolia (MRAM). An exploration program is expected to commence in 2017 financial year and these projects are expected to give the Group additional financial capacity to service the restructured debt requirements.

Subsequent to 30 June 2016 the following significant milestones were also achieved by the Group:

(i) On the 4th July the company announced the purchase of the Blair Athol Coal Mine in Queensland which provides the Group with an established mining operation that can also be used as a regional hub in Queensland to support the Company's expansion plans. On 23 September the Group announced it had executed the binding Sale and Purchase Agreement (SPA) to acquire the Blair Athol Coal Mine in Queensland with the only conditions outstanding relating to government regulatory approvals.

Funding of the recommencement of operations will be sourced from a USD$12 million working capital facility triggered on execution of the Sale and Purchase Agreement (USD$3 million upfront and USD$9 million on achievement of production milestones). This facility is secured against the Blair Athol inventory stockpile and recourse mechanisms are in place should the government regulatory approvals not be received.

(ii) The Group has continued to work closely with various financiers and has secured three private equity placements for US$1 million and AUD$2.1 million.

Whilst significant progress has been made by the Group during the year, as at 30 June 2016, the Group's current liabilities exceed current assets by $52,426,774 with trade and other payables of $26,964,353 and current debt obligations of $27,609,366.

The Directors believe that the Group has a strong platform from which to generate operating cash flows and ensure it can continue to raise additional debt or equity to meet its obligations when required and prepare the financial statements on a going concern basis given the:

i. Expected recommencement of profitable operations at BNU North;

ii. Acquisition of the Blair Athol coal mine;

iii. Refinancing of the Group's debt arrangements at 30 June 2016;

iv. Acquisition of the Khar Servegen (KS) Coking Coal Resource which adjoins the BNU mine and the granting of a fifth exploration licence in the UVS region by the Minerals Resource Authority of Mongolia (MRAM); and

v. Receipt of an independent valuation of the company's BNU and Australian exploration assets, excluding Blair Athol, which has supported the book value of the Group's assets. This valuation was prepared as at 30 June 2016 by Xenith Consulting.

Whilst the above events underpin the Directors confidence in the ability of the Group to continue as a going concern, in order for the Group to meet its ongoing debt repayment requirements, fund its minimum exploration, development and administrative costs, settle its outstanding trade and other payable obligations and provide the necessary funding to the Group's operation to operate as a going concern the following activities are required:

- Recommence profitable mining activities at BNU North;
- Receipt of government regulatory approvals for the Blair Athol acquisition, successful commencement of profitable mining operations at Blair Athol and achievement of production milestones agreed under the working capital facility; and
- Continued co-operation of existing creditors to defer and manage payment obligations for the balances that remain outstanding at 30 June 2016.

In addition to the above items, the Group may be required to raise additional funds through debt, equity or asset sales to meet those debt repayments and existing creditor obligations that are not supported through profitable cash flows generated by BNU North and Blair Athol.

The directors are currently undertaking the following actions to achieve the above outcomes:

- Working with all stakeholders (including the Queensland government) to finalise the Blair Athol acquisition in a timely manner;

- Holding ongoing discussions with its current financiers to ensure all relevant agreements are in good standing and that debt repayments can be made in a timely manner;

- Raising additional funds for short term creditor repayments and renegotiating payment terms with creditors to manage working capital requirements as required;

- Continuing the 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

- Working to ensure the optimised supply and wash plant model will deliver superior results from the BNU mine.

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

d) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate Australian Accounting Standard. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

e) Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

f) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date, and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; or
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

g) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. This requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received, and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

h) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with a maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest bearing loans and borrowings in current liabilities on the Statement of Financial Position.

i) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated, less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation

The depreciable amount of all property, plant and equipment, except for freehold land, is depreciated on a reducing balance method from the date that management determine that the asset is available for use.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class	Depreciation rate
Mine Development	ROM Production
Furniture, fixtures and fittings	10%
Office equipment	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

j) Exploration and development expenditure

Direct and indirect costs attributable to finding mineral resources are allocated to the exploration and evaluation assets. General and administrative costs that are not related directly to operational activities in the areas of interest have been expensed as incurred. Exploration and development expenditure is stated at cost less impairment.

Exploration and evaluation assets are reclassified when technical feasibility and commercial viability has been established.

The exploration and evaluation assets are assessed against facts and circumstances to determine whether the carrying amount exceeds the recoverable amount. The facts and circumstances considered include whether the rights to explore are current, whether any area of interest has been removed from plans for substantive exploration, whether a decision has been taken to discontinue activities, and whether data suggests that the carrying amounts are unlikely to be recovered from development or sale.

k) Restoration and rehabilitation

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development/construction of the mine. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognised immediately in profit or loss.

l) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial instruments are subsequently measured at fair value or amortised cost using the effective interest rate method.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period (all other loans and receivables are classified as non-current assets).

Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held to maturity investments are included in non-current assets, except for those which are expected to mature within 12 months from the end of the reporting period (all other investments are classified as current assets).

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Financial liabilities

Non derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment of financial assets

Objective evidence that a financial asset is impaired includes default by a debtor, evidence that the debtor is likely to enter bankruptcy or adverse economic conditions in the stock exchange. At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired through the occurrence of a loss event. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to indicate that an impairment has arisen.

Where a subsequent event causes the amount of the impairment loss to decrease (e.g. payment received), the reduction in the allowance account (provision for impairment of receivables) is taken through profit and loss.

However, any reversal in the value of an impaired available-for-sale asset is taken through other comprehensive income rather than profit and loss.

Impairment losses are recognised through an allowance account for loans and receivables in the statement of profit or loss and other comprehensive income.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire, or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled, or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

m) Impairment of non-financial assets

Non-financial assets other than goodwill and indefinite life intangibles, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset’s carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Assets that suffered impairment are tested for possible reversal of the impairment where events or changes in circumstances indicate impairment may have reversed.

n) Intangible Assets

Software

Computer software expenses are capitalised at cost of acquisition. Computer software has a finite life and is carried at cost less any accumulated amortisation, and any impairment losses. Computer software is amortised over its useful life ranging from three to five years.

Other intangible assets

Other intangible asset expenses are capitalised at cost. Other intangible assets have a finite life and are carried at cost less any accumulated amortisation, and any impairment losses. Other intangible assets are amortised over their useful life ranging from three to five years.

o) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period end exchange rate.

Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the statement of comprehensive income.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period where the average rate approximates the rate at the date of the transaction; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the Consolidated Statement of Financial Position. These differences are recognised in the Consolidated Statement of Comprehensive Income in the period in which the operation is disposed.

p) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave, expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Equity-settled compensation

Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share based payments reserve. The number of shares expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

q) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial period, which are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

r) Special Interest Liability

The special interest liability issued in connection with the Listed Bond is payable based on a fixed percentage of mine gate revenues. This value of this instrument is driven by non-financial variables, including production volume, and is therefore considered a non-derivative financial liability measured at amortised cost.

s) Revenue and other income

Revenue is measured at the fair value of consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

1. Sale of products

   Revenue from the sale of products is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, indicating that there has been a transfer of risks and rewards of ownership to the customer, no further work or processing is required by the Group, the quantity and quality of the products have been determined with reasonable accuracy, the price can be reasonably estimated and collectability is reasonably assured.

2. Interest income

   Interest income is accrued using the effective interest rate method.

All revenue is stated net of the amount of GST.

t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which it incurs them.

u) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key judgments – commercial production start date

The Group assesses the stage of each mine development to determine when a mine moves into the production phase. This being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine development project, such as the complexity of the project and its location. The Group considers various relevant criteria to assess when the production phase is considered to have commenced. Some of the criteria used to identify the production start date include, but are not limited to:

(i) Level of capital expenditure incurred compared with the original construction cost estimate;
(ii) Completion of a reasonable period of testing of the mine plant and equipment;
(iii) Ability to produce coal in saleable form (within specifications); and
(iv) Ability to sustain ongoing production of coal.

When a mine development moves into the production phase, the capitalisation of certain mine development ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation/amortisation commences.

Key judgments – exploration and evaluation expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been identified, the directors are of the continued belief that such expenditure should not be written off since limited exploration and evaluation has been conducted to date and further exploration and evaluation activities in these areas is intended and feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period.

Key estimates – impairment

The Group assesses the recoverable amount of its non-financial assets for impairment whenever there are indicators impairment might exist. When calculating recoverable amount, management makes various estimates and assumptions, including assumptions around recoverable reserves and resources, coal prices and costs of production. In addition management considers any likely transactions to dispose of the assets subject to testing. Actual results may differ from such assumptions.

Key estimates – recoverable reserves and resources

Estimated recoverable reserves and resources are used to determine the depreciation of mine production assets, in accounting for deferred stripping costs and in performing impairment testing. Estimates are prepared by appropriately qualified persons, but will be impacted by forecast commodity prices, exchange rates, production costs and recoveries amongst other factors. Changes in assumptions will impact the carrying value of assets and depreciation and impairment charges recorded in the Statement of Comprehensive Income.

Key estimates – environmental rehabilitation costs

The provisions for rehabilitation costs are based on estimated future costs using information available at the balance sheet date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement may be impacted.

Key judgments – recognition of asset acquisitions

In determining the recognition of asset and business acquisitions, an assessment of the underlying assets and operations of the acquired entity is completed. Where the Group acquires an entity for tenements only, rather than acquiring an operation with clear distinct processes, the acquisition is deemed to be an asset acquisition, rather than a business combination.

Key judgements – Valuation of financial liabilities

Non-derivative financial liabilities, including the long term borrowings and the special interest component of the long term bond facility, are recorded on initial recognition at fair value. When available, the fair values on initial recognition is measured based on quoted prices in active markets and observable market data. When not available, their fair value is measured with using valuation techniques, including present value income approaches. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The assumptions applied in the determination of the valuation of these financial instruments are described in more detail in Note 25.

v) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent Company, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent Company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

w) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); whose operating results are regularly reviewed by the entity's chief operating decision-makers to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available.

The operating segments have been identified based on the information provided to the chief operating decision-makers, the Board of Directors.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- nature of the products and services;
- nature of the production processes;
- type or class of customer for the products and services;
- methods used to distribute the products or provide the services and if applicable;
- nature of the regulatory environment; and
- operate in the same geographical area.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

x) Adoption of new and revised accounting standards

(i) Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as of 1 July 2016.

Several amendments apply for the first time in the current year. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments, Part C

Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments.

AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality

The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.

(ii) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2016 are outlined below:

AASB 9 Financial Instruments

A finalised version of AASB 9 which contains accounting requirements for financial instruments, replacing AASB 139 Financial Instruments: Recognition and Measurement. The standard contains requirements in the areas of classification and measurement, impairment, hedge accounting and derecognition. The Group has not yet determined the potential impact of the amendments on the Group's financial report. This standard applies to annual reporting periods beginning on or after 1 January 2018.

AASB 15 Revenue from Contracts with Customers

AASB 15 provides a single, principles-based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The Group is in the process of determining the potential impact of the amendments on the Group's financial report. This standard applies to annual reporting periods beginning on or after 1 January 2018.

AASB 16 Leases

IFRS 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. IFRS 16 contains disclosure requirements for lessees. This standard applies to annual reporting periods beginning on or after 1 January 2019. The Group has not yet determined the potential impact of these amendments on the Group's financial report.

AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle

The subjects of the principal amendments to the Standards in respect to AASB 119 Employee Benefits can be described below:

- Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.

Note 2 Sales and Other Income

	2016 $	2015 $
Sales Revenue		
▪ Coal Sales	**9,902,188**	-

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 standard, prior to commercial product 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 the revenue in the Statement of Comprehensive Income.

	2016	2015
Other Income		
▪ Interest received	**13,415**	20,465
▪ Interest, fees and penalties irrevocably waived	**39,653,996**	-
▪ Others	**4,464**	1,187
	39,671,875	21,652

On 30 June 2016 the Company's financiers irrevocably waived all unpaid, outstanding interest, fees and expenses associated with the following facilities: Convertible Note, Amortising Note, Working Capital, Additional Working Capital, Debt Facility and Additional Debt Facility.

Note 3 Expenses

	2016 $	2015 $
▪ Cost of Coal Sales	**14,370,135**	-

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.

	2016 $	2015 $
Finance costs:		
▪ Interest expense on interest bearing loans	**8,209,623**	1,577,148
▪ Finance expense on convertible notes and amortising notes (refer to Note 17(f) and (g))	**18,990,172**	5,865,505
▪ Finance costs	**252,791**	804,259
	27,452,586	8,246,912

During the prior period, $13,941,067 was capitalised to mine development at a capitalisation rate of 65%. The interest expense on interest bearing loans and the finance expense on convertible and amortising notes relates to the interest and finance charges incurred during the year until the point the interest was irrevocably waived.

	2016 $	2015 $
Consulting fees:		
▪ Legal fees	**606,818**	726,325
▪ Advisory fees	**2,138,927**	-
▪ Accounting fees	**587,526**	314,759
▪ Due diligence fees	**1,177,007**	-
▪ Materials Handling	**220,901**	-
▪ Other professional fees	**503,423**	1,221,533
	5,234,602	2,262,617
Rent expense:		
▪ Exploration permits for coal rent	**444,847**	784,850
▪ Office and car park rent	**102,094**	139,003
	546,941	923,853
Employee benefits expense:		
▪ Salaries and wages	**1,145,445**	2,464,767
▪ Directors and key management personnel	**2,569,812**	277,220
▪ Other expenses	**433,509**	214,989
▪ Share-based payments	**-**	(42,066)
	4,148,766	2,914,910
Foreign Currency (Gain)/Loss	**3,311,870**	22,261,852

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).

	2016 $	2015 $
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

Note 4 Remuneration of auditors

	2016 $	2015 $
Remuneration of the auditor of the parent entity for:		
▪ Auditing or reviewing the financial statements	**225,736**	370,768
▪ Tax compliance services and other non-audit services	**-**	10,300
	225,736	381,068

Note 5 Earnings per share

a) Reconciliation of earnings to profit or loss from continuing operations

	2016 $	2015 $
Loss after income tax	**(51,785,671)**	(43,325,859)
Loss attributable to non-controlling equity interest	**(377,841)**	(236,249)
Loss after income tax attributable to equity holders of the Company	**(51,407,830)**	(43,089,610)

b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	2016 No.	2015 No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**1,638,320,013**	943,354,220
Adjustments for calculation of diluted EPS	**-**	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**1,638,320,013**	943,354,220

Note 6 Income tax expense

	2016 $	2015 $
Current tax	**-**	950

a) Reconciliation of income tax to accounting loss:

	2016 $	2015 $
Tax at the domestic rates applicable to losses in the countries where the Group operates	**(13,099,361)**	(12,846,961)
Add (less) tax effect of:		
▪ Non-deductible expenses	**16,563,295**	9,209,600
▪ Black hole project	**-**	(71,720)
▪ Income not subject to tax	**(10,853,448)**	(1,578,087)
▪ Deferred tax assets not recognised	**7,389,514**	5,288,118
Income tax attributable to entity	**-**	950

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

The Australia, Singapore and Mongolia corporate tax rates were 30% (2015: 30%), 17% (2015: 17%) and 25% (2015: 25%) respectively for the year ended 30 June 2016.

b) Accumulated tax losses

The Group had accumulated tax losses as at 30 June 2016 of $63,238,604 and $44,867,672 for Australia and Mongolia respectively (2015: Australia - $60,804,814 and Mongolia - $33,829,223). No net deferred tax asset has been recognised on the basis that utilisation of tax losses is not currently considered probable.

The taxation losses will be realisable only if:

i. the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the losses and deductions to be realised;

ii. the Group continues to comply with the conditions for deductibility imposed by the law; and

iii. no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

Note 7 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.

The Group is managed primarily on a geographic basis. Operating segments are therefore determined on the same basis.

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 before 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 development activities within Australia.
Mongolia	Coal exploration and extraction activities within Mongolia including the transition from developer to producer during the financial year

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-makers 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. In addition, corporate re-charges were allocated to the reporting segments.

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. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables, and certain direct borrowings.

d) Segment performance

	Australia		Mongolia		Unallocated		Total	
	2016 $	2015 $	**2016 $**	2015 $	**2016 $**	2015 $	**2016 $**	2015 $
Reconciliation of segment net loss to consolidated net loss after tax:								
Revenue	**-**	**-**	**9,902,188**	**-**	**-**	**-**	**9,902,188**	**-**
Cost of Sales	**-**	**-**	**(14,370,135)**	**-**	**-**	**-**	**(14,370,135)**	**-**
Administration and operating costs	**-**	-	**-**	(2,227,084)	**-**	-	**-**	(2,227,084)
Exploration permits for coal rent	**(444,847)**	(784,850)	**(102,094)**	-	**-**	-	**(546,941)**	(784,850)
Interest, fees and penalties irrevocably waived	**-**	-	**-**	-	**39,653,996**	-	**39,653,996**	-
Interest revenue	**6,881**	10,967	**6,534**	9,498	**-**	-	**13,415**	20,465
Other revenue	**285**	1,187	**4,179**	-	**-**	-	**4,464**	1,187
Employee costs	**-**	-	**-**	-	**(4,148,766)**	(2,914,910)	**(4,148,766)**	(2,914,910)
Marketing Fees	**-**	-	**(2,057,095)**	-	**-**	-	**(2,057,095)**	-
Exploration deposit write-off	**(646,224)**	-	**-**	-	**-**	-	**(646,224)**	-
Other costs	**(12,845,167)**	-	**(2,480,619)**	2,422,186	**-**	(30,408,580)	**(15,325,786)**	(27,986,394)
Reversal of impairment/(Impairment) of exploration and evaluation assets	**(13,360,444)**	563,353	**(23,447,808)**	(847,801)	**-**	-	**(36,808,252)**	(284,448)
Loss on disposal of subsidiary	**-**	(1,000,313)	**-**	-	**-**	-	**-**	(1,000,313)
Share of profit of associated company	**(3,949)**	98,350	**-**	-	**-**	-	**(3,949)**	98,350
Finance Cost	**-**	-	**-**	-	**(27,452,586)**	(8,246,912)	**(27,452,586)**	(8,246,912)
Income taxes	**-**	-	**-**	(950)	**-**	-	**-**	(950)
Net loss after tax per Statement of Comprehensive Income	**(27,293,465)**	(1,111,306)	**(32,544,850)**	(644,151)	**8,052,644**	(41,570,402)	**(51,785,671)**	(43,325,859)

e) Segment assets and liabilities

	Australia		Mongolia		Unallocated		Total	
	2016 $	2015 $	**2016 $**	2015 $	**2016 $**	2015 $	**2016 $**	2015 $
Segment assets								
Plant and equipment	**131,075**	153,100	**115,065,946**	128,987,449	**-**	-	**115,197,021**	129,140,549
Exploration and evaluation assets	**35,164,100**	48,984,850	**14,187,860**	9,588,638	**-**	-	**49,351,960**	58,573,488
Inventory	**-**	-	**539,220**	-	**-**	-	**539,220**	-
Trade and other receivables	**392,968**	297,542	**7,885,832**	5,611,479	**-**	-	**8,278,800**	5,909,021
Cash and cash equivalents	**723,526**	189,847	**475,657**	497,140	**-**	-	**1,199,183**	686,987
Intangible assets	**30,114**	32,797	**731,744**	384,459	**-**	-	**761,858**	417,256
Investment in an associate	**1,386,457**	1,390,404	**-**	-	**-**	-	**1,386,457**	1,390,404
Other assets	**495,380**	418,707	**2,100,620**	1,808,113	**-**	-	**2,596,000**	2,226,820
Total assets per Statement of Financial Position	**38,324,620**	51,467,247	**140,986,879**	146,877,278	**-**	-	**179,310,499**	198,344,525
Segment Liabilities								
Trade and other payables	**2,259,349**	16,319,663	**24,705,004**	16,599,927	**-**	-	**26,964,353**	32,919,590
Borrowings	**-**	-	**-**	-	**161,157,215**	137,860,145	**161,157,215**	137,860,145
Other financial liabilities	**-**	-	**-**	-	**7,880,454**	-	**7,880,454**	-
Provisions	**211,425**	53,696	**747,703**	1,015,547	**-**	-	**959,128**	1,069,243
Total liabilities per Statement of Financial Position	**2,470,774**	59,192,745	**25,452,707**	17,615,474	**169,037,669**	137,860,145	**196,961,150**	171,848,978

f) Cash flow information

	Australia		Mongolia		Total	
	2016 $	2015 $	**2016 $**	2015 $	**2016 $**	2015 $
Payments for acquisition of property, plant and equipment	**-**	(19,503)	**(3,734,802)**	(18,634,015)	**(3,734,802)**	(18,653,518)
Payments for acquisition of exploration, and evaluation	**(185,918)**	(335,849)	**(378,614)**	(395,361)	**(564,532)**	(731,210)
Total	**(185,918)**	(355,352)	**(4,113,416)**	(19,029,376)	**(4,299,334)**	(19,384,728)

g) Other Segment Information

Revenue from external customers is attributed to the location based on the point where ownership of the goods is transferred to the final customer

Revenue by geographic location

	2016	2015
	$	$
Mongolia	9,902,188	-
Total Revenue	9,902,188	-

h) Major Customers

The Group has two major customers in Mongolia which account for 93.7% (2015: NIL) of external revenue.

Note 8 – Business Combination

Acquisition of Enkhtunkh Orchlon LLC

On 1 October 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	12,005,190
	13,068,258
Liabilities	
Trade & Other Payables	(60,447)
Borrowings	(4,453,491)
	(4,513,938)
Total Identifiable Net Assets at Fair Value	8,554,320
Purchase Consideration	8,554,320

The purchase consideration was not paid in cash and this liability was settled on 30 June 2016 through the new Bond and Super Senior Note facilities.

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

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.

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.

From the date of acquisition, Enkhtunkh Orchlon LLC has contributed NIL revenue and $256,085 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 consideration to Noble was paid to Noble Resources International Pte Ltd through its additional subscription in the Bond which had all conditions precedent satisfied on 30 June 2016. Therefore, the effective consideration paid date is 30 June 2016.

Note 9 - Inventory

	2016 **$**	2015 $
Total	**539,220**	-

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 realisable value.

Note 10 Trade and other receivables

	2016 **$**	2015 $
CURRENT		
GST receivable	**141,837**	14,561
Other receivables	**59,570**	7,110
Total	**201,407**	21,671
NON-CURRENT		
VAT receivable	**7,833,038**	5,654,434
Loan receivable	**244,355**	232,916
Total	**8,077,393**	5,887,350

The following table details the Group's trade and other receivables exposure to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid to the Group.

At 30 June 2016, the ageing analysis of receivables is as follows:

	Gross amount $	< 30 $	31-60 $	>61 and impaired $	>61 and not impaired $
2016					
CURRENT					
GST receivable	**141,837**	**141,837**	**-**	**-**	**-**
Other receivables	**59,570**	**59,570**	**-**	**-**	**-**
Total	**201,407**	**201,407**	**-**	**-**	**-**
NON-CURRENT					
VAT receivable	**7,833,038**	**-**	**-**	**-**	**7,833,038**
Loan receivable	**244,355**	**-**	**-**	**-**	**244,355**
Total	**8,077,393**	**-**	**-**	**-**	**8,077,393**
2015					
CURRENT					
GST receivable	14,561	11,359	3,202	-	-
Other receivables	7,110	7,110	-	-	-
Total	21,671	18,469	3,202	-	-
NON-CURRENT					
VAT receivable	5,654,434	-	-	-	5,654,434
Loan receivable	232,916	-	-	-	232,916
Total	5,887,350	-	-	-	5,887,350

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

Note 11 Other assets

	2016	2015
	$	$
CURRENT		
Prepayments	**393,544**	360,725
Deposits	**76,529**	1,866,095
Total	**470,073**	2,226,820
NON-CURRENT		
Prepayments	**-**	-
Deposits	**2,125,927**	-
Total	**2,125,927**	-

In addition to the balances included in the table above, in prior periods the Group paid US$2 million (AU$2,066,867) as a deposit in respect of the potential purchase of shares in Mongolian Petroleum Corporation LLC (Mongolian Petroleum). As at 30 June 2014 the Group had not started due diligence in respect of this acquisition (as is allowed under the purchase contract) and accordingly the purchase had not been completed. Under the terms of the agreement the deposit is refundable to the Group at any time. At 30 June 2014, management assessed the recoverability of the deposit and determined it was appropriate to impair the asset recorded. This was based on an assessment of the ability of Mongolian Petroleum to repay the US$2 million, rather than the legal agreements in place. Subsequent to the 2014 financial year end, following a due diligence process, the Company has decided not to proceed with the transaction. Notwithstanding the impairment the Company is seeking to recover the deposit. The Company advises that action to recover US$2 million is ongoing.

Note 12 Property, plant and equipment

	2016	2015
	$	$
LAND AND BUILDINGS		
At cost	**165,128**	165,128
Accumulated depreciation	**(126,107)**	(102,969)
	39,021	62,159
CAPITAL WORKS IN PROGRESS		
At cost	**12,436,420**	12,328,921
PLANT AND EQUIPMENT		
At cost	**5,411,202**	4,753,676
Transfers	**168,834**	(440,568)
Accumulated depreciation	**(1,084,642)**	(582,192)
	4,495,394	3,730,916
MINE DEVELOPMENT		
At cost*	**101,509,963**	113,018,553
Accumulated depreciation	**(3,283,777)**	-
	98,226,186	113,018,553
TOTAL	**115,197,021**	129,140,549

*Amount after off-set with proceeds from sales of coal and impairment charges.

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 financial 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	28,725	-	251,462	2,653,543	**2,933,730**
Effects of foreign exchange on opening balance	247,608	-	65,846	1,314,448	**1,627,902**
Acquisition of Subsidiary	-	-	781,470	-	**781,470**
Disposal	-	-	(684)	-	**(684)**
Transfer from other assets	(168,834)	-	168,834	-	**-**
Impairment Expense	-	-	-	(15,476,581)	**(15,476,581)**
Depreciation expense	-	(23,138)	(502,450)	(3,283,777)	**(3,809,365)**
Balance at 30 June 2016	12,436,420	39,021	4,495,394	98,226,186	**115,197,021**

The assets identified above are secured to the Borrowings as outlined in Note 17(h).

	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
Effect 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	-	-	(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

Note 13 Intangible Assets

	2016 $	2015 $
Computer software		
Cost	**490,963**	460,716
Accumulated amortisation	**(117,502)**	(69,588)
	373,461	391,128
Other intangible assets		
Cost	**394,600**	29,128
Accumulated amortisation	**(6,201)**	(3,000)
	388,399	26,128
Total	**761,860**	417,256

Movements in carrying amounts of intangible assets

Movement in the carrying amount for each class of intangible assets between the beginning and the end of the current financial year:

	Computer software $	Other $	Total $
Balance at 1 July 2015	**391,128**	**26,128**	**417,256**
Additions	**21,050**	**286,748**	**307,798**
Acquisition of Subsidiary	**-**	**78,105**	**78,105**
Amortisation	**(47,914)**	**(3,201)**	**(51,115)**
Effect of foreign exchange on opening balance	**9,197**	**619**	**9,816**
Balance at 30 June 2016	**373,461**	**388,399**	**761,860**
Balance at 1 July 2014	304,682	26,128	330,810
Additions	93,564	-	93,564
Disposal	(11,892)	-	(11,892)
Amortisation	(45,499)	-	(45,499)
Effect of foreign exchange on opening balance	50,273	-	50,273
Balance at 30 June 2015	391,128	26,128	417,256

Note 14 Exploration and evaluation assets

	2016 $	2015 $
Exploration and evaluation assets - at cost	49,351,960	58,573,488

The assets identified above are secured to the Borrowings as outlined in Note 17(h).

a) Movements in carrying amounts of exploration and evaluation assets

During the year ended 30 June 2016, the Group capitalised $564,532 (2015: $731,210) worth of expenditure as exploration expenditure. 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:

	2016 $	2015 $
Balance at 1 July	**58,573,488**	79,392,258
Exploration expenditure	**564,532**	731,210
Acquisition of 12600	**12,005,190**	-
Disposal of subsidiary (Note 24(c))	**-**	(3,611,111)
Transfer to development assets	**-**	(17,812,659)
Write-off	**(646,224)**	(961,892)
Impairment losses (refer below)	**(21,331,671)**	(284,448)
Effects of foreign exchange on opening balance	**186,645**	1,120,130
Balance at 30 June	**49,351,960**	58,573,488

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 30 June 2016, 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. 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$104.64/t over the life of mine and a post-tax discount rate of 16.5%.

A non-cash impairment expense of $15,476,581 was recognised to the South Gobi CGU at 31 December 2015. The Company performed additional impairment testing at 30 June 2016 and no additional impairment expense was recognised. The total impairment expense for the full year was $15,476,581. The recoverable amount of the asset is its fair value less costs of disposal, being $115,065,946. The current period impairment is reflective of the depressed market conditions and lower coal prices.

(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. The CGUs of the exploration assets are determined on a geographical basis, with the Australian exploration assets and Mid Gobi exploration assets being considered separate CGUs. The South Gobi exploration assets form part of the South Gobi mining CGU described above.

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

The recoverable amount of the exploration assets are $49,351,960.

(iii) Summary

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

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

In FY2015, a review of the exploration and evaluation assets was completed which resulted in a net impairment of $284,448 – allocated to Mongolian tenements totalling $847,801and a net impairment reversal to Australia of $563,353.

(iv) Sensitivities

Asset valuations, based on cash flow projections, rely on a range of assumptions, such as price, production costs, yield and production volumes that are subject to change. Accordingly, asset values are sensitive to changes in key assumptions. As all CGUs have been written down to their recoverable amounts at 30 June 2016, 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.

Given the operating experience, the Group have identified that the fair value calculations for the South Gobi CGU are most sensitive to the coal price assumption and there is estimation uncertainty implicit in the coal price assumptions. The following changes in the coal price assumptions will result in the following changes to the impairment figures

- A 10% decrease in coal price will result in a $48.0 million increase in impairment of South Gobi
- A 5% decrease in the coal price will result in a $24.0 million increase in impairment of South Gobi
- A 5% increase in the coal price will result in an impairment reversal of $15.5 million of South Gobi
- A 10% increase in the coal price will result in an impairment reversal of $15.5 million of South Gobi

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. The exploration assets at 30 June 2016 are carried at their recoverable amount and are sensitive to future changes to commodity prices and foreign exchange movements.

c) Interest in mining tenements

Tenure number	Location	2016	2015
1250	Charters Towers, Queensland Australia	64.40%	64.40%
1260	Charters Towers, Queensland Australia	64.40%	64.40%
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%
MDL 3002	Emerald, Queensland Australia	35.78%	-
1822	Rockhampton, Queensland Australia	100%	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%
2047	Mount Isa, Queensland Australia	100%	100%
2049	Charters Towers, Queensland Australia	100%	100%
2105	Charters Towers, Queensland Australia	100%	100%
2256	Emerald, Queensland Australia	100%	100%
2503	Charters Towers, Queensland Australia	100%	100%
2504	Charters Towers, Queensland Australia	100%	100%

XV-12929	Mid Gobi, Mongolia	100%	100%
XV-13780	South Gobi, Mongolia	100%	100%
MV-19149	South Gobi, Mongolia	100%	-
XV-12600	South Gobi, Mongolia	100%	-
XV-15466	Mid Gobi, Mongolia	100%	100%
MV-16971	South Gobi, Mongolia	83.87%	83.87%
MV-17162	South Gobi, Mongolia	100%	100%
XV-17163	South Gobi, Mongolia	100%	100%
XV-5264	South Gobi, Mongolia	100%	100%
XV-18111	South Gobi, Mongolia	100%	100%
XV-18513	South Gobi, Mongolia	100%	-
XV-20268	South Gobi, Mongolia	100%	.
XV-18142	Uvs, Mongolia	100%	-
XV-18797	Uvs, Mongolia	100%	-
XV-18802	Uvs, Mongolia	100%	-
XV-20281	Uvs, Mongolia	100%	.
XV-20539	Uvs, Mongolia	100%	.
XV-20139	East Gobi, Mongolia	100%	.
XV-20329	East Gobi, Mongolia	100%	.
14522X	South Gobi, Mongolia	100%	100%
13352X	Mid Gobi, Mongolia	100%	100%
5262X	South Gobi, Mongolia	83.87%	83.87%
25374NE	Baruun Termes, Mongolia	100%	100%

Note 15 Investment in an associate

The Group has a 35.78% interest in Springsure Mining Pty Ltd ("Springsure"), which is involved in exploration for minerals in Australia. The Group's interest in Springsure is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information of the Group's investment in Springsure:

	2016	2015
	$	$
Current assets	**1,549**	213,544
Non-current assets	**3,997,103**	3,725,491
Current liabilities	**(123,702)**	(53,054)
Net assets	**3,874,950**	3,885,981
Summarised consolidated statement of profit or loss and other comprehensive income		
Revenue	**-**	307,996
Expenses	**(11,031)**	(44,828)
Total comprehensive (loss)/income	**(11,031)**	263,168
Movement in the carrying amount of investment in an associate		
As at 1 July	**1,390.404**	-
Recognition as equity investment in an associate (Note 24(c))	**-**	1,292,054
Share of (loss)/profit of an associate	**(3,949)**	98,350
As at 30 June	**1,386,455**	1,390,404

As at 30 June 2014, the Group held a 50.78% interest in Springsure, for details on disposal of a subsidiary that results in loss of control, please refer to Note 24(c) for further details.

The associate requires the shareholder's consent to distribute its profits. The Group does not foresee the shareholders giving such consent at the reporting date.

The associate had no contingent liabilities or capital commitments as at 30 June 2016 (30 June 2015: NIL).

Note 16 Trade and other payables

	2016	2015
	$	$
CURRENT		
Unsecured liabilities		
Trade payables	21,837,717	258,982
Interest accrued	48,604	12,113,173
Accrued expenses	5,078,032	20,547,435
Total	26,964,353	32,919,590

Due to their short term nature, trade and other payables have a carrying value which approximates their fair value.

Note 17 Borrowings

		2016 $	2015 $
CURRENT			
Working capital facilities	(d)	**-**	22,135,418
Fuel exclusivity facility	(b)	**11,449,927**	3,472,222
Interest bearing loans	(e)	**-**	27,777,777
Convertible notes	(f)	**-**	13,020,787
Amortising notes	(g)	**-**	27,113,145
Super senior note facility A	(a)	**16,159,439**	-
Total		**27,609,366**	93,519,349
NON-CURRENT			
Amortising notes	(g)	**-**	44,340,796
Listed (Euroclear) bond	(a)	**122,741,684**	-
Super senior note facility B	(a)	**6,733,100**	-
Non-interest bearing loan	(c)	**4,073,065**	-
Total		**133,547,849**	44,340,796
Total borrowings		**161,157,215**	137,860,145

The above borrowings and facilities are denominated in USD and are subject to translation at every reporting date. The table below outlines the nominal USD borrowings amount.

Amount expressed in USD		
CURRENT		
Working capital facilities	**-**	17,000,000
Fuel exclusivity facility	**8,502,716**	2,666,667
Interest bearing loans	**-**	21,333,333
Convertible notes	**-**	10,000,000
Amortising notes	**-**	20,822,860
Super senior note facility A	**12,000,000**	-
Total	**20,502,716**	71,822,860
NON-CURRENT		
Amortising notes	**-**	34,053,731
Listed (Euroclear) bond	**91,147,975**	-
Super senior note facility B	**5,000,000**	-
Non-interest bearing loan	**3,000,000**	-
Total	**99,147,975**	34,053,731
Total borrowings in USD	**119,650,691**	105,876,591

a) Listed (Euroclear) Bond, Super Senior Note A and Super Senior Note B

On 30 June 2016, the Company entered into 3 new facilities (Listed Bond, Super Senior Note A and Super Senior Note B). The proceeds from these facilities were used to extinguish the Company's existing facilities except for the Fuel Exclusivity and non-interest bearing acquired from Enkhtunkh Orchlon LLC.

Super Senior Note A

The Super Senior Note A facility was fully drawn down on 30 June 2016 for the amount of US$12,000,000. The facility bears an interest rate of 15% with interest payable on the repayment date. The repayment date is 1 year from the issue date being 30 June 2017.

Super Senior Note B

The Super Senior Note B facility was fully drawn down on 30 June 2016 for the amount of US$5,000,000. The facility bears an interest rate of 15% repayable at 30 June 2017. The expiry date is 1 year from the issue date being 30 June 2017. On this date, the Group has an unconditional right to convert the outstanding amounts (principle and interest) into the Listed (Euroclear) bonds with repayment due on the same terms and conditions of the bond.

Listed (Euroclear) Bond

The Listed (Euroclear) Bond was fully drawn down on 30 June 2016 for the amount of US$97,000,000 (purchase value of the bonds). The facility bears a cash interest rate of 12% per annum, payable 6 monthly in arrears except for the first interest payment which is not due until 12 months from bond issue. The maturity date of the facility is 30 June 2021 at which point the redemption value of the bonds is due and payable for the amount of US$124,000,000. The value uplift applied between the redemption value and purchase price, along with the interest, implies an annual cumulative interest rate of 21.09%.

This facility includes a special interest component which has been treated as a separate non-derivative financial liability (note 18). This instrument, which represents an incremental cost that is directly attributable to the issue of the bond, has been treated as a transaction cost and offset against the fair value on initial recognition.

The facilities are subject to debt covenants and obligations to make interest and principal payments on set dates. Should these terms not be met by the Company an event of default may eventuate.

b) Fuel exclusivity agreement:

On 14 November 2013, the Company entered into a Fuel Exclusivity agreement with Noble for US$8,000,000. The facility bears an implied annual interest rate of 9.7% and original maturity was on 11 November 2015. The facility has been renegotiated with Noble on numerous occasions.

The most recent terms of the agreement requires the Group to repay the principle and implied interest on a monthly basis, however only one payment of US$100,000 was made during the financial year. The carrying value of the facility at 30 June 2016 represents the principle and interest owing in accordance with the payment schedule at this date. The facility is due on 31 December 2016.

c) Non-Interest bearing loan

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 repayment on 1 October 2020.

d) Working capital facilities

Working capital facility: On 24 September 2012, the Company entered into a working capital 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 the margin was increased to 10.5% after commencement of negotiations to defer the principle repayment. This rate was further increased to a fixed 12.5% from 8 February 2016.

This facility was extinguished on 30 June 2016 through the new Bond and Super Senior Note facilities.

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"). The facility bore an annual interest rate of LIBOR+10.5%., which was increased to a fixed 12.5% on 8 February 2016.

This facility was extinguished on 30 June 2016 through the new Bond and Super Senior Note facilities. Interest bearing loans

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) plus a margin of 7.25% however from June 2014 this was increased to 10.5% after commencement of negotiations to defer principle repayments. This rate was further increased to a fixed 12.5% from 8 February 2016.

This facility was extinguished on 30 June 2016 through the new Bond and Super Senior Note facilities.

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 (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 principle repayments. This rate was further increased to a fixed 12.5% from 8 February 2016.

This facility was extinguished on 30 June 2016 through the new Bond and Super Senior Note facilities.

e) Convertible notes

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 Groups Mongolian operations. The convertible notes bear an interest rate of 12% p.a. and mature on the 8 July 2015. Principle terms are:

- 1,000 convertible notes, each with a face value of US$10,000
- Term: 18 months from the date of issue, being 8 July 2015 (the "maturity date")
- Conversion price: $0.30 (subject to standard adjustments)
    - During the financial year, the exercise price has been reset to AU$0.06 per share as a result of the Rights Placement in July.
- Dates for conversion: at any time on 8 January 2014 and up to seven business days prior to the maturity date

At the October 2015 Extraordinary General Meeting held shareholders approved a change in maturity date (extended to 31 January 2016) and conversion price (changed to 30 Day In Arrears Dealing Day VWAP).

On 29 January 2016 conversion notices were received for US$5,000,000 (50% of the convertible notes). Shares were subsequently issued to Rastas Limited, Acecrest Investments Limited, and Island Sands Corporation. The remaining US$5,000,000 outstanding on the facility was extinguished on 30 June 2016 through the new Bond and Super Senior Note Facilities.

f) 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 US$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 an original maturity of 8 January 2017.

Throughout the financial year the Company successfully negotiated waivers from OCP Asia to defer interest and principal repayments. This facility was extinguished on 30 June 2016 through the new Bond and Super Senior Note facilities.

The amortising notes carried detachable warrants for an amount equal to 18.5% of the face value of the amortising notes as calculated in Australian dollars at the average USD/AUD exchange rate quoted on Bloomberg on the date of issue. During the financial year, these warrants were cancelled and replaced with new detachable warrants on 26 February 2016 with terms as follows:

- 126,308,306 detachable warrants
- Expiry date: five years from the date of issue, being 26 February 2016
- Exercise price: is $0.0262 per share, unless a cross listing on the SGX has completed, in which case the exercise price is the lower of the Cross Listing Price and the Market Price.
- Date for exercise: from 26 February 2016 and up to 5pm on the expiry date (26 February 2016)
- Fully transferable (either in whole or part) to another sophisticated or professional investor

g) Security

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.

For the financial year, except from 30 June 2016, TerraCom through its relevant subsidiaries provided:

I) Mongolian law share pledges in favour of Noble over:

- 100% of the shares in Alag Tvesh held by Tellus Marketing Pte. Ltd.; and
- 100% of the shares in Tsagaan held by Terra Energy Mongolia.

II) The other securities provided include:

- Singapore law charges of proceeds accounts (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).

For the financial year, except from 30 June 2016, 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.

From 30 June 2016 as part of the Bond and Super Senior Note facilities establishment there is a general security agreement in place which encompasses TerraCom, its subsidiaries assets and its subsidiaries equity, except for the stockpile pledges to Noble for prepayment and working capital facilities it separately provides.

Note 18 Other Financial Liabilities

	2016	2015
	$	$
NON-CURRENT		
Special Interest Liability	**7,880,454**	-
	7,880,454	-

In connection with the issuance of the Listed (Euroclear) Bond, a special interest instrument was granted to the bond holders. This instrument requires the Company to pay a non-refundable payment equal to 0.75% to 1.75% of mine gate revenues for the duration of the bond (5 years). The key terms include:

- Special interest is payable at a rate of 1.75% of mine gate revenue until the Company acquires the Blair Athol mine in Queensland
- Once the Blair Athol mine is acquired, the special interest decreases to 0.75% of total mine gate revenue generated by the Company
- The special interest is payable on 30 June 2017 and every 6 months subsequent, up to the maturity date of the Bonds (30 June 2021)

This special interest has been treated as a cost of issuing the Listed (Euroclear) bond and has been offset against the carrying value of the debt in note 17.

Note 19 Provisions

	Employee entitlements	Environmental rehabilitation	Total
	$	$	$
At 1 July 2015	53,695	1,015,548	1,069,243
Effects of foreign exchange on opening balance	-	20,245	20,245
Arising/(utilised) during the year	209,243	(339,603)	(130,36)
At 30 June 2016	262,938	696,190	959,128
Current	**262,938**	**-**	**262,938**
Non-current	**-**	**696,190**	**696,190**
	262,938	**696,190**	**959,128**

	Employee entitlements	Environmental rehabilitation	Total
	$	$	$
At 1 July 2014	130,151	660,152	790,303
Arising/(utilised) during the year	(76,456)	355,396	278,940
At 30 June 2015	53,695	1,015,548	1,069,243
Current	53,695	-	53,695
Non-current	-	1,015,548	1,015,548
	53,695	1,015,548	1,069,243

Note 20 Reserves

		2016	2015
		$	$
Foreign currency translation reserve	(a)	**(4,139,090)**	(2,864,418)
Acquisition reserve	(b)	**(36,684,681)**	(36,684,681)
Share option and warrant reserve	(c)	**7,958,848**	7,958,848
Share based payment reserve	(d)	**-**	-
		32,864,923	(31,590,251)

a) Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries and exchange differences on intercompany loans deemed net foreign investments. The exchange differences on intercompany loans amounted to a foreign currency gain of $9,464,128.

	2016 $	2015 $
Balance at start of period	(2,864,418)	(10,938,330)
Foreign currency gain/(loss) during the period	(1,274,672)	8,073,912
Balance at end of period	(4,139,090)	(2,864,418)

b) Acquisition reserve

Acquisition reserve records the difference between consideration paid and the proportionate book value of the non-controlling interest acquired by the Company. Refer to Note 20(b) for additional details.

	2016 $	2015 $
Balance at start of period	(36,684,681)	(29,675,375)
Decrease during the period	-	(7,009,306)
Balance at end of period	(36,684,681)	(36,684,681)

c) Share option and warrant reserve

The share option and warrant reserve records the fair value of share options and warrants issued by the Group. During the year ended 30 June 2014, the Group issued amortising notes which had an option for conversion into ordinary shares and warrants. The fair value of these warrants, net of transaction costs, amounted to $3,214,820. Refer to Note 17(e) for additional details.

	2016 $	2015 $
Balance at start of period	7,958,848	7,958,848
Increase during the period	-	-
Balance at end of period	7,958,848	7,958,848

d) Share based payments reserve

The Group issued performance rights to the former Group Managing Director, Mr Peter Kane for the financial year ended 30 June 2014. As Mr Peter Kane resigned on 12 December 2014, the performance rights granted to him lapsed consequently.

	2016 $	2015 $
Balance at start of period	-	42,066
Decrease during the period	-	(42,066)
Balance at end of period	-	-

Note 21 Issued capital

	2016 $	2015 $
2,400,931,258 (2015: 1,095,928,523) Ordinary Shares	**195,276,818**	186,354,850

a) Ordinary shares

	No.	$
Balance at 1 July 2015	**1,095,928,523**	186,354,850
Ordinary shares issued in lieu of cash interest to OCP Asia Limited (29 January 2016)	**221,489,379**	1,439,681
Ordinary shares issued on conversion of convertible note (29 January 2016)	**1,023,066,046**	7,059,156
Shares issued to Island Sands in lieu of cash for loan commissions (26 February 2016)	**60,447,310**	423,131
Balance at 30 June 2016	**2,400,931,258**	195,276,818

	No.	$
Balance at 1 July 2014	761,857,020	170,466,514
Rights issue on 7 August 2014	83,333,334	5,000,000
Exercise of options on 11 November 2014 in relation to rights issue on 7 August 2014	72,422,327	4,345,340
Rights issue on 26 February 2015	178,315,842	6,597,686
Share issuances expenses	-	(54,690)
Balance at 30 June 2015	1,095,928,523	186,354,850

During the financial year the following ordinary shares were issued by TerraCom:

- On 29 January 2016, OCP Asia Limited ("OCP Asia") were issued 221,489,379 fully paid ordinary shares in the Company in lieu of Cash interest and fees
  - US$1,019,726.03 interest connected to fully paid ordinary shares
  - 0.7083 AUD:USD
  - Issue price of $0.0065 per ordinary share

- On 29 January 2016 Rastas Limited, Acecrest Investment Limited and Island Sands Corporation issued conversion notices to TerraCom to convert their convertible notes to fully paid ordinary shares :
  - US$5,000,000 converted
  - 0.7083 AUD:USD
  - Issue Price $0.0069 per ordinary share
  - 1,023,066,046 fully paid ordinary shares issued to the parties.

- On 26 February 2016 the Company issued 60,447,310 fully paid ordinary shares to Island Sands Corporation in satisfaction of commission payable:
  - US$300,000 commission
  - 0.7090 AUD:USD
  - Issue Price $0.007 per ordinary share

This transaction with Island Sands is a share based payment, recorded at the fair value of services received in the period. This share based payment is recorded as an expense of $423,131 within Consulting fees in the Consolidated Statement of Comprehensive Income.

b) Capital management

Directors and management control the capital of the Group with a focus to achieve a good debt to equity ratio, provide the shareholders with adequate returns and also 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.

Directors and management effectively manage 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.

Note 22 Cash flow Information

a) Reconciliation of cash balances

	2016 $	2015 $
Cash and cash equivalents	**1,199,183**	686,987
Balance per Statement of Cash Flows	**1,199,183**	686,987

b) Reconciliation of result for the year to cash flows from operating activities

Reconciliation of net income to net cash provided by operating activities:

	2016 $	2015 $
Loss for the year	**(51,785,671)**	(43,325,859)
Non-cash flows in loss:		
- income tax	**-**	950
- depreciation and amortisation	**3,860.480**	104,921
- finance interest, fees and penalties irrevocably waived	**(39,653,996)**	-
- Interest expense on interest bearing loans	**8,209,623**	1,577,148
- Finance expense on convertible notes and amortising notes	**18,990,172**	5,865,505
- currency loss/(gain)	**3,311,870**	22,261,852
- share based payments	**423,131**	(42,066)
- impairment losses	**36,808,252**	284,448
- exploration deposit write off	**646,224**	-
- loss on disposal of subsidiary	**-**	1,000,313
- share of loss/(profit) of associates company	**3,949**	(98,350)
- receipts from customers reclassed under investing activities	**1,353,812**	9,068,458
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	**(2,166,436)**	(2,868,616)
- (increase)/decrease in other assets	**(369,180)**	(222,461)
- (increase)/decrease in inventory	**(539,220)**	-
- increase/(decrease) in trade and other payables	**6,097,489**	3,323,923
- increase/(decrease) in provisions	**(110,115)**	278,940
- increase/(decrease) in other liabilities	**-**	(28,300)
Cash flow used in operating activities	**(14,919,616)**	(2,819,194)

Note 23 Share-based payments

On 26 February 2016 the Company issues 60,447,310 fully paid ordinary shares to Island Sands Corporation in satisfaction of commission payable. The Company utilises its existing capacity under listing rule 7.1A:

- US$300,000 commission
- 0.7090 AUD:USD
- Issue Price $0.007 per ordinary share

This transaction with Island Sands is a share based payment, recorded at the fair value of services received in the period. This share based payment is recorded as an expense of $423,131 within consulting fees in the Consolidated Statement of Comprehensive Income.

Note 24 Subsidiaries

a) Subsidiaries

	Country of incorporation	Percentage owned (%)* 2016	Percentage owned (%)* 2015
Parent entity:			
TerraCom Limited	Australia		
Subsidiaries:			
FTB (QLD) Pty Limited	Australia	**100**	100
Sierra Coal Pty Limited	Australia	**100**	100
Orion Mining Pty Limited	Australia	**100**	100
Terra Energy Limited	Australia	**100**	100
Clyde Park Coal Pty Limited*	Australia	**64.4**	64.4
Guildford Coal (Mongolia) Pty Limited (Note 24(b))*	Australia	**83.87**	83.87
Guildford Infrastructure (Mongolia) Pty Limited	Australia	**100**	100
Subsidiaries of Terra Energy Limited:			
Tellus Commodities Pte Limited	Singapore	**100**	100
Subsidiaries of Guildford Coal (Mongolia) Pty Limited:			
Tellus Marketing Pte Limited	Singapore	**100**	100
Subsidiaries of Guildford Infrastructure (Mongolia) Pty Limited:			
Terra Infrastructure Pte Limited	Singapore	**100**	100
Subsidiaries of Tellus Marketing Pte Limited:			
Alag Tvesh LLC**	Mongolia	**100**	100
Subsidiaries of Tellus Commodities Pte Limited:			
Terra Energy LLC**	Mongolia	**100**	100
Subsidiaries of Terra Infrastructure Pte Limited:			
Enkhtunkh Orchlon LLC**	Mongolia	**100**	-
Subsidiaries of Terra Energy LLC:			
Tsagaan Uvuljuu LLC**	Mongolia	**100**	100

* Percentage of voting power is in proportion to ownership

** These subsidiaries have a 31 December year end for Mongolian statutory purposes to comply with the various laws and regulations within Mongolia.

b) Increase in interest in a subsidiary

On 15 April 2015 (previous financial year), the Company entered into a subscription agreement with its subsidiary, Guildford Coal (Mongolia) Pty Ltd ("Guildford Mongolia"). Under the agreement, Guildford Mongolia agreed to issue 86 new ordinary fully paid shares in the capital of Guildford Mongolia to the Company through the conversion of the amount owing to the Company of US$13,900,000 pursuant to the Loan Agreement dated May 2012 ("Inter-company loan facility") into shares. As a result of this conversion, the Company increased its equity interest from 70% to 83.87%.

c) Disposal of a subsidiary that resulted in loss of control

The Company entered into a management agreement with TheChairmen1 Pty Ltd ("TheChairmen1") dated 26 May 2010 (which was varied on 20 Jul 2010) ("Management Agreement"). Under the terms of the management agreement, TheChairmen1 agreed to provide certain management services to the Company for a fee of $2,500,000 per annum (excluding GST).

On 28 November 2014, the Company received shareholder approval to terminate the management agreement effective 12 September 2014 in return for transferring 15% of the Company's shareholding in Springsure Mining Pty Ltd ("Springsure") to TheChairmen1.

As at 30 June 2014, the Company held 50.78% interest in Springsure and accounted for the investment as a consolidated subsidiary as it was deemed to control Springsure. On termination of the management agreement on 12 September 2014 (previous financial year), TerraCom's shareholding in Springsure decreased to 35.78% and it was deemed to hold significant influence over Springsure. The Company has accounted for the remaining 35.78% interest as an investment in an associate whose fair value at the date of disposal was $1,292,054. In the prior financial year this transaction has resulted in the recognition of a loss in profit or loss, calculated as follows:

	$
Consideration received	-
Net assets derecognised	(3,666,897)
Carrying amount of non-controlling interests	1,322,248
Pre-acquisition reserves derecognised	52,282
Net asset disposed of	(2,292,367)
Investment retained after disposal (Note 15)	1,292,054
Loss on disposal	(1,000,313)

(a) Analysis of assets and liabilities over which control was lost

Assets	
Cash and cash equivalents	101
Trade and other receivables	131,275
Exploration assets (Note 14(a))	3,611,111
Liabilities	
Trade and other payables	75,590
Net assets derecognised	3,666,897

(b) Net cash outflow on disposal of subsidiary

Consideration received in cash and cash equivalent	-
Less: cash and cash equivalents disposal of	(101)
	(101)

d) Subsidiaries with material non-controlling interests

Set out below is the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group, before any inter-group eliminations and consolidation entries:

Name of subsidiaries	Clyde Park Pty Limited		Guildford Coal (Mongolia) Pty Limited	
	2016	**2015**	**2016**	**2015**
Ownership held by NCI	**35.6%**	35.6%	**16.1%**	16.1%
Profit / loss allocated to NCI	**(374,731)**	(10,523)	**(3,110)**	(219,281)
Purchase of NCI	**-**	**-**	**-**	6,957,024
Accumulated NCI of subsidiary	**2,962,481**	3,337,213	**1,323,836**	1,326,946
Current assets	**4,465**	4,873	**1,379**	1,789
Non-current assets	**3,360,837**	3,722,977	**1,323,632**	1,516,759
Current liabilities	**(402,821)**	(390,637)	**(1,176)**	(2,652)
Non-current liabilities	**-**	**-**	**-**	(188,950)
	2,962,481	3,337,213	**1,323,835**	1,326,946

Name of subsidiaries	Clyde Park Pty Limited		Guildford Coal (Mongolia) Pty Limited	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Revenue	**-**	-	**24**	92
Expenses	**(1,052,617)**	(29,558)	**(19,302)**	(703,492)
Profit / loss allocated to NCI	**(1,052,617)**	(29,558)	**(19,278)**	(703,400)
Summarised consolidated statement of cash flows				
Cash flows from/(used in) operating activities	**(20,442)**	-	**(56,091)**	-
Cash flows from/(used in) investing activities	**(14,928)**	(19,121)	**-**	(958,153)
Cash flows from/(used in) financing activities	**34,596**	19,817	**53,539**	930,012
Net increase / (decrease) in cash and cash equivalents	**(774)**	**696**	**(2,552)**	**(28,141)**

Note 25 Fair value measurement

The Group measures all of its financial assets and financial liabilities at amortised cost. No financial instruments are measured at fair value on a recurring basis.

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 - Measurement based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 - Measurement based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Measurement based on 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 that is required to disclose fair value:

			Fair Value & Hierarchy Level			
			Level 1	Level 2	Level 3	Total
30 June 2016	**Note**	**Carrying Value**	**$**	**$**	**$**	**$**
Non-Recurring fair value measurements for which fair value is disclosed						
Trade and other receivables	10	8,278,800	-	201,407	8,077,393	8,278,800
Other Assets	11	2,596,000	-	2,596,000	-	2,596,000
Trade and other payables	16	26,964,353	-	26,964,353	-	26,964,353
Borrowings	17	161,157,215	-	157,084,150	4,073,065	161,157,215
Special interest liability	18	7,880,454	-	-	7,880,454	7,880,454

			Fair Value & Hierarchy Level			
		Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2015			**$**	**$**	**$**	**$**
Non-Recurring fair value measurements for which fair value is disclosed						
Trade and other receivables	10	5,909,021	-	21,671	5,887,350	5,909,021
Other Assets	11	2,226,820	-	2,226,820	-	2,226,820
Trade and other payables	16	32,919,590	-	32,919,590	-	32,919,590
Borrowings	17	137,860,145	-	137,860,145	-	137,860,145
Special interest liability	18	-	-	-	-	-

Valuation techniques and inputs used to measure fair values.

Fair values

Trade and other receivables

The carrying value of current trade and other receivables approximates its fair value given the short term nature of the receivable.

Non-current trade and other receivables are measured at amortised cost. The fair value of these receivables is determined by discounting the future expected payments using an appropriate discount rate. Maturities of these amounts are not fixed, and determined upon meeting certain milestones (such a generating revenues to recover VAT receivables), and operational outcomes which have been estimated by management.

Other Assets

The carrying value of current other assets approximates its fair value given the short term nature of the asset. Non-current other assets are measured at amortised cost. The fair value of these assets is determined by discounting the future expected payments using an appropriate discount rate. These asset fair values are assumed at their carrying value as they represent cash held on deposit with no fixed maturity.

Trade and other payables

The carrying value of current trade and other payables approximates its fair value given the short term nature of the liability.

Borrowings

The fair value of Listed Bond, Super Senior Note A and Super Senior Note B are measured at amortised cost. However the fair value equals the carrying value at 30 June 2016 as these facilities were issued on 30 June 2016.

The Non-interest bearing loan was acquired by the Group during the acquisition of Enkhtunkh Orchlon LLC on 1 October 2016 and has been fair valued as at the date of acquisition. It is measured at amortised cost, however as the facility was fair valued during the period the fair value approximates the carrying value at 30 June 2016.

The fair value of the Fuel Exclusivity Facility approximates its carrying value at 30 June 2016 due to its short term nature.

Special interest liabilities

The fair value of special interest liability is determined by applying a present value income approach to the estimated mine gate revenues projected over the duration of the instrument, multiplied by the special interest rate and discounted using an appropriate discount rate.

There were no changes during the period in the valuation techniques used by the Group to determine fair values.

Note 26 Capital and leasing commitments

a) Finance leases

The Group has no finance lease commitments as at 30 June 2016 (2015: nil).

b) Operating leases

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	2016	2015
	$	$
Payable minimum lease payments:		
- not later than one year	**227,076**	1,736,228
- later than one year, not later than five years	**17,409**	226,306
	244,485	1,962,534

c) Capital expenditure commitments

The exploration commitments for Exploration Permits for Coal (EPCs) to the Department of Mines and Energy (Queensland) and Mongolian authorities are tabulated below:

	2016	2015
	$	$
Payable:		
- not later than one year	**1,718,292**	657,451
- later than one year, not later than five years	**8,094,194**	9,584,284
	9,812,486	10,241,735

Note 27 Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, and loans to and from subsidiaries and from external lenders.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2016 $	2015 $
Financial assets – loans and receivables			
Cash and cash equivalents		1,199,183	686,987
Trade and other receivables	10	8,278,800	5,909,021
Other assets	11	2,596,000	2,226,820
		12,073,983	8,822,828
Financial liabilities – amortised cost			
Trade and other payables	16	26,964,353	32,919,590
Financial borrowings	17	161,157,215	137,860,145
Other financial liabilities	18	7,880,454	-
		196,002,022	170,779,735

Specific financial risk exposures and management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk, and commodity and equity price risk.

a) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the Group.

The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis.

b) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financial activities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit risk profile; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The tables following reflect an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that financing facilities will be rolled forward

	Within 1 Year		1 to 5 Years		Total	
	2016	2015	**2016**	2015	**2016**	2015
	$	$	**$**	$	**$**	$
Financial liabilities due for payment						
Trade and other payables	**26,964,353**	32,919,590	**-**	-	**26,964,353**	32,919,590
Borrowings (excluding finance lease)*	**27,609,366**	93,519,349	**133,547,849**	44,340,796	**161,157,215**	137,860,145
Other financial liabilities	**-**	-	**7,880,454**	-	**7,880,454**	-
Total contractual outflows	**54,573,719**	126,438,939	**141,428,303**	44,340,796	**196,002,022**	170,779,735
Total expected outflows	**54,573,719**	126,438,939	**141,428,303**	44,340,796	**196,002,022**	170,779,735
Financial assets - cash flows realisable						
Cash and cash equivalents	**1,199,183**	686,987	**-**	-	**1,199,183**	686,987
Trade and other receivables	**201,407**	21,671	**8,077,393**	5,887,350	**8,278,800**	5,909,021
Other Assets	**470,073**	2,226,820	**2,125,927**	-	**2,596,000**	2,226,820
Total anticipated inflows	**1,870,663**	2,935,478	**10,203,320**	5,887,350	**12,073,983**	8,822,828
Net inflow (outflow) on financial instruments	**(52,703,056)**	(125,503,461)	**(133,224,983)**	(38,453,446)	**(183,928,039)**	(161,956,907)

*Prior year comparative does not include interest on borrowings payable with 1 year of USD$10,640,559 and 1 to 5 years of USD$2,268,570.

c) Market risk

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period, whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

As at 30 June 2016, the Group holds no borrowings which are subject to interest rate fluctuations (2015: AU$52.4 million).

Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the functional currency of the entities within the Group.

As at 30 June 2016, the Group holds borrowings to the value of US$125.5 million, which when converted for presentation and reporting purposes converts to AU$169.0 million (2015: US$105.9 million converted to AU$137.9 million).

Commodity price risk

Commodity price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

During the financial year the Group's BNU Mine in Mongolia achieved commercial production on 30 September 2015. The Group is continuing to monitor its exposure to commodity price risk. As at reporting date commodity prices are still depressed and therefore the Group has decided to not implement strategies to reduce its exposure to further downside in prices. As commodity prices rise the Group will consider strategies to manage this risk.

Sensitivity analysis

Interest rate risk sensitivity analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	2016		2015	
	+1%	**-1%**	+1%	-1%
Cash and cash equivalents				
Net results	**-**	**-**	6,870	(6,870)
Equity	**-**	**-**	6,870	(6,870)
Borrowings				
Net results	**-**	**-**	1,378,601	(1,378,601)
Equity	**-**	**-**	1,378,601	(1,378,601)

Foreign currency risk sensitivity analysis

At 30 June 2016, the effect on profit and equity as a result of changes in foreign currency, with all other variables remaining constant (including the functional currency of each entity) would be as follows:

	2016	2015
	$	$
Change in profit		
- Increase in US Dollar by 1%	**1,861,217**	1,364,952
- Decrease in US Dollar by 1%	**(1,824,361)**	(1,392,527)
Change in equity		
- Increase in US Dollar by 1%	**1,861,217**	1,364,952
- Decrease in US Dollar by 1%	**(1,824,361)**	(1,392,527)

Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of financial assets and financial liabilities presented in the financial statements, except for those reported in Note 27, are not materially different to the carrying value of these assets and liabilities.

Note 28 Directors and key management personnel disclosures

a) Details of directors and key management personnel

Names	Position	Appointed/Resigned
Non-Executive Directors		
Mr Cameron McRae	Non – Executive Chairman	Appointed 6/06/2016 Resigned 27/06/2016
The Hon Craig Wallace	Deputy Chairman (Non-Executive) Chairman (Non-Executive)	Appointed 6/06/2016 Resigned 6/06/2016
Mr Tsogt Togoo	Non-Executive Director	
Mr Philip Forrest	Independent Director	
Ms Loo Hwee Fang	Independent Director	
Executives		
Mr Cameron McRae	Executive Chairman	Appointed 27/06/2016
Mr Michael Avery	Group Managing Director Executive Director / Vice President – Corporate Development	Resigned 27/06/2016 Appointed 27/06/2016
Mr David Stone	Executive Director	Resigned 18/12/2015 Appointed 4/09/2016
	Executive	Appointed 18/12/2015 Resigned 27/06/2016
	Vice President – Operations	Appointed 27/06/2016
Mr Mark Reynolds (1)	Chief Financial Officer	Resigned 27/06/2016
Mr Julien Lawrence	Chief Operating Officer Chief Development Officer	Resigned 1/03/2016 Appointed 1/03/2016
Mr Tony Mooney (2)	Company Secretary/ General Manager Stakeholder Relations	Resigned 6 January 2016
Mr Nathan Boom	Company Secretary/ Financial Controller	Appointed 15 January 2016
Mr Karl Arnold (3)	Chief Financial Officer	Appointed 27 June 2016

(1) New role effective from 27/06/2016 is General Manager – Corporate Development.

(2) New role effective from 6/1/2016 is General Manager – Stakeholder Relations.

(3) Prior to this Mr Karl Arnold held the role of Business Unit Head, Mongolia.

b) Totals of remuneration paid

Directors and key management personnel remuneration included within employee expenses for the year is shown below:

	2016 $	2015 $
Short-term employee benefits	**2,447,205**	2,464,491
Short-term non-cash incentives	**812**	-
Post-employment benefits	**121,795**	80,354
	2,569,812	2,544,845

The remuneration report contained in the directors' report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2016.

Note 29 Contingencies

Contingent liabilities

The Group had the following contingent liabilities at the end of the financial year:

The FTB (QLD) Pty Ltd 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 30 June 2016.

The Share Purchase Agreement between TerraCom Limited (formerly Guildford Coal 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.

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 TerraCom to Resco Projects Pty Limited (Resco) under the Springsure Share Sale Agreement by which Springsure was acquired by TerraCom (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, TerraCom would only make payments for four 10Mt tranches (totalling $8.8m) as TheChairmen1 had agreed to forego, after negotiations with TerraCom, any settlements for the fifth 10Mt tranche;
- TerraCom 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 TerraCom, not a cash settlement.

Pursuant to a deed poll dated 19 December 2012 made by the Company in favour of Resco, Bluestone Global Limited and Gleneagle Securities Nominees Pty Ltd, the Company 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;
- 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 30 Related party disclosures

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties are summarised as follows:

TheChairmen1 Pty Ltd

TerraCom entered into a management agreement with TheChairmen1 Pty Ltd ("TheChairmen1") dated 26 May 2010 (which was varied on 20 July 2010) ("Management Agreement"). Under the terms of the Management Agreement TheChairmen1 has agreed to provide certain management services to TerraCom for a fee of $2,500,000 per annum (excluding GST). During the prior year the Group paid TheChairmen1 management fees totalling $413,074.

The Company and TheChairmen1 agreed to forego from September 2014 payment of all remaining management fees totalling $2,086,926 in consideration for the Company transferring 15% of its shareholding in Springsure Mining Pty Ltd to TheChairmen1. Refer to Note 24(c).

On the 29 November 2013 the Company announced a Maiden JORC Indicated Resource of 43Mt in Exploration Permit for Coal (EPC) 1674, Springsure Project, with a remaining 148Mt Inferred Resource. The Indicated Resource triggered a 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. 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 $11 million (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 (totalling $8.8 million) as TheChairmen1 had agreed to forego, after negotiations with Guildford, 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.

Transactions with director

During June 2016 the Company appointed Mr Cameron McRae as Non-Executive Chairman (6 June to 27 June) and then Executive Chairman (27 June to Current). Cameron's engagement is through consultancy firm Tarva Investments and Advisory LLC (Tarva) to which he is the appointed Executive Director. No payments were made to Tarva during the financial year. At 30 June 2016 the amount payable to Tarva is $53,687, which includes reimbursable business related travel expenses.

Note 31 Events occurring after the reporting date

In the interval between the end of the financial year and the date of this report there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years other than the following:

- On 1 July 2016, the Company advised the market that the Bond's issued on 23 June 2016 were listed on Euroclear on 30 June 2016 making it a tradeable security.
- On 4 July 2016 the Company announced it had reached agreement to acquire the Blair Athol Coal Mine for a purchase price of $1 and that TerraCom would receive $80 million from the current owners to meet the sites rehabilitation liability as determined by Queensland's Department of Environment and Heritage in November 2015. The Financial Assurance will be provided as cash to be held in a bank account approved and controlled by the Queensland Government.
- On 14 July 2016, the Company announced a US$1 million placement to Hong Kong private investment company Sea Honour Limited under its existing capacity under listing rules 7.1A. On 8 August 2016, the finalisation of the placement was announced which resulted in 80,849,502 fully paid ordinary shares issued at the final issue price of $0.0166.
- On 23 August 2016 the Company announced a $1.1million placement to three large and prominent Eastern European based private investment companies, led by Light Speed Commercial Inc under its existing capacity under listing rules 7.1 and 7.1A. On 6 September 2016 it was announced the finalisation of the placement which resulted in 55,407,834 fully paid ordinary shares issued at the final issue price of $0.0206469.
- On 29 August 2016, the Company announced a $1.0 million placement with Fosters Stockbroking Pty Ltd private and institutional clients under its existing capacity under listing rules 7.1. On 6 September 2016 it was announced the finalisation of the placement which resulted in 44,411,629 fully paid ordinary shares issued at the final issue price of $0.0215.
- On 6 September 2016 the Company issued unlisted ordinary share options ("Options") to Fosters Stockbroking Pty Ltd as follows :
  - 15,000,000 options at a strike price equal to $0.03 and with an expiry date of 31 August 2018, and
  - 15,000,000 options at a strike price equal to $0.045 and with an expiry date of 31 August 2018.
- On 8 September 2016, the Company announced the reappointment of Mr David Stone to Executive Director effective from 4 September 2016.
- On 23 September 2016, the Company announced it had executed a binding Sale and Purchase Agreement to acquire the Blair Athol Coal Mine. The acquisition is on the same terms as announced on 4 July 2016 being a $1 purchase price, TerraCom to receive $80 million from the current owners to meet the sites rehabilitation liability as determined by Queensland's Department of Environment and Heritage in November 2015, and the Financial Assurance to be provided as cash to be held in a bank account approved and controlled by the Queensland Government. The transaction is subject to Queensland Government approval and certain other conditions precedent. Production is being scheduled around a rate of 2Mtpa with a target of operations recommencing in the fourth quarter of 2016 calendar year.
- On 29 September 2016 the Company announced it had secured US$12 million in new funding to support the commissioning of the Blair Athol Coal Mine. The Facility will be provided according to a progressive drawdown schedule linked to pre-agreed milestones and cash flow requirements in order to expedite the commissioning and start-up of the mine. The Facility incurs interest of 9% per annum and is split into two parts: (i) US$3m repayable over 12 months from the date of commissioning and (ii) US$9m provided on a rolling basis for 5 years. The Facility is being provided by an international group with in-depth knowledge of the Australian mining sector.

Note 32 Parent entity

The following information has been extracted from the books and records of the parent Company, TerraCom Limited, and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, TerraCom Limited has been prepared on the same basis as the consolidated financial statements except as disclosed below.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss accounts, rather than being deducted from the carrying amount of these investments.

	2016 $	2015 $
Statement of Financial Position		
Assets		
Current assets	**861,871**	1,367,467
Non-current assets	**148,729,408**	156,185,705
Total Assets	**149,591,279**	157,553,172
Liabilities		
Current liabilities	**29,986,692**	56,739,145
Non-current liabilities	**137,255,238**	74,318,479
Total Liabilities	**167,241,930**	131,057,624
Net assets/(liabilities)	**(17,650,651)**	26,495,548
Equity		
Issued capital	**195,276,818**	186,354,850
Retained earnings/accumulated losses	**(220,886,315)**	(167,818,150)
Option Reserve	**7,958,848**	7,958,848
Total Equity/ (Deficiency)	**(17,650,651)**	26,495,548
Consolidated Statement of Comprehensive Income		
Total profit or loss for the year	**(53,068,165)**	(24,740,601)
Total comprehensive income	**(53,068,165)**	(24,740,601)

Note 33 Company details

During the financial year the Company had the following registered addresses:

Period: 1 July 2015 to 13 July 2015

Level 7, 490 Upper Edward Street

Spring Hill, Queensland, 4000

Period: 14 July 2015 to 20 December 2015

Level 7, 364-370 Flinders Street

Townsville City, Queensland, 4810

Period: 21 December 2015 to Current

34 Hewitts Avenue,

Thirroul, New South Wales, 2515

The directors of the Company declare that:

1. the financial statements and notes for the year ended 30 June 2016 are in accordance with the *Corporations Act 2001* and:

   a. comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

   b. give a true and fair view of the financial position and performance of the consolidated Group;

2. the Executive Chairman and Chief Financial Officer have given the declarations required by Section 295A that:

   a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

   b. the financial statements and notes for the financial year comply with the Accounting Standards; and

   c. the financial statements and notes for the financial year give a true and fair view.

3. in the directors' opinion, 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.

....

Mr Cameron McRae

Executive Chairman

Dated 30 September 2016

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Sydney NSW 2000 Australia
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Independent auditor's report to the members of TerraCom Limited

Report on the financial report

We have audited the accompanying financial report of TerraCom Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit 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.

Opinion

In our opinion:

a. the financial report of TerraCom Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(b) 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 $52,426,774 and the entity's ability to continue as a going concern is reliant on commencement of profitable mining operations in Mongolia and Queensland (Blair Athol), continued cooperation of existing creditors and financiers, and obtaining additional funding or renegotiating current debt arrangements. 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.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of TerraCom Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

Anthony Jones
Partner
Sydney
30 September 2016

ASX Additional Information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 29 September 2016.

Voting rights

Ordinary Shares:

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Distribution of equity security holders

	Ordinary shares	
Holding	**Number of Holders**	**Number of Units**
1 - 1,000	114	60,449
1,001 - 5,000	308	938,928
5,001 - 10,000	267	2,185,829
10,001 - 100,000	798	30,776,104
100,001 and over	458	2,547,638,913
	1,945	2,581,600,223

There were 797 holders of less than a marketable parcel of ordinary shares.

Twenty largest shareholders

	Ordinary shares	
	Number held	**% of issued shares**
BNP PARIBAS NOMS PTY LTD	932,528,628	36.12
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	287,319,822	11.13
J P MORGAN NOMINEES AUSTRALIA LIMITED	235,929,128	9.14
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	229,072,370	8.87
EQUITAS NOMINEES PTY LIMITED	100,000,000	3.87
THE SUMMIT HOTEL BONDI BEACH PTY LIMITED	94,806,864	3.67
SEA HONOUR LIMITED	80,849,502	3.12
CITICORP NOMINEES PTY LIMITED	59,475,052	2.30
MAIORA SPECIAL SITUATIONS FUND	54,054,054	2.09
CS FOURTH NOMINEES PTY LIMITED	29,586,831	1.15
CAPTI TRADING NOMINEES PTY LIMITED	29,000,000	1.12
HAYMAKER INVESTMENT PTY LIMITED	28,771,069	1.11
GLENEAGLE SECURITIES (AUST) PTY LIMITED	28,000,000	1.08
UBS NOMINEES PTY LIMITED	16,750,000	0.65
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	13,865,544	0.54
MRS SARAH HATHWAY	12,995,896	0.50
FOSTERS STOCKBROKING NOMINEES PTY LIMITED	10,583,718	0.41
SUPER PROPERTIES PTY LIMITED	8,437,981	0.33
BNP PARIBAS NOMS PTY LIMITED	8,309,020	0.32
QUALITY LIFE PTY LTD	8,000,000	0.31
	2,268,335,479	87.87

Securities exchange
The Company is listed on the Australian Securities Exchange.