TASMANIA MINES LIMITED

ABN 45 009 491 990

Level 33, Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia

Telephone (02) 9251 4244
Facsimile (02) 9247 2322

In reply please refer:

12 January 2017

Manager Announcements
Australia Stock Exchange Limited
20 Bridge Street
Sydney NSW

Dear Sir,

RE: Proposed Selective Reduction of Capital

Please find attached announcement.

Yours faithfully,

Tasmania Mines Ltd

K.J. Broadfoot

Director

TASMANIA MINES LIMITED

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88 Phillip Street
Sydney NSW 2000
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In reply please refer:

12 January 2017

Manager Announcements
Australia Stock Exchange Limited
20 Bridge Street
Sydney NSW

RE: Proposed Selective Reduction of Capital

Tasmania Mines Limited refers to the announcement made on Monday 7 November 2016 that the company proposes to seek shareholder approval for a selective capital reduction of the 20.78% of issued shares held by minority shareholders at $1.80 per share.

Attached to this notice is an Explanatory Memorandum relating to the proposed selective capital reduction

The Explanatory Memorandum includes an Independent Expert's Report by Grant Thornton Corporate Finance Pty Ltd.

It also includes Notices for the Meetings at which the shareholder approvals required under the Corporations Act will be sought, being approvals by a special resolution at a general meeting and by a special resolution of shareholders whose shares are to be cancelled if the selective capital reduction proceeds.

The first meeting is to be held at the Company's registered office at 10:00am on Tuesday 21 February 2017 with the second meeting following immediately thereafter.

The Explanatory Memorandum, Independent Expert's Report and Notices of Meetings are also being lodged today with the Australian Securities and Investments Commission, and are being dispatched to shareholders next week.

Yours faithfully,
Tasmania Mines Ltd

K.J. Broadfoot
Director

TASMANIA MINES LIMITED

ABN 45 009 491 990

11 January 2017

Explanatory Memorandum

Notice of General Meeting of Shareholders
AND
Notice of Special Meeting of Minority Shareholders

Relating to a Proposal for the Company to undertake a Selective Reduction of Capital

This is an important document and requires your immediate attention. If in doubt you should contact your accountant, financial, taxation or other advisers

Tasmania Mines Ltd
Level 33, Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia

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Important Information and Notices

a. Importance of this Explanatory Memorandum

If the two Shareholder Resolutions proposed in the Notices of Meetings and described in this Explanatory Memorandum are passed, a Selective Capital Reduction will occur with the result that your Shares and all other Shares in the Company, except those held by Metroof Industries Pty Ltd, will be cancelled in return for payment of $1.80 for each Share.

Details of the two Resolutions, including who may vote on each, are contained in Part D of this Explanatory Memorandum and in the Notices of Meetings at Parts I & J.

This Explanatory Memorandum contains information to assist you to understand and to assess the proposed Selective Capital Reduction and to decide whether to vote in favour of that Proposal.

Therefore, it is important that you read this document carefully and, if necessary, seek your own independent advice on any aspects about which you are not certain.

b. Information about this Explanatory Memorandum

This document:

- explains the proposed Selective Capital Reduction and how it effects Shareholders;
- when read together with the information previously disclosed to the ASX, provides all the information required by the Corporations Act and the ASX Listing Rules that is known to TMM and that is material to the decision of Shareholders on how to vote on the Resolutions; and
- contains an Independent Expert's Report from Grant Thornton Corporate Finance Pty Ltd which concludes that the Proposal is fair and reasonable both to the Shareholders whose shares will be cancelled if the Proposal proceeds and to the Shareholders as a whole.

Defined terms

Capitalised terms used in this document are defined in the Glossary of Terms on page 3.

ASIC and ASX

A copy of this document has been lodged with the ASX and ASIC but neither the ASX, ASIC nor any of their officers take any responsibility for its contents.

This document contains information not advice

Nothing in this document constitutes investment, legal, tax or other advice. This document does not take into account the individual investment objectives, financial situation or particular needs of each

Shareholder or any other person, and should not be relied on as the sole basis for any investment decision relating to Shares.

Shareholders should seek independent financial, legal and taxation advice before making a decision on how to vote on the Resolution.

Forward looking statements

This document contains both historical and forward-looking statements, including statements of current intention or expectation.

Forward-looking statements relate to future matters and are subject to various inherent risks and uncertainties. Actual events or results may differ materially from the events or results expressed or implied by any forward-looking statements.

None of TMM, any of its officers, any person named in this document or any person involved in the preparation of this document makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. The forward-looking statements in this document reflect views held only as at the date of this document.

Subject to any obligations under law or the ASX Listing Rules, TMM does not give any undertaking to update or revise any forward-looking statements after the date of this document to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

Input from other parties

Grant Thornton Corporate Finance Pty Ltd has prepared the Independent Expert's Report in relation to the Selective Capital Reduction in Part H of this document and takes responsibility for that Independent Expert's Report. The Independent Expert is not responsible for any other information contained within this document.

Other than in respect of the information identified above as provided by Grant Thornton, the information contained in the remainder of this document has been prepared by TMM and is the responsibility of TMM.

Electronic document

This document may be viewed online at www.tasmines.com.au.

Date

This document is dated 11 January 2017. The Notices of Meetings are also dated 11 January 2017.

A. Glossary of Terms

$ or AUD	Australian Dollars
ASIC	Australian Securities and Investments Commission
Associate	A person who is an associate of another person as defined in the Corporations Act
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
Board	Board of Directors of the Company
Cancellation Payment	$1.80 per Share, which is the consideration for the cancellation of Shares held by Exiting Shareholders
Capital Component	$0.30 per Share, being that part of the Cancellation Payment which, subject to the outcome of the application the Company has made to the ATO for a Class Ruling, will be debited to the Company's share capital account
Company (or TMM)	Tasmania Mines Limited A.C.N. 009 491 990, listed on the ASX under the ASX Company Security Code "TMM"
Corporations Act	*Corporations Act 2001 (Cth)*
Director	Director of the Company
Dividend Component	$1.50 per Share, which is that part of the Cancellation Payment that, subject to the outcome of the application the Company has made to the ATO for a Class Ruling, will be debited to the Company's retained earnings account
Exiting Shareholders	All Shareholders whose Shares, if the Resolutions are passed, will be cancelled in return for payment of the Cancellation Payment, being all the Minority Shareholders
Explanatory Memorandum	This document, including the Notice of General Meeting, the Notice of Special Meeting and the Independent Expert's Report
General Meeting	The meeting of Shareholders at which the General Meeting Resolution will be proposed
General Meeting Resolution	A special resolution regarding the Selective Capital Reduction in the form of the special resolution set out in Part I of this Explanatory Memorandum that will be proposed at the General Meeting at which votes cast in favour of the special resolution by Minority Shareholders or their Associates will be disregarded
Independent Expert	Grant Thornton Corporate Finance Pty Ltd (ACN 003 265 987)
Independent Expert's Report	The Independent Expert's Report in Part H of this document

Major Shareholder	Metroof Industries Pty Limited (A.C.N. 009 653 132), holder of 79.22% of the Shares
Meetings	The General Meeting and the Special Meeting
Minority Shareholders	All Shareholders other than the Major Shareholder, being the holders of 20.78% of the Shares
Notice of General Meeting	The Notice of Meeting of Shareholders as set out in Part I of this Explanatory Memorandum
Notices of Meetings	The Notice of General Meeting and the Notice of Special Meeting
Notice of Special Meeting	The Notice of Meeting of Shareholders other than the Major Shareholder set out in Part J of this Explanatory Memorandum
Participation Record Time	7:00pm (Sydney time) Wednesday 19 April 2017, being the time and date at which • TMM will determine from its Share register who are the Shareholders holding each Share being cancelled in the Selective Capital Reduction; and • the Cancellation of each Share being cancelled will take effect
Proposal	The proposal the subject of the Resolutions, namely that the Company undertake the Selective Capital Reduction
Resolutions	The General Meeting Resolution and the Special Meeting Resolution
Selective Capital Reduction	The proposed selective reduction of capital of TMM involving TMM cancelling all Shares held by the Exiting Shareholders in return for payment of the Cancellation Payment
Share	A fully paid ordinary share in the capital of TMM
Shareholder	A person recorded on the TMM Share register as the holder of one or more Shares
Special Meeting	The meeting of Shareholders other than the Major Shareholder at which the Special Meeting Resolution will be proposed
Special Meeting Resolution	The special resolution of Shareholders other than the Major Shareholder regarding the Selective Capital Reduction set out in Part J of this Explanatory Memorandum.
Tax Act	*Income Tax Assessment Act 1936 (Cth) and Income Tax Assessment Act 1997 (Cth)*
TMM (or the Company)	Tasmania Mines Limited A.C.N. 009 491 990, listed on the ASX under the ASX Company Security Code "TMM"
Voting Record Date	7:00pm (Sydney time) Friday 17 February 2017, (or such other time and/or date determined by the Board) being the time and date at which TMM will determine from its Share register who is the holder of each Share for the purpose of voting at the Meetings

B. Key Dates

Date	Event
Monday, 07 November 2016	Initial market announcement
Friday, 13 January 2017	Update market announcement; Lodge with ASX & ASIC Explanatory Memorandum and notices for both the General Meeting and the Special Meeting.
Thursday, 19 January 2017	Despatch the Explanatory Memorandum and notices for both the General Meeting and the Special Meeting
7:00pm Friday, 17 February 2017	Voting Record Date for both the General Meeting and the Special Meeting (i.e. time for determining entitlements to vote at each of the Meetings)
10:00am Sunday, 19 February 2017	Deadline for lodgement of proxy forms for both the General Meeting and the Special Meeting
10:00am Tuesday, 21 February 2017	General Meeting of Shareholders
Immediately after General Meeting on Tuesday, 21 February 2017	Special Meeting of Minority Shareholders

Following events only apply if both Resolutions are passed.

Tuesday, 21 February 2017	TMM lodges notice of the Resolutions approving the Capital Reduction with ASIC
Tuesday, 21 February 2017	TMM notifies ASX that the Resolutions have been passed
Tuesday, 07 March 2017	TMM notifies ASX that it is 14 days after it lodged the notice of the Resolutions approving the Capital Reduction with ASIC
Friday, 03 March 2017	Last day Shares can be acquired to be eligible for franking credits
Friday, 07 April 2017	Last day of trading of Shares on ASX
7:00pm Wednesday, 19 April 2017	Record Date for determining entitlements to Cancellation Payment
Wednesday, 26 April 2017	Shares held by Exiting Shareholders cancelled
Monday, 1 May 2017	Cancellation Payment distributed to Exiting Shareholders
Friday, 05 May 2017	TMM delisted from ASX

The Board reserves the right to suspend or vary the timetable; and to terminate the process at any time prior to passing of the Resolutions,

C. The Proposal

a. Company's business and activities

Tasmania Mines Limited is a public company listed on the Australian Stock Exchange. It is involved in the mining, crushing and concentration of magnetite (a form of iron ore) from its Kara Mine, 36 kilometres south of Burnie in Tasmania.

The Magnetite is sold to the Australian coal industry where it is used as a dense medium in the process of washing coal.

The Kara Mine also produces a limited quantity of Scheelite.

Scheelite is sold to customers in Europe who use it in the production of specialty steel.

The Board intends to continue the business in the manner described above irrespective of the outcome of the Proposal. The Company estimates that there are sufficient reserves at the Kara Mine site for the current level of mining and sales activities to continue for approximately another 20 years.

The company's financial position and pro-forma financial position are set out in Sections a.to d. of Part F commencing on page 12 of this Explanatory Memorandum and in the Independent Expert's Report commencing at page 18.

b. Company's current shareholding position

The Company was incorporated on 4 August 1969. The Company has 18,252,496 Shares on issue.

The Major Shareholder, Metroof Industries Pty Ltd (A.C.N. 009 653 132), holds 14,459,910 Shares or 79.22% of the total issued Shares.

The ten largest holders of Shares together account for over 90% of the issued Shares. More than 85 Shareholders (i.e. approximately 40%) hold 1000 or fewer Shares.

c. Reasons for the Proposal

The current position as described above is less than ideal for both for the Company and the Minority Shareholders.

Shareholders are disadvantaged by the fact that only a very small number of Shares are traded on the ASX. Hence it can be difficult for Shareholders to sell their Shares at a price that they regard as adequate. In recent years, some of the Minority Shareholders have approached the Company requesting it to facilitate an appropriate exit solution.

The Company has the cost and administrative burdens of having to communicate with a large number of inactive Shareholders with small shareholdings. The Company would like to reduce this burden.

Further, it is difficult for the Company to justify the cost and administrative burdens of its ASX listing given the very low level of trading of Shares on the ASX and the fact that the Company has not sought to raise capital for over 20 years, and has no intention of doing so.

d. The Proposal

To address the above issues the Board has resolved to put to the Shareholders the Proposal detailed in this Explanatory Memorandum, namely that all Minority Shareholders exit their Shareholdings at $1.80 per Share by way of a selective capital reduction under section 256B of the Corporations Act.

For the Proposal to proceed two resolutions of Shareholders are required.

Details of these Resolutions, including who may vote on each, and of the majorities required to pass each Resolution, are contained in Part D below and in the Notices of Meetings in Parts I and J.

e. Corporations Act requirements for the Proposal

The Corporations Act (section 256B(1)) provides that the Company may undertake the proposed Selective Capital Reduction if the reduction

- is fair and reasonable to the Company's Shareholders as a whole;
- does not materially prejudice the Company's ability to pay its creditors; and
- is approved by Shareholders under section 256C.

The basis on which the Company has concluded that the Proposal is "fair and reasonable to the Company's Shareholders as a whole" is summarised in Section i. of Part F below. The Independent Expert has also concluded that the Proposal satisfies that requirement (see the summary at section j. of Part F, and the full Independent Expert's Report at Part H below).

The Company has also satisfied itself that there will be no material prejudice to the Company's ability to pay its creditors (see Sections a. to d. of Part F below).

The Shareholder approval requirement will be met if the Shareholders pass the Resolutions the subject of this Explanatory Memorandum.

D. The Resolutions and voting

a. Resolutions to be put to Shareholders

The Notices of Meetings in Parts I and J contain the wordings for

- a General Meeting Resolution to be put to all Shareholders; and
- a Special Meeting Resolution to be put to Minority Shareholders.

The resolutions seek authorisation for the Company to proceed with the Selective Capital Reduction by way of cancellation of all Shares other than those held by Metroof Industries Pty Limited, the Major Shareholder, in return for a payment of $1.80 per Share.

b. Voting on the Resolutions

Both resolutions require a 75% majority.

Due to the requirements of section 256C(2)(a) of the Corporations Act, votes cast in favour of the General Meeting Resolution by Minority Shareholders or their Associates will be disregarded. However, Minority Shareholders and their Associates may vote against the General Meeting Resolution.

Only Minority Shareholders may vote on the Special Meeting Resolution.

c. Proposal requires Both Resolutions to be passed

Due to the requirements of sections 256B and 256C of the Corporations Act, the Selective Capital Reduction may only proceed if both the General Meeting Resolution and the Special Meeting Resolution are passed.

E. Further details of the Proposal

a. How will the Selective Capital Reduction Work?

If both Resolutions are passed at the Shareholders Meetings to be held on Tuesday 21 February 2017, the following will occur –

- trading in Shares will continue on the ASX until 4:00pm Friday, 07 April 2017 at which time trading will cease;

- the Minority Shareholders registered on the Company's share register at 7:00pm on Wednesday, 19 April 2017 (the **Participation Record Time)** will be the Exiting Shareholders who participate in the Selective Capital Reduction;

- on Wednesday, 26 April 2017, the Company will cancel all Shares held by Exiting Shareholders resulting in the Company being 100% owned by Metroof Industries Pty Limited.

- on Monday, 1 May 2017, the Company will commence payment to Exiting Shareholders of the Cancellation Payment of $1.80 per cancelled Share.

b. What are the tax consequences?

The Company has applied to the ATO for a Class Ruling to confirm the tax treatment of the Selective Capital Reduction for the Exiting Shareholders. As at the date of these Notices of Meetings, the Class Ruling has not been received, although it is expected that it will be received at around the time of the Meetings.

Set out below is a brief and generalised summary of the expected tax treatment that should apply to Exiting Shareholders and which is expected to be confirmed by the ATO. **The commentary below should not in any way be regarded as tax advice.** The financial and taxation circumstances of each individual shareholder will differ and Exiting Shareholders are strongly recommended to seek their own independent tax advice before deciding whether to vote in favour of the Proposal.

The ATO is expected to confirm the following:

- That the Capital Component of the Cancellation Payment of $0.30 per share will be treated as a return of capital;

- That the Dividend Component of the Cancellation Payment of $1.50 per share will be treated as a dividend for tax purposes;

- That the Dividend Component of the Cancellation Payment will be a fully franked dividend, and accordingly, will have a franking credit of $0.64 attached to it. For an Exiting Shareholder to be entitled to the franking credits, the Exiting Shareholder must be a “qualified person” for Australian tax purposes;

- As a result of the above (and assuming the Exiting Shareholder is a “qualified person”):
    - Australian resident Exiting Shareholders should include the Dividend Component in their assessable income;
    - Australian resident Exiting Shareholders should also include the franking credit in their assessable income;
    - Non-Australian resident Exiting Shareholders should not be subject to Australian dividend withholding tax in respect of the Dividend Component;
- In general, to be a “qualified person” in relation to a franked distribution a resident Exiting Shareholder must satisfy
    - the “related payments rule” – which broadly requires that neither the shareholder nor an associate of the shareholder is under any obligation to make, or makes, a payment in respect of the dividend distribution, which effectively passes the benefit of the distribution to another person; and
    - the “holding period rule” – which requires the Exiting Shareholder to hold the shares “at risk” for a continuous period of at least 45 days. The days of acquisition and disposal of the relevant shares are not counted;
- For certain Shareholders, for example Australian Complying Superannuation Funds and Australian resident individuals, the tax offset arising from the inclusion of the franking credit in the Shareholder’s assessable income may give rise to a refund of tax if the franking credit is greater than the tax liability of the Shareholder in the year in which the Cancellation Payment is received;
- The cancellation of the Shares should give rise to a capital gains tax event for Exiting Shareholders. The consequences of this are generally as follows:
    - Australian resident Exiting Shareholders who hold their Shares on capital account should:
        - derive a capital gain where the Capital Component is greater that their cost base; or
        - incur a capital loss where the Cancellation Payment is less than their reduced cost base;
    - Australian resident Exiting Shareholders who are individuals, trusts or Complying Superannuation Funds, and who have held their Shares for at least 12 months before the cancellation date, may be entitled to a discount in respect of any capital gain arising;

  - If a non-Australian resident Exiting Shareholder holds their Shares on capital account, and also holds less than 10% of the Shares in the Company, the non-Australian resident Shareholder generally should not make a capital gain or loss on the cancellation of their Shares;
- Australian resident Exiting Shareholders who hold their Shares on revenue account should:
  - if the Capital Component exceeds their cost in their Shares, include the amount of the excess in their assessable income; or
  - if the Capital Component is less than their cost in their Shares, incur an allowable deduction.

c. No Shareholder transaction costs or duties

There will be no brokerage costs or stamp duty associated with the Proposal.

Therefore, on cancellation of their Shares all Minority Shareholders will receive payment of their full Cancellation Payment of $1.80 per Share without any deduction.

F. Further Information

a. Company financial information

The most recent financial information relating to the Company's performance has been made available to Shareholders in the Audited Annual Report for the year to 31 December 2015 and the Financial Report for the half year ended 30 June 2016, which has also been reviewed by the auditors. Reference should be made to these reports which are on both the ASX website and the Company's website.

On 06 January 2017, the Company announced to the ASX that, following a review undertaken in accordance with accounting standard to AASB 136 Impairment of Assets, it proposes an impairment to the carrying value of its assets. The review was undertaken as part of the process for preparation of the financial statements for the financial year ended 31 December 2016 and coincides with receipt of the Independent Expert's Report (see Part H below). As a result of the review, the Directors have formed the view that a post-tax impairment of $17.8m ($25.5m pre-tax) is required to the Net Assets of the Company which is expected to be reflected in the Annual Report for the year ended 31 December 2016.

b. Updating Company financial information

The Company anticipates that its Preliminary Final Report for the year ended 31 December 2016 (unaudited), prepared in accordance with ASX Listing Rule 4.3A and Appendix 4E, will be lodged with the ASX on or around Wednesday 15 February 2017, approximately 1 week prior to the Meetings, and will be available to Shareholders on both the ASX website and the Company's website.

c. Source of funds for the Cancellation Payment

The total cost to the Company of the Selective Capital Reduction will be approximately $7m (inclusive of transaction expenses and advisor costs).

The Company proposes to fund this amount approximately as follows –

- $1.5m from existing cash reserves,
- $2.0m from undrawn existing bank facilities,
- $1.75m from an additional bank facility, and
- $1.75m from cash to be generated from the Company's operations during the period between issue of this Explanatory Memorandum and the date on which the Cancellation Payment is due to be made (i.e. Monday, 1 May 2017).

d. Impact on the Company's financial position and accounts

Funding of the Proposal as outlined above will result in a $1.5m reduction in the Company's current cash reserves, utilisation of the Company's current undrawn bank facility of $2.0m, a draw-down of a further bank facility of around $1.75m and the setting aside of an approximate further $1.75m from cash flows over the next 3 to 4 months.

Under section 256B(1) of the Corporations Act the Company may only undertake the proposed Selective Capital Reduction if the reduction does not materially prejudice the Company's ability to pay its creditors.

With the availability of further bank loan funding and anticipated continuing positive cash flow from operations, the Board has satisfied itself that funding of the Proposal in the manner outlined above will result in there being no material prejudice to the Company's ability to pay its creditors or to fund the Company's business and operations going forward.

The Cancellation Payment to the Exiting Shareholders of $1.80 per share will result in:

- A total cash payment to Exiting Shareholders of $6,826,654.80, being 3,792,586 Shares at $1.80 per share
- the Capital Component of $0.30 per share - being a total of $1,137,775.80 - being debited to the Company's Share Capital account;
- the Dividend Component of $1.50 per share – being a total of $5,688,879.00 - being debited to the Company's Retained Earnings account; and
- as the Dividend Component will be fully franked, a debit to the Company's franking account of $2,427,255 (as at 30 September 2016 the Company's franking credit balance was approximately $18.8m).

The effect of the Cancellation Payment to the Company, assuming Shareholders vote in favour of the Proposal, is set out in the pro-forma consolidated statement of financial position set out below:

	Financial Report 30 June 2016 $'000	Pro-forma Adjustments $'000	Pro-forma 30 June 2016 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3,498	(3,250)	248
Trade and other receivables	6,752		6,752
Inventories	10,461		10,461
Other	184		184
TOTAL CURRENT ASSETS	20,895	(3,250)	17,645
NON CURRENT ASSETS			
Exploration and evaluation assets	1,127		1,127
Mine properties	334		334
Property, plant and equipment	42,082		42,082
TOTAL NON CURRENT ASSETS	43,543	0	43,543
TOTAL ASSETS	64,438	(3,250)	61,188
CURRENT LIABILITIES			
Trade and other payables	3,429		3,429
Provisions	351		351
Current tax liability	47		47
TOTAL CURRENT LIABILITIES	3,827	0	3,827
NON CURRENT LIABILITIES			
Bank borrowings	0	3,750	3,750
Provisions	1,314		1,314
Deferred tax	1,721		1,721
TOTAL NON CURRENT LIABILITIES	3,035	3,750	6,785
TOTAL LIABILITIES	6,862	3,750	10,612
NET ASSETS	57,576	(7,000)	50,576
EQUITY			
Issued capital	9,534	(1,138)	8,396
Retained earnings	48,042	(5,862)	42,180
TOTAL EQUITY	57,576	(7,000)	50,576

Note: The above pro-forma statement is based on the Financial Report for the half year ended 30 June 2016, being the Company's last published financial report reviewed by the Company's auditors. See sections a and b of this Part F (above) in relation to updated financial information expected to be available on or around 15 February 2017.

e. Major Shareholder's intentions if the Proposal proceeds

If the Resolutions are passed and the Selective Capital Reduction proceeds the Major Shareholder will become the sole Shareholder. The Company understands that the Major Shareholder has no plans to make any substantial changes to the Company's business and operations in the foreseeable future.

f. No alternate proposal

No alternate proposal has been put forward by the Company, the Major Shareholder or any third party.

To date, the Major Shareholder has consistently declined to make a takeover bid or otherwise to buy out the Minority Shareholders.

The Board has received no indication that there is any other party interested in making a full takeover offer.

The Board believes that it is highly unlikely that any third party would make a higher offer for all the Shares held by Minority Shareholders, given that the Major Shareholder already has a controlling interest of almost 80%.

g. Implications for Minority Shareholders if the Proposal is approved

If the Resolutions are passed and the Selective Capital Reduction proceeds, the following will apply -

- all Shares held by Minority Shareholders will be cancelled;
- Minority Shareholders will receive a Cancellation Payment of $1.80 per Share in cash in respect of each cancelled Share;
- in addition, a franking credit of $0.64 will be allocated to the Dividend Component of the Cancellation Payment;
- each Minority Shareholder's taxation treatment of the Cancellation Payment will depend on the Shareholder's particular circumstances (refer Section b. of Part E above);
- Minority Shareholders will cease to be entitled to vote on Shareholder resolutions or receive dividends;
- Minority Shareholders will also cease to be exposed to any future positive or negative Share price movements; and
- if the Resolutions are passed and the Selective Reduction of Capital has been executed, the Company will no longer qualify for listing on the ASX.

h. Implications for Minority Shareholders if the Proposal is not approved

The Proposal will not proceed unless approved by Shareholders passing both Resolutions. If the Proposal is not approved, then:

- Minority Shareholders will not receive $1.80 per Share;
- Minority Shareholders' Shares will not be cancelled;
- Minority Shareholders will continue to retain all their rights associated with being a Shareholder including the right to vote on Shareholder resolutions and the right to receive dividends;
- Minority Shareholders will also continue to be exposed to any future positive or negative Share price movements;
- the Share price may continue to be constrained by the existing ownership structure, the relatively low liquidity of the Shares and the difficult conditions facing the sectors in which TMM operates; and
- Metroof Industries Pty Limited will continue as the Major Shareholder.

i. The "fair and reasonable" requirement

Under section 256B(1) of the Corporations Act the Company may only undertake the proposed Selective Capital Reduction if the reduction is fair and reasonable to the Company's Shareholders as a whole.

Having considered the information and reasons set out in this Explanatory Memorandum, and in particular in section c of Part C above and in this Part F, the Board is of the unanimous view that the Selective Capital Reduction is fair and reasonable to the Minority Shareholders, to the Major Shareholder and to the Company's Shareholders as a whole.

The Board notes that the Independent Expert's Report supports the Board's unanimous view

j. Independent Expert's Conclusions

The Independent Expert's Report (see Part H) states that the Independent Expert's opinion is that the Proposal is

- fair and reasonable to the Minority Shareholders,
- fair and reasonable to the Major Shareholder, and
- fair and reasonable to the Shareholders as a whole.

The Independent Expert's Report also supports the Board's view, stated in section d of Part F above, that the proposed funding of the Selective Capital Reduction does not diminish the Company's ability to pay its creditors.

G. Directors' details, disclosures & recommendations

a. Directors details and disclosures

The Company's directors, and their respective relevant interests and associations, are as follows–

- **Mr S.H.M. Kanji**, the Company Chairman, is also a director of Metroof Industries Pty Limited, the Major Shareholder.
- **Mr K.J. Broadfoot,** a Director and a Secretary of the Company, is also a director of Metroof Industries Pty Limited, the Major Shareholder.
- **Mr Joseph Carroll**, Director.

All three Directors are also Minority Shareholders. Mr Carroll holds 502,000 Shares, Mr Kanji holds 1,750 Shares and Mr Broadfoot holds 500 Shares.

All three directors have advised the Company that it is their current intention to abstain from voting on the General Meeting Resolution and to vote in favour of the Special Meeting Resolution.

If the Resolutions are passed and the Selective Capital Reduction proceeds all Shares held by the Directors at the Participation Record Time will be cancelled in the same manner and for the same Cancellation Payment as all other Minority Shareholders' Shares.

b. Directors' recommendations on voting

The Directors unanimously support the proposal and therefore recommend that

- at the General Meeting of all Shareholders,
  - the Minority Shareholders abstain from voting on the General Meeting Resolution[1]; and
  - the Major Shareholder vote in favour of the General Resolution; and
- at the Special Meeting of Minority Shareholders, the Minority Shareholders vote in favour of the Special Meeting Resolution.

c. Major Shareholder's voting intentions

The Major Shareholder, Metroof Industries Pty Limited, has indicated that it will attend the General Shareholder Meeting and will vote in favour of the General Shareholder Resolution.

The Major Shareholder however is not entitled to attend the Special Shareholder Meeting or to vote on the Special Shareholder Resolution.

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[1] Due to the requirements of section 256C(2)(a) of the Corporations Act, votes cast in favour of the General Meeting Resolution by Minority Shareholders or their Associates will be disregarded. However, Minority Shareholders are entitled to vote against the General Meeting Resolution.

H. Independent Expert’s Report

Tasmania Mines Limited

Independent Expert's Report and Financial Services Guide

9 January 2017

The Directors
Tasmania Mines Limited
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9 January 2017

Dear Sirs

Independent Expert's Report and Financial Services Guide

Introduction

Tasmania Mines Limited ("TMM" or the "Company") is a listed public company principally involved in magnetite mining from the Kara Mine in Tasmania. TMM is listed on the Australian Stock Exchange ("ASX") and had a market capitalisation of circa $31 million as at the date of this report.

TMM's majority shareholder Metroof Industries Pty Limited ("Metroof" or "Majority Shareholder"), currently owns approximately 79.2% of TMM's share capital. On 7 November 2016, TMM announced that it would seek shareholder approval for a selective capital reduction ("Selective Capital Reduction") which would result in all shareholders other than the Majority Shareholder ("Minority Shareholders") receiving $1.80 per share in cash ("Consideration") in exchange for their shares in the Company being cancelled ("Capital Reduction Shares").

The Selective Capital Reduction requires approval by shareholders at a general meeting of the company, including approval by a special resolution passed at a meeting of shareholders whose shares are to be cancelled. If approved, the Selective Capital Reduction becomes binding for all of the shareholders, including the Minority Shareholders.

Set out below is a summary of the key terms of the Selective Capital Reduction:

- TMM will cancel the 3,792,586 shares held by the Minority Shareholders for a cash consideration of $1.80 per share. The number of outstanding shares in TMM will reduce from 18,252,496 to 14,459,910.

- TMM will be delisted from the ASX if the Selective Capital Reduction is approved by the Minority Shareholders.

- TMM has applied for a ruling from the Australian Taxation Office ("ATO") so that $1.50 of the Consideration will be deemed to be a dividend and the balance of $0.30 will be deemed to be capital. The dividend portion will be fully franked. As at 30 September 2016, TMM had a franking account balance of approximately $18.8 million.

- The Company requires approximately $7.0 million[1] to fund the Selective Capital Reduction. Most of the funding will be derived from the Company's cash balance (approximately $3.25 million out of the expected cash available on completion of the Selective Capital Reduction) with the balance being drawn down from existing undrawn loan facilities and an additional bank facility (together, $3.75 million).

Purpose of the report

In accordance with Section 256B(1) of the Corporations Act, the Company can implement the Selective Capital Reduction if:

- it is fair and reasonable to the shareholders as a whole; and

- it does not materially prejudice the company's ability to pay its creditors; and

- it is approved by the required majorities.

Whilst there is no legal requirement for an independent expert's report to be commissioned in relation to the Selective Capital Reduction, an independent expert's report is usually obtained as it enables the directors to discharge their obligations. The Directors of TMM have requested Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance" or "GTCF") to prepare an independent expert's report to express an opinion as to whether the Selective Capital Reduction is fair and reasonable to TMM's shareholders as a whole. Our report will accompany a notice of meeting and Explanatory Statement to be sent to the shareholders of the Company pursuant to Sections 256B and 256C of the Corporations Act, 2001 ("Corporations Act") and is prepared in accordance with Regulatory Guide 111 Content of expert reports ("RG 111") issued by the Australian Securities and Investments Commission ("ASIC").

Basis of assessment

In forming our opinion as to whether the Selective Capital Reduction is fair and reasonable to TMM Shareholders as a whole we have compared the Consideration offered of $1.80 per share with the fair market value of a TMM Share on a control basis.

In our reasonableness consideration, we have had regard to the advantages, disadvantages and other factors for the Minority Shareholders and the Majority Shareholder.

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Selective Capital Reduction is fair and reasonable to TMM's shareholders as a whole.

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[1] Comprised of approximately $6.8 million to fund the Consideration and $0.20 million for transaction costs

Specifically, we note the following in relation to the Minority Shareholders:

- The Consideration offered of $1.80 is slightly above the low-end of our valuation assessment range of $1.76 on a control basis. However, given the Consideration offered is cash, any value point within our valuation range is fair.

- The Consideration is at a significant premium to the trading prices before the announcement of the Selective Capital Reduction. In the absence of the Selective Capital Reduction or alternative change of control transactions, it would be unlikely for the Minority Shareholders to be able to realise a price in line with the Consideration offered.

- We have been advised by the Directors that some of the Minority Shareholders will be able to utilise in full the franking credits attached to the dividend component of the Consideration (subject to obtaining a Class Ruling from the ATO). The actual value of the Consideration received by some Minority Shareholders could be up to $2.44 per share.

From the perspective of the Majority Shareholder, we note that the Consideration payable by the Company is at the low-end of our assessed fairness range and accordingly significant value accretion opportunities remain for the Majority Shareholder. In addition, if the Selective Capital Reduction is implemented and the Company privatised, cost savings in relation to public company expenses should be achieved. We also note that the Selective Capital Reduction will be partly funded by TMM's cash balance at the time of completion as well as drawing down approximately $3.75 million on an existing undrawn loan facility and a new bank loan facility. The proposed funding does not diminish the Company's ability to pay its creditors.

Fairness assessment

We have set out in the table below a summary of our fairness assessment:

Valuation Summary (A$/share)	Reference	Low	High
Consideration		1.80	1.80
Fair Market Value per TMM Share (on control basis)	Section 6	1.76	2.28
Premium/(Discount) to fair market value (A$/share)		**0.04**	**(0.48)**
Premium/(Discount) to fair market value (%)		**2.0%**	**(20.9%)**

Source: GTCF Calculations

The value of the Consideration is within our assessed valuation range of a TMM Share and therefore we conclude that the Selective Capital Reduction is fair for the Minority Shareholders and fair for the Majority Shareholder. Combined with our opinion that funding of the Selective Capital Reduction will not diminish the Company's ability to pay its creditors Grant Thornton Corporate Finance concludes that the Selective Capital Reduction is fair to TMM's shareholders as a whole.

Reasonableness assessment

For the purpose of assessing whether or not the Selective Capital Reduction is reasonable to the TMM Shareholders as a whole, we have considered the following likely advantages, disadvantages and other factors associated with the Selective Capital Reduction. We note that in accordance with RG111, the Selective Capital Reduction is reasonable if it is fair.

Minority Shareholders' perspective

Advantages

Premium to share price and ability to realise value of TMM Shares for cash Consideration

The Consideration represents a premium of 28% to the trading prices of TMM shares one day prior to the announcement of the proposed Selective Capital Reduction on 7 November 2016 and a premium of about 29% to TMM's volume weighted average price of $1.40 over the three months prior to this date as well. In addition, as TMM Shares have very low liquidity (over the last year, only about 1.5% of TMM Shares have traded), the Selective Capital Reduction provides an opportunity for the Minority Shareholders to exit an illiquid investment for a material premium to the trading prices. This premium is unlikely to be available to the Minority Shareholders in the absence of the Selective Capital Reduction or alternative change of control transactions.

If the Selective Capital Reduction is completed, the Majority Shareholder will increase its interest in the Company from approximately 79% to 100% of the issued capital. We note that the substance of the Selective Capital Reduction is that the Company/Majority Shareholder is paying a substantial premium over the trading prices notwithstanding it already owns almost 80% of the issued capital.

Benefit of franking credits

Subject to obtaining a Class Ruling from the ATO, TMM has capacity to pay the dividend portion of the Consideration ($1.50) as a fully franked dividend. Australian resident shareholders can claim an income tax offset under certain circumstances and non-resident shareholders may also benefit from franking credits as there may be no withholding tax levied on fully franked dividends. We understand that Management believe that a large proportion of the Minority Shareholders will benefit from franking credits that attach to the dividend portion of the Consideration. According to Management, a portion of TMM's Shareholders own the shares in self-managed super funds in the pension phase and therefore do not pay tax. As a result, the receipt of franking credits will represent additional consideration of up to $0.64.

The following table summarises the after tax cash amount from the dividend portion of the Consideration (i.e. excluding capital gains) that certain Minority Shareholders could receive depending on their tax position according to Management:

Minority Shareholders after tax cash payment: A$	Capital	Dividend	Imputation credit	Tax payable	Total
Superannuation Fund - Pension phase	0.30	1.50	0.64	-	2.44
Superannuation Fund - Accumulation phase	0.30	1.50	0.64	(0.32)	2.12
Australian resident company	0.30	1.50	0.64	(0.64)	1.80
Australian resident individual - 19% tax rate	0.30	1.50	0.64	(0.45)	1.99
Australian resident individual - 37% tax rate	0.30	1.50	0.64	(0.83)	1.61
Australian resident individual - 45% tax rate	0.30	1.50	0.64	(1.05)	1.39

Source: Management

As shown in the table above, the potential benefit of the franking credits could result in a maximum of $2.44 being received by certain Minority Shareholders.

Reduced exposure to economic and operational risks of the Company

The Minority Shareholders will no longer be exposed to the ongoing risks associated with holding an investment in TMM which includes general market volatility, changes in the coal and iron ore prices which ultimately impact magnetite prices and other operational risks. Particularly, we note the following risk factors:

- The magnetite produced by TMM is used for coal washing. Owing to the historic decline in coal prices until mid-2016 (before the recent peak), Management have advised that the quantities of magnetite being purchased by TMM customers declined over the last couple of years as they become more efficient and cost conscious.

- There is risk that a substitute product may emerge for coal washing which would make the use of magnetite for this purpose redundant.

- It is noted that an overseas supplier of magnetite has in recent years entered the market and is supplying an increasing quantity to Australian coal producers. The industry also has low barriers to entry due to the following:

  - Based on discussions with Management, we understand that as long as the supplier is able to provide magnetite with a consistent quality and certainty of ongoing coal supply, coal producers who are mostly price sensitive would have no hesitancy in switching suppliers.

  - There is material excess magnetite capacity in the industry.

No brokerage cost

The Minority Shareholders will not incur any brokerage fees that they might otherwise incur if they were selling their shares by other means.

Disadvantages

No ability to participate in future potential upside of TMM

The Minority Shareholders will no longer have exposure to the potential benefits associated with holding an investment in TMM including any favorable changes in economic factors such as the coal or iron ore prices which may have the effect of increasing demand and/or price for magnetite.

In particular, we note that the Minority Shareholders may forego the opportunity to participate in the potential upside associated with the potential extension to the life of mine ("LOM") of the Kara Mine. However, we note that this is mitigated by the fact that the size of the market is saturated at the current level and there are limited growth opportunities. The Company is likely to adversely impact magnetite prices if more volumes are put into the market.

Majority Shareholder's perspective

Advantages

Control

The Selective Capital Reduction provides the Majority Shareholder with 100% control over TMM including the ability to fully control future dividend policy, strategic direction of the business, cash-flows and to realise cost savings from taking the Company private. We do note however that the Majority Shareholder already holds a controlling interest in 79.2% of the issued capital of the Company.

Disadvantages

Loss of franking credits

The Selective Capital Reduction will result in approximately $2.4 million of franking credits being paid to the Minority Shareholders. However, we do note that TMM's remaining balance of franking credits will be approximately $16.4 million.

Other considerations relevant for Minority Shareholders and Majority Shareholder

Consideration compared with TMM's net assets

TMM had net assets ("NTA") per share of $3.15 as at 30 June 2016. Based on discussions with Management, we understand that the Company intends to impair the carrying value of the mining assets by $25.5 million (before tax). The impairment is a result of TMM's annual impairment testing exercise pursuant to AASB 136 "Impairment of Assets" ("AASB 136"). Following Management's recommendation regarding the recoverable amount of the tangible assets, the Directors have made an in-principle decision to impair the carrying value of various assets used in the business.

If the carrying value of the mining assets as at 30 June 2016 is adjusted to take into account the impairment charge (net of deferred tax), the pro-forma NTA per share as at 30 June 2016 reduces to $2.17 which is within our assessed valuation range although towards the high end of the range.

The Selective Capital Reduction does not diminish TMM's ability to pay creditors

In our opinion, the Selective Capital Reduction does not adversely affect the ability of the Company to pay its existing creditors due to the following:

- The Company currently has a conservative financial position with no interest bearing liabilities.
- As at 30 June 2016, the working capital balance[2] was positive $13.8 million, which indicates that the Company has significant short term assets that can be realised to repay its creditors.

[2] Debtors plus inventory less creditors.

- If the Selective Capital Reduction is completed, the corporate costs of the Company should be streamlined which should bring improvements to the financial performance of the Company, all other things being equal.

Prospect of an alternative proposal

We have been informed by Management that if the Selective Capital Reduction is not completed, it is unlikely that the Majority Shareholder will consider alternative transactions to offer the Minority Shareholders with liquidity and exit opportunities.

The Board of Directors unanimously recommend, in the absence of a superior proposal, TMM shareholders vote in favour of the Selective Capital Reduction.

As set out in the Explanatory Statement, at the date of this report, having regard in particular to the advantages and disadvantages related to the Selective Capital Reduction, the Board of Directors recommend that in the absence of a superior proposal, TMM shareholders vote in favour of the Selective Capital Reduction.

Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Selective Capital Reduction is reasonable to the Minority Shareholders and to the Majority Shareholder and therefore reasonable to the TMM Shareholders as a whole.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Selective Capital Reduction is fair and reasonable to TMM Shareholders as a whole.

Each TMM Shareholder should decide whether or not to accept the Selective Capital Reduction based on their own views of value of TMM and expectations about future market conditions and the future operating performance of TMM.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to accept the Selective Capital Reduction is a matter for each TMM Shareholder to decide based on their own views of value of TMM and expectations about future market conditions and the future operating performance of TMM. If TMM Shareholders are in doubt about the action they should take in relation to the Selective Capital Reduction, they should seek their own professional advice.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN	HARLEY MITCHELL
Director and Authorised Representative	Authorised Representative

9 January 2017

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Tasmania Mines Limited ("TMM" or the "Company") to provide general financial product advice in the form of an independent expert's report in relation to the Selective Capital Reduction.

2 Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from TMM fees in the order of $50,000 plus GST, which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of TMM in order to provide this report. The guidelines for independence in the preparation of an independent expert's report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with TMM (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the proposed Selective Capital Reduction.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 367 287

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

Contents

1 Background and overview of the proposed Selective Capital Reduction

TMM is a listed public company principally engaged in mining magnetite from the Kara Mine in Tasmania. TMM's share capital is held approximately 79% by the Majority Shareholder. Following queries raised at TMM's 2016 annual general meeting from certain shareholders regarding possible mechanisms to enable them to exit TMM's share registry, on 7 November 2016, TMM announced that it would seek shareholder approval for the Selective Capital Reduction at $1.80 per share.

Set out below is a summary of the key terms of the proposed Selective Capital Reduction:

- ***Structure of the proposed Selective Capital Reduction*** – The Selective Capital Reduction is pursuant to sections 256B and 256C of the Corporations Act. If approved by the required majorities, upon completion of the proposed Selective Capital Reduction, the Company will reduce the number of its issued fully paid ordinary shares by 3,792,586 to 14,459,910. The proposed Selective Capital Reduction requires a special resolution (i.e. passed by at least 75% of the votes cast) of the Minority Shareholders.

- ***Consideration*** – Minority Shareholders will receive a cash consideration of $1.80 per share and have their TMM Shares cancelled.

- ***Funding*** – the proposed Selective Capital Reduction will be partly funded by TMM's cash balance at the time of completion (approximately $3.25 million) as well as drawing down approximately $3.75 million on an existing undrawn loan facility and a new bank loan facility.

- ***Australian Taxation Office Ruling*** – The Company is seeking a ruling from the ATO to support that the Consideration received by Minority Shareholders will constitute a dividend of $1.50 and capital of $0.30. The dividend component will be fully franked. Management advises that discussions with the ATO indicate that the ruling is expected to support that dividend/capital allocation.

2 Purpose and scope of the report

2.1 Purpose

Section 256B and 256C of the Corporations Act

Section 256B of the Corporations Act 2001 (the "Act" or "Corporations Act") states that a company may reduce its share capital in a way that is not otherwise authorised by law if the reduction:

- is fair and reasonable to the company's shareholders as a whole; and
- does not materially prejudice the company's ability to pay its creditors; and,
- is approved by shareholders under section 256C of the Act.

Under Section 256B, a capital reduction may be either an equal reduction or a selective reduction.

Section 256C(2) of the Corporations Act allows a selective reduction by passing a special resolution at a general meeting of the company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction or whose liability to pay amounts unpaid on shares is to be reduced, or by their associates. This does not prevent affected shareholders from voting against the resolution. In addition, the reduction, as it involves a cancellation of shares, must also be approved by a special resolution passed at a meeting of shareholders whose shares are to be cancelled.

Section 256C(4) of the Corporations Act requires the company to include with the notice of meeting a statement setting out all information known to the company that is material to the decision on how to vote on the resolution. An explanatory memorandum would usually accompany the notice of meeting. As suggested by Regulatory Guide 111 "Content of expert reports" ("RG 111") issued by the Australian Securities and Investments Commission ("ASIC"), an Independent Expert's Report should also accompany the notice of meeting and the explanatory memorandum.

RG 111

In preparing our report, Grant Thornton Corporate Finance has had regard to the Regulatory Guides issued by ASIC, particularly RG 111.

In particular, we note that RG111.8(d) states a control transaction includes a selective capital reduction where a person acquires, or increases, a controlling stake in a company. RG 111.4 states if a company proposes to undertake a selective capital reduction transaction, the company should commission an Independent Expert's Report to accompany the explanatory memorandum and the notice of meeting to satisfy the information requirements under Section 256C(4) of the Corporations Act.

Accordingly, the Directors of TMM have requested Grant Thornton Corporate Finance to prepare an independent expert's report stating, whether in its opinion, the proposed Selective Capital Reduction is fair and reasonable to TMM's shareholders as a whole.

2.2 Basis of assessment

In preparing our report, Grant Thornton Corporate Finance has had regard to the Regulatory Guides issued by ASIC, particularly RG 111.

RG 111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. Whilst RG 111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer, it states that similar considerations apply in relation to control transactions by way of a selective capital reduction under S256B of the Corporations Act.

We have considered the proposed Selective Capital Reduction as a control transaction in accordance with RG 111 based on the following:

- If the proposed Selective Capital Reduction is approved by special resolution, Minority Shareholders will have no option but to participate in the proposed Selective Capital Reduction for the entirety of their shareholding; and

- The proposed Selective Capital Reduction will result in the cancellation of the shares held by the Minority Shareholders which will result in an increase in the Majority Shareholder's interests in the equity of TMM to 100%[3].

Fairness

RG 111 states that an offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison should be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company.

In forming our opinion in relation to the fairness of the proposed Selective Capital Reduction to the shareholders as a whole, Grant Thornton Corporate Finance has considered the fairness of the proposed Selective Capital Reduction to the Minority Shareholders and to the Majority Shareholders before drawing a conclusion for TMM's Shareholders as a whole. In each case, Grant Thornton Corporate Finance has compared the Consideration with the fair market value of TMM Shares on a control basis before the proposed Selective Capital Reduction.

Reasonableness

In considering whether the proposed Selective Capital Reduction is reasonable to the shareholders as a whole, we have considered a number of factors, including:

- Whether the proposed Selective Capital Reduction is fair.

- The implications for the Minority Shareholders and the Majority Shareholder if the proposed Selective Capital Reduction is not approved.

[3] Dependent on if the special resolution is passed

- Other likely advantages and disadvantages to the Minority Shareholders and the Majority Shareholder associated with the proposed Selective Capital Reduction as required by RG 111 including whether the proposed Selective Capital Reduction diminishes the ability of TMM to pay its creditors and if it generates any material adverse financial impact for TMM.

- Other costs and risks associated with the proposed Selective Capital Reduction that could potentially affect the shareholders subject to the offer.

2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the proposed Selective Capital Reduction with reference to the ASIC Regulatory Guide 112 "Independence of Experts" ("RG 112").

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the proposed Selective Capital Reduction other than that of independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the proposed Selective Capital Reduction.

2.4 Consent and other matters

Our report is to be read in conjunction with the Notice of Meeting and Explanatory Statement dated on or around 6 January 2017 in which this report is included, and is prepared for the exclusive purpose of assisting the Minority Shareholders in their consideration of the proposed Selective Capital Reduction and assisting the Directors in discharge of their obligation. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of Meeting and Explanatory Statement.

The preparation of this report has had regard to APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited in July 2008 (revised May 2012).

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the proposed Selective Capital Reduction to the Minority Shareholders. We have not considered the potential impact of the proposed Selective Capital Reduction on individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the proposed Selective Capital Reduction on individual shareholders.

The decision of whether or not to vote for the proposed Selective Capital Reduction is a matter for each Minority Shareholder based on their own views of value of TMM and expectations about future market conditions, TMM's performance, risk profile and investment strategy. If shareholders are in doubt about the action they should take in relation to the proposed Selective Capital Reduction, they should seek their own professional advice.

3 Industry overview

TMM is primarily engaged in the mining and production of magnetite iron ore, which is predominantly used in washing coal before export. According to Management, the Company has a market share of approximately 70% in supplying magnetite for coal washing in Australia.

The sales prices of magnetite produced by TMM are indirectly correlated to the global coking coal prices and iron ore prices. Accordingly, we have provided below a brief overview of the coal and iron ore industries and in particular coking coal and iron ore prices.

3.1 Coal

3.1.1 Overview

Black coal occurs in two primary forms, coking (or metallurgical) coal, and thermal (or steaming) coal. The former is mainly used in steel production, whereas the latter is principally consumed in electricity generation. Coking coal is further categorised in order of the level of its carbon content: Hard Coking Coal, Semi-hard Coking Coal, Semi-soft Coking Coal and Pulverized Coal Injection ("PCI"). Hard coking coal has the highest carbon content and is used in the production of coke (fuel) which is a key input in the production of iron and steel. In comparison, semi-soft coking coal and PCI are used for blending with hard coking coal to reduce the amount of coke consumed in the steel production process. As a result, hard coking coal trades at a premium to lower grade metallurgical coal i.e. semi-hard coking coal, semi-soft coking coal or PCI.

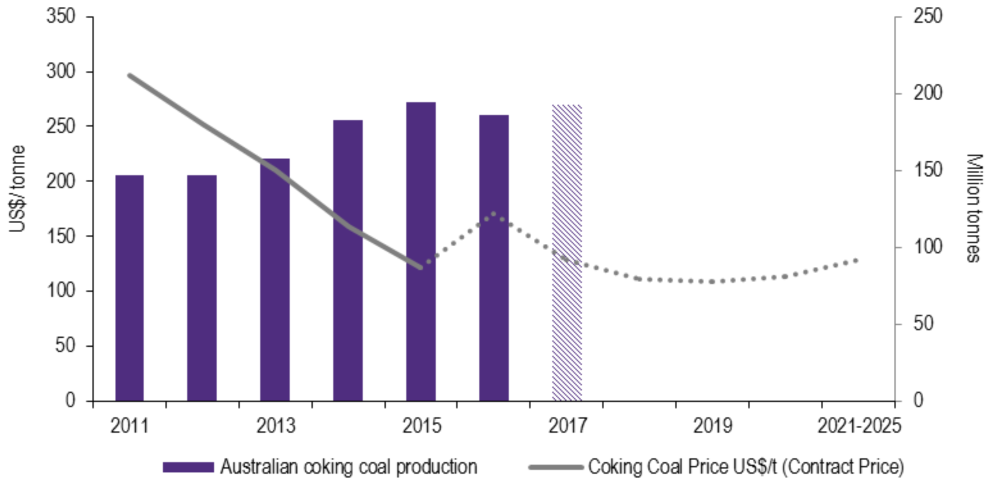
While black coal deposits are found all over the world, Australia is one of the world's lowest cost producers and is a major black coal exporter. In Australia, coking coal is primarily sold to export markets in China, India and Japan for steel making. According to the Department of Industry, Australia accounted for over 60% of the world's total volume of metallurgical coal exports in 2014-2015[4]. Although China accounts for the majority of total world production, it consumes most of its output domestically. Hence, Australia is an important participant on the world market for coking coal.

3.1.2 Historical coal prices and outlook

The following graph shows the historical contracted coking coal prices from 2011 to 2015 and the forecast movements from 2016 to 2025. It also shows Australia's historical and forecast production volumes of coking coal.

[4] IBIS report *Black Coal Mining in Australia*, October 2016

Coking coal prices and Australian production 2011 - 2025



Source: Consensus Economics Inc,. Resources and Energy Quarterly, Department of Industry, Innovation and Science, and Focus Economics Shaded cells and dotted lines denotes forecast information.

We note that the premium hard coking coal benchmark price is established by private negotiations between the major Australian producers and Japanese steel mills each quarter. Whilst the current spot price for premium hard coking coal is close to US$300 per tonne, the last quarter of 2016 premium hard coking price has been set at US$200 per tonne, which represents a rise of circa 120% over the previous quarter.

As shown above, contracted coal prices decreased between 2011 and 2015 but spiked in 2016. The decline in contracted coking coal prices over 2011 to 2015 has been a result of production materially exceeding demand. During 2016, contracted coking coal prices have increased for reasons including supply constraints from weather related supply disruptions in Queensland and the implementation of a range of new policies by the Chinese government to curb the oversupply of coking coal. These policies include reducing mine operating days from 330 to 276 days a year, which effectively decreased the coal output in China over the first six month period of 2016. Meanwhile, activities in China's construction sector increased, driving demand for coking coal. As a result of production controls and increased demand for steel, seaborne prices of coking coal lifted.

Despite the recent price reversals, the outlook for coking coal prices in the short term is for a downward trend. This is in response to the expectation that trade is forecast to remain subdued because of weak demand. Contributing to the weak demand is unsold properties in China's residential sector which is expected to reduce steel production in China over the next eighteen months[5]. This and other factors are likely to see a decline in contracted coking coal prices in 2017-2018.

[5] Resources and Energy Quarterly, September 2016, Department of Industry, Innovation and Sciences, Commonwealth of Australia

3.2 Iron ore

3.2.1 Overview

Iron is one of the most abundant rock-forming elements in the Earth's crust. Iron mainly comes in the following iron oxide minerals: hematite which contains approximately 70% iron, magnetite which contains approximately 72% iron, goethite which contains approximately 63% iron, and limonite which contains approximately 60% iron[6]. The most commonly mined iron ores are magnetite and hematite which via different processing method can be sold as iron ore fines, pellets and lumps. Fines require the most processing and as such are the least valuable. High quality pellets can attract a 5-30% premium over lump ore when sold.

Consistent with most iron ore mines across the globe, all the major Australian iron ore mines are open cut mines. Crushed and processed iron ore is primarily used to manufacture steel for building, transport infrastructure construction and other development projects. The industrialisation of China has historically increased the demand for iron ore, pushing the global iron ore prices up during 2012-2013. However, this was followed by an oversupply of iron ore and a slowdown in Chinese demand, which has since resulted in a large drop in iron ore prices.

Magnetite iron ores are also used as a dense medium to separate magnetic minerals from other minerals. They are commonly used to wash coal, the process is also known as coal beneficiation, in coal washery plants. The suitability of magnetite for coal washing is due to its high density and recoverability by magnetic separation for recycling[7].

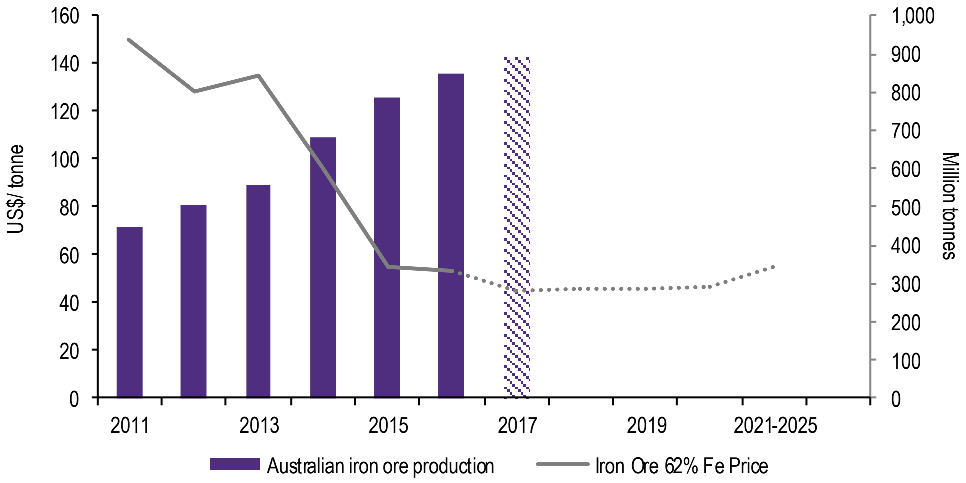
The global iron ore market has an oligopolistic market structure. The four largest global iron ore miners are the Brazilian company, Vale, followed by Australian miners, namely BHP Billiton, Rio Tinto and Fortescue Metals. These four businesses produce over 70% of the world's iron ore.

3.2.2 Historical iron ore prices and outlook

Set out in the following graph is the daily average historical price of iron ore from January 2011 to October 2016 and forecast price of iron ore from November 2016 to 2025. It also shows Australia's historical and forecast production of iron ores.

[6] Geoscience Australia, Commonwealth of Australia
[7] NSW Department of Primary Industries

Iron ore prices and Australian production 2011 - 2025



Source: Consensus Economics Inc. Resources and Energy Quarterly, Department of Industry, Innovation and Science, and IndexMundi. Shaded cells and dotted lines denotes forecast information

The high prices experienced in between 2011 and 2013 were supported by strong economic growth in China and adverse weather and flooding in Queensland. The surge in iron ore prices during those times saw producers increasing output which led to an oversupply in the market.

Expectations in relation to the future performance of iron ore prices vary amongst market analysts and commentators. However, overall it is expected that there will be lower volatility going forward.

4 Profile of TMM

4.1 Company overview

TMM is an Australian listed public company primarily involved in the mining and production of magnetite iron ore, which is predominantly used in washing coal.

TMM operates and owns 100% of the Kara Mine, which is located in north-west Tasmania, producing high grade magnetite. Magnetite produced is sold to the Australian coal industry as a dense medium to wash coal. The Company has been mining magnetite since late 1994. The Company also produces and sells small quantities of scheelite which is bought by its customers to process it into tungsten, a hard and rare metal. Scheelite remains a by-product of TMM's production of magnetite ores.

4.2 The Kara Mine

TMM actively operates out of the open cut Kara No 1 deposit. In addition within the same mining lease, there are three other deposits: Eastern Ridge, Kara North 266 and Kara North Magnetic Anomaly.

During 2015 ore products were principally derived from the Kara No 1 deposit, while a small amount of scheelite bearing material was recovered from the Eastern Ridge deposit. The Kara No 1 deposit life of mine is estimated to be 25 years based on the current production rate of 400,000 tonnes of ore per annum. Set out below are the magnetite resources and ore reserves estimated in the Kara No 1 deposit by Polberro Consulting as at 1 January 2016 ("Polberro Report"). No reserve estimate was produced for scheelite or any other minerals that are recovered as secondary products.

Kara No 1 Resource type	Tonnes	FeO%	WO_3 ppm
Measured	9,778,000	50.0%	365
Indicated	706,000	51.0%	982
Inferred	69,000	60.0%	3,350
Total resources	10,553,000	50.1%	426

Kara No 1 Reserve type	Tonnes	FeO%	WO_3 ppm
Proven	9,273,000	49.5%	341
Probable	714,000	50.2%	864
Total reserves	9,987,000	49.6%	378

Note (1): FeO = Iron oxide, WO3 = tungsten trioxide grades, and ppm = parts per million (mg/L)

Source: Tasmania Mines Kara No 1 Magnetite Deposit Ore Reserve Report prepared by Polberro Consulting, January 2016

Polberro Consulting applied the following factors in estimating resources and reserves:

- the mining recovery factor is 95%;
- the cut-off grade is FeO>30%, hence all material below this is discarded during the in pit sorting; and
- the oxide ore discrimination rate is 50%, meaning 50% of oxidised resource is discarded.

The Eastern Ridge deposit represents a scheelite target with some magnetite. Presently some material is occasionally mined to provide scheelite feed for the processing plant for test purposes. According to the Polberro Report, no reserves are currently proposed for the area pending further research into scheelite processing recoveries. Pre-JORC 2012 resource estimates exist (as set out in the table below) for the Eastern Ridge deposit, however it is noted that the economic feasibility of mining from this area continues to be researched.

Similar to the Eastern Ridge deposit, the Kara North 266 deposit represents a scheelite target with some magnetite, although according to the Polberro Report historic optimisation studies indicate a stand-alone magnetite potential and the economic feasibility of mining from this area continues to be researched. Resource estimates prepared in 2013 exist for the deposit and are summarised in the table below.

The Kara North Magnetic Anomaly is a magnetite target. This deposit has been identified as the next likely extension of mining after Kara No 1. Resource estimates prepared in 2013 are summarised in the table below. Further drilling needs to occur in order to raise the resource status of the deposit.

The following table summarises the reserve estimates for the other deposits:

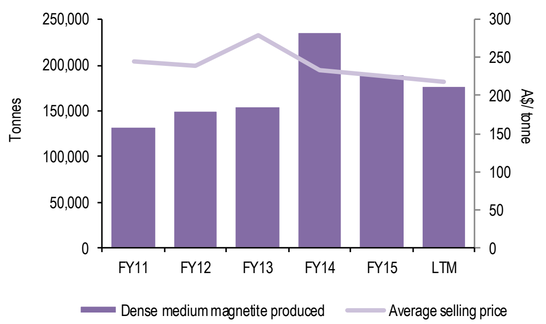
Location	Class	Tonnes	FeO%	WO_3 ppm
Eastern Ridge	Measured	-	-	-
Jorc 2004	Indicated	5,240,000	47.8%	1,200
	Inferred	1,260,000	50.6%	400
	Subtotal	6,500,000	48.3%	1,045
Kara North 266	Measured	-	-	-
Jorc 2012	Indicated	2,590,000	47.3%	2,000
	Inferred	260,000	46.9%	800
	Subtotal	2,850,000	47.3%	1,891
Magnetic Anomaly	Measured	-	-	-
Jorc 2012	Indicated	-	-	-
	Inferred	11,960,000	42.7%	160
	Subtotal	11,960,000	42.7%	160

Note (1): FeO = Iron oxide, WO3 = tungsten trioxide grades, and ppm = parts per million (mg/L)

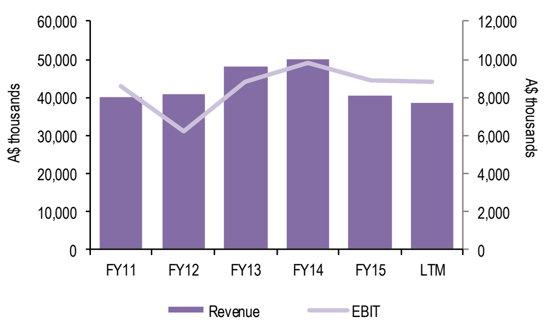
Source: Tasmania Mines Kara No 1 Magnetite Deposit Ore Reserve Report prepared by Polberro Consulting, January 2016

The graphs below set out the historical production of dense medium magnetite ("DMM") mostly from Kara No 1 and the average selling price per tonne of concentrate, as well as TMM's historical revenue and EBIT[8].

Historical magnetite production and average selling price



Historical revenue and EBIT



Source: Annual financial report 2011-2015, Half-year financial report 2015-2016, GTCF calculations

[8] Earnings before interest and tax.

As shown in the above graphs, TMM has over the last five years produced between approximately 133,000 tonnes (FY11) and approximately 236,000 tonnes (FY14). The average for the period FY11 to FY15 was approximately 173,000 tonnes. Over this same period, the average selling price has mostly declined. The exception to this was in FY13 when the average selling price was at a high of $280 per tonne due to the existence of some favourable contracts.

The above graphs also show that revenue has fluctuated in line with production but not to the same degree given the decline in average selling prices. With the exception of FY12, EBIT has varied within a narrow range. Further, we note that, excluding FY12, EBIT margin was in a range of 18% and 22%. We understand from Management that TMM typically enters into contracts for a three year duration which sets quantities and prices up front with an allowance for an adjustment for inflation. TMM's customers include a variety of mining companies, producing coal, iron ore and other resources.

According to Management, TMM has an approximate 70% share in the market for magnetite. Their largest competitor, who holds most of the remaining market share, is a foreign owned private company.

4.3 Financial information

4.3.1 Income statement

The statement of profit or loss for TMM for the year ended 31 December 2015 ("FY15") and the half-year ended 30 June 2016 ("HY16") are set out in the following table. We note that we have also been provided with results for the period to September 2016 ("YTDSep16"), however have not disclosed the results owing to commercial sensitivity.

Consolidated statement of profit or loss for the period ended: A$000s	FY15 Audited	HY16 Reviewed
Revenues		
Revenues	40,781	17,855
Expenses		
Cost of Sales	(14,628)	(6,652)
Gross margin	26,153	11,203
Gross margin %	*64%*	*63%*
Overhead expenses		
Distribution Expense	(16,630)	(7,004)
Administration Expenses	(761)	(375)
Finance Costs	(55)	(20)
Other Income	145	83
Profit before tax	**8,852**	**3,887**
Income tax expense	(2,639)	(1,170)
Net Income (Loss)	**6,213**	**2,717**

Source: Annual financial report 2015, Half-year financial report 2016, TMM Management

We note the following in relation to the income statements of TMM.

- Revenue for HY16 on an annualised basis is less than revenue for FY15 by about 12%. Revenue recorded for the period ended 30 September 2016 is marginally less than budgeted revenue for that period and on an annualised basis remains less than revenue for FY15. According to Management the difference is explained by the reduction in selling prices.

- Gross margin percentage for FY15 and HY16 is fairly consistent, but note that there has been a small decline in the gross margin percentage as at 30 September 2016. The decrease is due to a drop in the average sales price of magnetite from approximately $220 per tonne to approximately $208 per tonne. This decrease was partially offset by a decrease in the cost of mining and milling.

- On an annualised basis distribution expenses have reduced by approximately 13% compared to FY15 as a result of cost savings from bulk shipments instead of using smaller and more frequent shipments, as well as TMM establishing their own warehousing facility in NSW that replaces a previously used third party facility which was more expensive.

- Depreciation costs of mining equipment used in the production of magnetite ores are mainly captured in cost of sales and a small portion is included in the distribution and administration expenses.

- Other income is made up of approximately $125,000 of fuel tax credits and approximately $20,000 of rental income, which are broadly consistent year on year.

4.3.2 Balance sheet

The consolidated statements of financial position of TMM as at 31 December 2015 and 30 June 2016 are set out in the table below.

Statement of financial position as at A$000s	31-Dec-15 Audited	30-Jun-16 Reviewed
Current Assets		
Cash and Cash Equivalents	2,665	3,498
Trade and Other Receivables	6,184	6,752
Inventories	11,125	10,461
Other Current Assets	308	184
Total Current Assets	**20,282**	**20,895**
Non Current Assets		
Mine Development	334	334
Exploration & Evaluation	1,127	1,127
Property, Plant and Equipment	41,310	42,082
Total Non Current Assets	**42,771**	**43,543**
Total Assets	**63,053**	**64,438**
Current Liabilities		
Trade and Other Payables	4,020	3,429
Current Tax Payable	615	47
Provisions	364	351
Total Current Liabilities	**4,999**	**3,827**
Non Current Liabilities		
Deferred Tax	1,368	1,721
Provisions	1,279	1,314
Total Non Current Liabilities	**2,647**	**3,035**
Total Liabilities	**7,646**	**6,862**
Net Assets	**55,407**	**57,576**
Shareholders' Equity		
Common Stock - Par Value	9,534	9,534
Retained Earnings	45,873	48,042
Total Shareholders Equity	**55,407**	**57,576**

Source: Annual financial report 2015, Half-year financial report 2016, TMM Management

We note the following in relation to the balance sheet of TMM:

- Net assets over the periods presented above have not changed materially. Changes in net assets has mostly been a result of:
  - fluctuations in inventory; and
  - a gradual build up in property plant and equipment.

- The most material components of the property, plant and equipment ("PPE) balance are capital works in progress and general plant and equipment. We note that the Company has advised that it intends to impair approximately $25.5 million (before an allowance for deferred tax) in December 2016 in respect of the following assets:

  - Mine development and Exploration and Evaluation Assets: According to Management, mine development and Exploration and Evaluation Assets comprise previously capitalised costs which Management are of the view, are unlikely to generate any future cash inflows.

  - Property, Plant and Equipment. According to Management, a write down of the tailings dam is required as it is now being used only for water storage and settlement and a new tailings dam has been constructed. We understand that the commissioning of the Flotation Plant and the Marcy Rod Mill were never completed and require an impairment charge. Other Property, Plant and Equipment will also be written down, based on Management's assessment of their recoverable amount.

- As at 30 September 2016, TMM had a cash balance of approximately $5.4 million, of which $1.5 million was considered surplus by Management.

4.4 Share capital structure

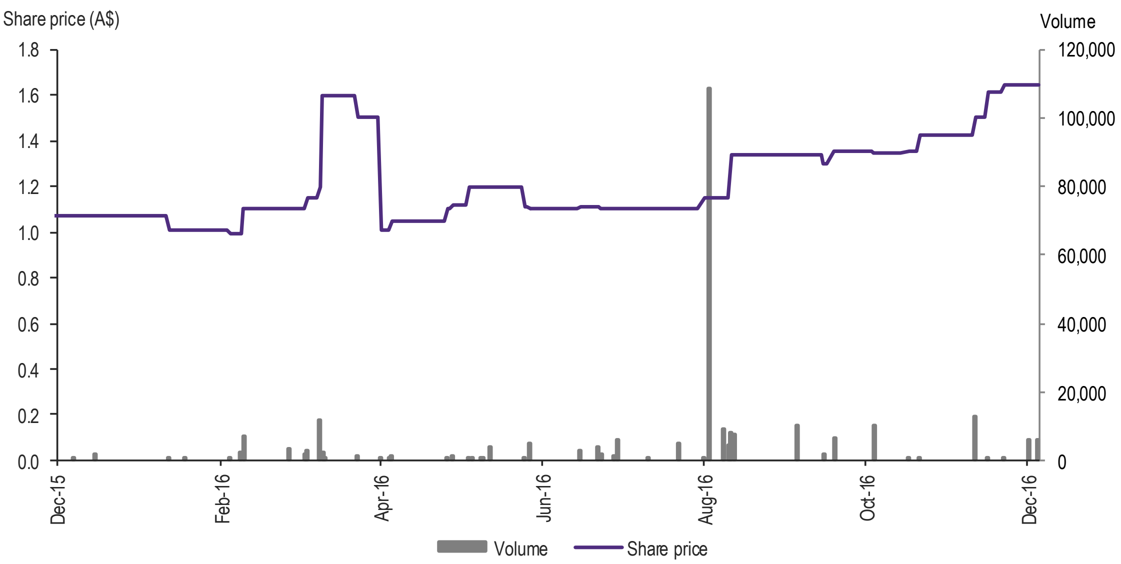
TMM has 18,252,496 fully paid listed ordinary shares on issue. Set out below is a summary of TMM's major shareholders as at 30 September 2016.

Top 10 shareholders as at 30 September 2016			
Ra	Name	Number of shares	Interest (%)
1	Metroof Industries Pty Ltd	14,459,910	79.22%
2	Bell Family and Associates	1,049,474	5.75%
3	Mr Joseph O. Carroll	502,000	2.75%
4	Boland Holdings Pty Ltd	223,775	1.23%
5	Telfer Nominees Pty Ltd	133,000	0.73%
6	Ms Janet N. Gear	126,450	0.69%
7	Weldbank Pty Ltd	67,200	0.37%
8	Mrs Milly Elkington	62,514	0.34%
9	Imperial Pacific Resource	60,000	0.33%
10	Mrs Kay Pelz	53,235	0.29%
Top 10 shareholders total		**16,737,558**	**91.70%**
Remaining shareholders		**1,514,938**	**8.30%**
Total share outstanding		**18,252,496**	**100.00%**

Source: TMM Management

The daily movements in TMM's share price and volumes traded for the period from December 2015 to December 2016 are set out below:

Historical share trading prices and volume for TMM



Source: S&P Global and Grant Thornton Corporate Finance calculations

As can be seen in the graph above, over the period December 2015 to December 2016, TMM Shares have traded at a high of $1.65 on 1 December 2016 and a low of $0.99 on 4 February 2016.

Set out below is the volume weighted average price analysis of TMM shares.

Month end	Volume traded ('000)	Monthly VWAP ($)	Total value of shares traded ($'000)	Volume traded as % of total shares
Jun 2015	6	1.2604	7	0.0%
Jul 2015	8	1.2665	11	0.0%
Aug 2015	4	1.2929	5	0.0%
Sep 2015	18	1.0272	18	0.1%
Oct 2015	19	1.0456	20	0.1%
Nov 2015	31	1.0945	34	0.2%
Dec 2015	2	1.0700	2	0.0%
Jan 2016	1	1.0100	1	0.0%
Feb 2016	12	1.0796	13	0.1%
Mar 2016	21	1.2599	27	0.1%
Apr 2016	4	1.0785	4	0.0%
May 2016	12	1.1522	14	0.1%
Jun 2016	16	1.1143	18	0.1%
Jul 2016	6	1.1000	7	0.0%
Aug 2016	138	1.1593	160	0.8%
Sep 2016	18	1.3391	24	0.1%
Oct 2016	11	1.3563	15	0.1%
Nov 2016	14	1.5088	21	0.1%
Min				**0.01%**
Average				**0.10%**
Median				**0.07%**
Max				**0.76%**

Source: S&P Global and Grant Thornton Corporate Finance calculations

Apparent from the graphs and tables above is the thinly traded nature of TMM Shares. Over the last 18 months less than 2% of TMM Shares have traded.

TMM has consistently paid dividends over the last few years. We note that in the last three years TMM has paid a yearly dividend of $0.03 per share fully franked.

5 Valuation methodology

5.1 Introduction

In accordance with our adopted valuation approach set out in Section 2.2, our fairness assessment involves comparing the Consideration to the fair market value of TMM Shares on a control basis.

Fair market value is commonly defined as:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

5.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- The discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets.
- The application of earnings multiples to the estimated future maintainable earnings or cash flows and the estimated realisable value of any surplus assets.
- The amount available for distribution to security holders on an orderly realisation of assets.
- The quoted price for listed securities, when there is a liquid and active market.
- Any recent genuine offers received by the target.

Further details on these methodologies are set out in Appendix B to this report. Each of these methodologies is appropriate in certain circumstances.

RG 111 does not prescribe which of the above methodologies an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

5.3 Selected valuation methodology

Grant Thornton Corporate Finance has assessed the fair market value of TMM Shares using a net assets approach as the primary method. The fair market value of net assets is based on the sum of parts of TMM's operating and exploration assets and other assets and liabilities. More specifically, we have aggregated:

- the fair market value of TMM's interest in the Kara Mine;
- the fair market value of other assets and liabilities as set out in TMM's unaudited statement of financial position as at 30 September 2016; and
- deducted the costs associated with the proposed Selective Capital Reduction.

5.3.1 Kara Mine

The fair market value of TMM's Kara Mine has been assessed using the DCF valuation method given that:

- The DCF method is the most appropriate approach in valuing assets with a finite life such as mineral assets due to the depletion of reserves over time.
- The DCF method captures the significant level of capital and time required for the development and mining of mineral assets.
- The DCF method is one of the most commonly used methodologies for the valuation of mineral assets.
- Management of TMM have long-term forecasts in relation to expected production based on the life of mine assessed with regard to the current level of reserves and resources.

In our assessment of the fair market value of the Kara Mine we have relied on information from Management as to historical and forecast performance as well as on the Polbero Report that articulates the production rate and therefore the expected life of mine. We have not separately engaged a technical expert to assess the reasonableness of the technical operating assumptions assumed by Management in their forecast financial performance for the Kara Mine. Our reasons for not doing so are as follows:

- The mine is a mature operation which has been operating since 1977 with DMM for coal washing being produced since 1994.
- Over the last four years production has varied within a narrow range.
- The price achieved for magnetite is contracted for a period of 2/3 years and driven by negotiations between TMM and its client.
- The Polbero Report sets out sufficient information concerning the life of mine and production reflecting current market conditions.

- The market is dominated by two suppliers and there is limited ability for TMM to increase production without adversely impacting prices.

Prior to reaching our valuation conclusions, we have considered the reasonableness of our valuation having regard to TMM's net assets. We have also considered a cross check involving resource multiples of comparable companies. Owing to the lack of comparability between TMM and the listed entities that we have considered, this comparison has provided little utility. Given the low liquidity of TMM Shares we have not cross checked our valuation to the trading prices.

6 Valuation assessment of TMM Shares before the proposed Selective Capital Reduction

Set out below is Grant Thornton Corporate Finance's assessment of the fair market value of TMM Shares before the proposed Selective Capital Reduction on a control basis.

Stated in A$000 unlesss otherwise stated	Reference	Low	High
Value of Kara Mine	*Section 6.1*	33,266	41,892
Add: Adjusted other assets and liabilities	*Section 6.2*	1,500	1,500
Adjusted net assets of TMM		34,766	43,392
Less: Transaction costs	*Section 6.4*	(250)	(250)
Less: Corporate overheads	*Section 6.3*	(2,314)	(1,596)
Equity value of TMM on a control basis		32,202	41,545
Number of shares outstanding before the proposed Selective Capital Reduction	*Section 4.4*	18,252	18,252
Value per share on a contril basis before the proposed Selective Capital Reduction		1.76	2.28

Source: GTCF calculations

In the subsequent sections we discuss how each component of TMM's value was assessed.

6.1 Fair market value of the Kara Mine

We have assessed the fair market value of the Kara Mine using the DCF methodology. Using information from Management concerning expected future production and in particular the Board approved budget for FY16, Grant Thornton Corporate Finance has assessed the net present value of the Kara Mine using ungeared, real, post-tax cash flows, having regard to Grant Thornton Corporate Finance's assessment of the future magnetite prices, inflation and discount rate. We have also referred to the Polberro Report for information concerning TMM's historic production rates and reserve estimation.

Our assessment of the fair market value of the Kara Mine is based on the current level of reserves for the Kara No 1 deposit and does not take into account resources for other deposits or potential extension of the LOM of Kara No 1. Based on production reflecting current market condition and demand levels[9] which the Polberro report considers, it is unlikely that there is any material value that could be attributed to resources outside the current LOM of Kara No 1 and the exploration potential of the Kara Mine. At present, TMM has approximately 70% of the market of producing DMM for coal washing. In addition, we note that according to the Polberro Report further work would need to be undertaken by TMM before the economic viability of the reserves from other deposits could be determined.

6.1.1 Key valuation assumptions

As a starting point for our valuation assessment based on the DCF, we have adopted the FY16 Forecast which is based on the FY16 Budget and actuals to 30 September 2016. In this regard, we note that the FY16 Budget has been prepared by Management and is approved by the Board. For subsequent years, we have considered TMM's historical performance, FY16 Budget and discussions with Management to form a view on the other assumptions underlying the projections. Set out in

[9] Polberro Report page 8

the table below is a summary of the key operating assumptions underpinning the forecast cash flows relating to the Kara Mine.

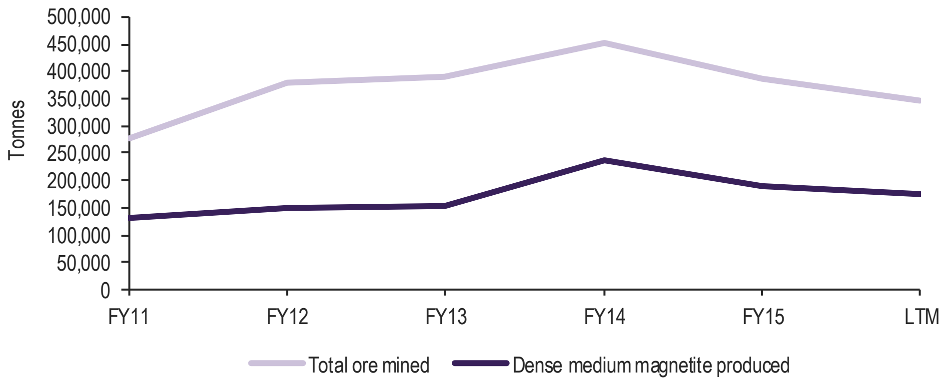
DCF valuation			
Key assumptions	Units	Forecast	Average of the last five years
Remaining life of mine	Years	25	-
Annual production rate of magnetite ore	tonnes/pa	400,000	376,621
DMM annual production	tonnes	185,000	172,562
DMM price	A$ per tonne	205 - 215	244
Direct operating costs per tonne (excluding distribution)	A$ per tonne	81-88	98
Distribution costs	% of revenue	40	40
CAPEX	A$'000 per annum	4,200	7,346
Working capital	% of revenue	2.5	3.7

Source: Management, and GTCF analysis

6.1.2 Production profile

The graph below sets out TMM's historical production profile.

Historical ore mined and DMM produced



Source: Annual Financial Reports 2011-2015, Management and GTCF calculations

As shown in the graph above, ore mined and DMM produced has gradually risen since FY11. In the last two years, DMM produced has been between 180,000 to 190,000 tonnes. In 2014, annual production was higher due to a special shipment to an overseas customer of approximately 40,000 tonnes of steel making magnetite. Removing this one-off shipment, total DMM produced in 2014 would have been approximately 200,000 tonnes.

For the purpose of our valuation assessment, Grant Thornton Corporate Finance has assumed a production rate for DMM going forward of 185,000 tonnes per annum based on the following:

- TMM's most recent production rates.
- Customer analysis provided by Management identifying committed and non-committed tonnes for each customer for FY17.

- The level of saturation of the market and the limited growth opportunities.

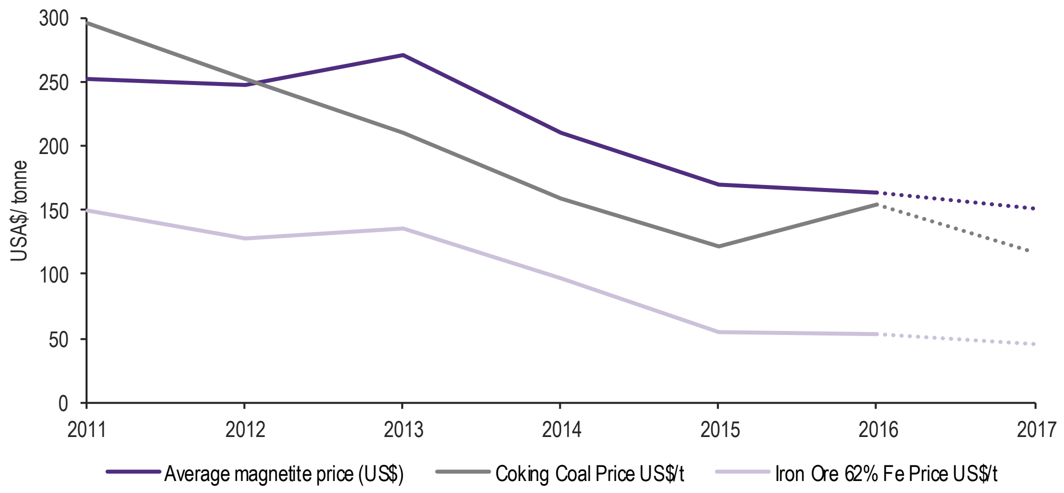
- YTD production volumes.

6.1.3 Magnetite price

For the purpose of forming a view on the appropriate magnetite prices to use for the valuation, Grant Thornton Corporate Finance has had regard to the historical prices achieved by TMM as well as historical spot prices, current forward prices and forecast prices prepared by various brokers for coal and iron ore, which indirectly may impact the contracted magnetite price.

Shown in the graph below is TMM's average historical selling prices[10] of DMM expressed in US dollars[11] compared to the average coking coal price and iron ore. The average selling price of DMM for 2017 is an estimate based on the customer sales contracts Management have in place for the financial year ended 30 December 2017.

DMM average selling price compared to Iron Ore and Coking Coal



Source: Annual Financial Reports 2011-2015, Management and GTCF calculations

The graph shows a similar overall trend between TMM's average selling price for DMM and coking coal and iron ore prices. We note that TMM enters into contracts with its customers for approximately a three year period setting prices up front and allowing a CPI escalation. Based on this practice, it is not unreasonable for there to be a time lag between how coking coal and iron ore prices move compared with TMM's average DMM price. This lag potentially explains TMM's anomalous selling prices for DMM in 2012 and 2013 compared to the underlying commodities.

In forming our view of an appropriate magnetite price to adopt in our valuation assessment, Grant Thornton Corporate Finance has considered:

- The likely future price trend for coking coal and iron ore. This in turn is based on a consideration of:

[10] Calculated by revenue divided by production tonnes
[11] In calculating the average selling price in US dollars we have translated the selling price using an average AUD/US dollar exchange rate for the year

- Brokers' forecasts released by Consensus Economics Inc., dated November 2016;
- Historical trading prices of iron ore and coking coal; and
- Movement in spot and forward prices of iron ore and coking coal.

- Management's views on the likely DMM price.

Based on the above we have assumed a DMM price in a range of $205 to $215 per tonne (i.e. US$148 to US$155).

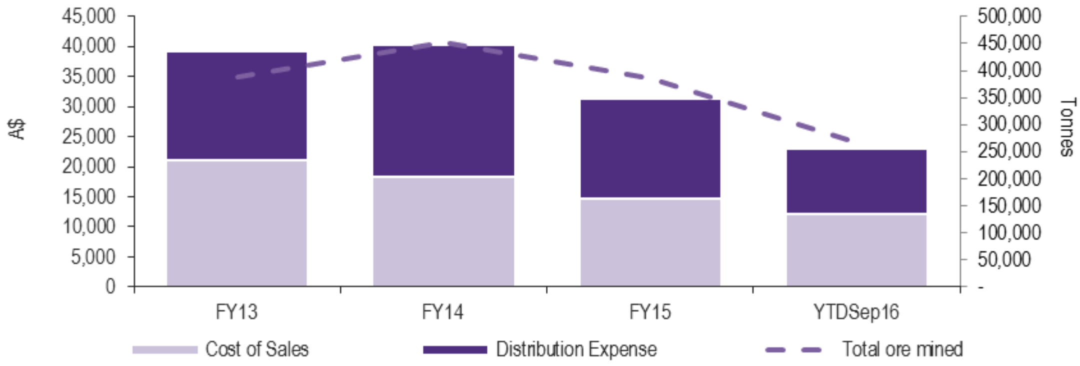
Given the volatility in commodity markets, the current levels of commodity prices relative to historical long run prices, and the widely varying views of industry analysts, assumptions regarding future commodity prices are inherently subject to considerable uncertainty. It should be noted that the value of the Kara Mine could vary materially based on a variation in magnetite prices which in turn is driven by changes in commodity price expectations.

The assumptions in relation to the magnetite prices adopted by Grant Thornton Corporate Finance do not represent forecasts by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of resources assets and companies.

6.1.4 Cost of sales and distribution expenses

Cost of sales include costs associated with mining and milling, processing, royalty, depreciation and other direct costs. The following graph summarises the historical cost of sales and distribution costs incurred by TMM since FY13.

Cost of sales and distribution costs



Note (1): FY13, FY14, FY15 represent 12 months of information and YTDSep16 represents nine months of information.
Source: Annual Financial Reports 2011-2015, Management and GTCF calculations

As depicted in the graph above, distribution expenses contribute to a large portion of operating costs and have recently decreased. This is primarily due to cost savings from bulk shipments instead of smaller and more frequent shipments, as well as TMM establishing their own storage facilities in Queensland and NSW which replace third party facilities previously used. In real terms, mining, milling, processing and royalty costs are expected to remain consistent with those set out in the FY16 Forecast. Depreciation will vary in accordance with capital expenditure, which is discussed in further detail below. Overall it is estimated that cost of sales (including depreciation) in real terms will be $81 to $88 per tonne.

6.1.5 Depreciation and capital expenditure

TMM's current depreciation charge is approximately $3 million[12] which has been increasing over the last few years on account of the expenditure made on plant and equipment. The following table summarises the TMM's depreciation and capital expenditure over various historical periods.

Historical capital expenditure (A$000)	FY13	FY14	FY15	HY16	Annual average	Annual average (excl FY14)
Capex	(6,580)	(14,420)	(4,340)	(2,376)	(7,523)	(5,224)
Depreciation	(1,932)	(2,346)	(3,004)	(1,386)	(2,514)	

Capital expenditure was unusually high in FY14 as a result of the costs related to flotation and filtration system upgrades. Going forward, Management has estimated that a normalised capital expenditure of $4.2 million is required, which is lower than the historical average. The lower value acknowledges that historically capital expenditure was incurred for significant one-off projects (e.g. distribution centres) and future expenditure will be mostly for maintenance purposes only. We have also estimated that in the medium term the depreciation charge will align with normalised capital expenditure.

6.1.6 Working capital

The following table summarises TMM's level of working capital at various points since FY13.

Working Capital analysis (A$000)	FY14	FY15	Jun-16	Sep-16	FY16 Forecast
Working Capital	7,778	13,280	13,784	13,000	13,000
Movement	(3,478)	5,502	504	(784)	0
% of Annual Revenue	*-6.9%*	*13.5%*	*1.4%*	*-2.0%*	*0.0%*

TMM's working capital levels have increased over time largely because of inventory built up. Whilst the level of working capital for FY14 is lower than other years, it is as a result of unusually high trade payables.

Based on discussions with Management and a consideration of the more recent years' working capital, Grant Thornton Corporate Finance has adopted a normalised level of working capital of $13 million going forward.

6.1.7 Tax

Tax has been calculated at the rate of 30%, which is the Australian corporate tax rate.

6.1.8 Discount rate

The cash flow assumptions associated with the Kara Mine have been prepared on a real, ungeared and post-tax basis. Accordingly, Grant Thornton Corporate Finance has applied a real, post-tax

[12] Per TMM FY15 Annual Report

Weighted Average Cost of Capital ("WACC") in the range of 12% to 13% to value the Kara Mine. In assessing the WACC we have taken into account the following:

- TMM's smaller size compared to some of the comparable companies and less diversified operations.
- The industry has limited barriers to entry and there is significant excess magnetite capacity in the industry. We do note however that customers do place a high level of importance on security of supply and speed of distribution.
- TMM's experience of increasing competition and the fact that customers are price sensitive, hence if an alternate producer of magnetite can supply magnetite commensurate with the quality of TMM's magnetite, they would switch suppliers subject to security of ongoing supply.

Refer to Appendix D for further details on the calculation of the WACC.

6.1.9 Valuation summary

Based on the above assumptions, the net present value of the cash flows of the Kara Mine has been assessed between $33.3 million and $41.9 million on a 100% basis.

We have set out below a sensitivity of our valuation assessment under the DCF method to key assumptions. With regards to our sensitivity analysis, we note that our valuation assessment is sensitive to the magnetite price and to the discount rate assumption.

Sensitivity analysis - Discount rate and DMM price

		DMM price A$				
		200	205	210	215	220
Discount rate	9.5%	39,330	43,098	46,867	50,635	54,404
	10.0%	37,762	41,387	45,012	48,637	52,262
	11.0%	34,943	38,307	41,672	45,036	48,401
	12.0%	32,486	35,621	38,756	41,892	45,027
	13.0%	30,334	33,266	36,198	39,131	42,063
	14.0%	28,439	31,191	33,942	36,694	39,445
	14.5%	27,575	30,244	32,913	35,581	38,250

Source: GTCF calculations

6.2 Other assets and liabilities

6.2.1 Surplus cash

TMM's cash balance as at 30 September 2016 was $5.4 million. According to Management, approximately $1.5 million is surplus which we have considered in our valuation assessment. The surplus cash balance of $1.5 million plus the cash expected to be generated between 30 September 2016 and completion of the Selective Capital Reduction will fund part of the Consideration.

6.3 Head office expenses

TMM incurs various corporate costs that have not been included in the valuation of the Kara Mine. These costs include costs relating to the board of directors, personnel costs related to running a head office and other administration fees. In our valuation assessment, we have included the net present value of the ongoing corporate cost of $500,000 per year excluding those costs associated with maintaining a listing status. Based on this, Grant Thornton Corporate Finance has determined a net present value of the corporate costs in the range of $1.6 million and $2.3 million.

6.4 Non-contingent transaction costs

For the purpose of the valuation, Grant Thornton Corporate Finance has taken into consideration the costs associated with the proposed Selective Capital Reduction payable by TMM. Management have advised that the estimated transaction costs to be incurred by TMM irrespective of whether the proposed Selective Capital Reduction is completed is approximately $250,000.

6.5 Valuation cross-check

6.5.1 Net asset backing

As discussed in section 5.3.1 we have considered the reasonableness of our valuation by comparing the value of a TMM Share with TMM's net asset backing per share.

The following table summarises the net assets backing per TMM Share:

Net asset backing A$000	30-Sep-16 Book value	Adjustments	Adjusted Value	Notes
Assets:				
Cash and cash equivalents	5,407	-	5,407	
Trade receivables	6,079	-	6,079	
Inventories	9,577	-	9,577	
Other current assets	350	-	350	
Mine development	334	(334)	-	1
Exploration and evaluation	1,173	(1,173)	-	1
Property, plant and equipment	35,713	(22,187)	13,526	1
Work-in-progress	6,446	(1,776)	4,670	1
Deferred tax asset	-	7,641	7,641	2
Liabilities:				
Trade and other payables	(2,656)	-	(2,656)	
Current tax liability	(421)		(421)	
Provisions	(1,709)	-	(1,709)	
Deferred tax liability	(1,721)	-	(1,721)	
Net assets	58,572	(17,830)	40,742	
Less corporate overheads			(1,596)	
Adjusted equity value of TMM on a control bais	58,572		39,146	
Number of TMM Shares ('000)	18,252		18,252	
Value per TMM Share on a control basis (A$)	3.21		2.14	

Source: Management and GT calculation

Note 1 - The adjustments to mine development, exploration and evaluation, property, plant and equipment, as well as work-in-progress relate to the impairment charge of $25.5 million the Company intends to make against these items in December 2016 (see Section 4.3.2).

Note 2 – Deferred tax assets refer to tax shield on the impairment charge.

As shown in the table above the value per TMM Share under a net assets backing approach is within our assessed range under a DCF approach.

6.5.2 Implied resource and reserves multiples

As an additional cross-check to the reasonableness of the values assessed for TMM, we have attempted to compare the implied resource multiples from our valuation to the resource multiples of listed comparable companies.

The implied resource multiples based on our valuation of TMM are shown in the table below:

Resource multiples cross check	Reference	Low	High
Enterprise Value of TMM (A$m)	*Section 6.1*	30.70	40.05
Kara Mine Reserves (Mt)	*Section 4.2*	9.99	9.99
Kara Mine Total reserves and resources (Mt)	*Section 4.2*	10.55	10.55
Implied multiples:			
Reserves		3.07x	4.01x
Total reserves and resources		2.91x	3.79x

We note that in the calculation of the reserves and resources multiples, we have only referred to the Kara Mine deposit. Based on the current resources, the LOM is expected to be circa 25 years. In our opinion, it is unlikely that a potential purchaser will attribute any value to the resources to be recovered after more than 20 years.

A summary of the implied multiples of comparable listed trading companies with interests in magnetite projects is below:

Resource multiples cross check						Total reserves	Implied multiples	
		Market capitalisation	Net debt/(Cash)	Enterprise value	Reserves	and resources		Total reserve
Company	Company HQ	A$m	A$m	A$m	Mt	Mt	Reserve	and resoures
Grange Resources Limited	Australia	127	-145	-18	90.7	473.9	NM	NM
Gindalbie Metals Ltd.	Australia	28	-39	-10	NA	1482.0	NM	NM
Mount Gibson Iron Limited	Australia	318	-400	-82	1.2	90.7	NM	NM
Atlas Iron Limited	Australia	91	107	198	77.2	1266.9	2.57x	0.16x
BC Iron Limited	Australia	45	-7	38	278.5	1684.6	0.14x	0.02x
Brockman Mining Limited	Hong Kong	175	-4	171	1049.5	1528.0	0.16x	0.11x
Average							0.95x	0.10x
Median							0.16x	0.11x

Note 1: NM=not meaningful, NA=not applicable

Note 2: Market capitalisation as at 30 September 2016

Source: Annual reports, company announcements, S&P Capital IQ, GTCF analysis

Whilst the implied EV/tonnes reserves multiples for TMM is higher than the other listed companies, we note that the comparability between TMM and the listed companies is limited due to the following:

- Some of the comparable companies have a range of assets (from exploration to development assets) and therefore are larger and more diversified compared to TMM. None of the selected comparable companies have a single asset operation focussed on producing magnetite for coal washing.

- Based on a review of the information available and discussions with Management, we are of the opinion that the most comparable companies to TMM in the table above are Grange Resources Limited and Gindalbie Metals Limited. Both of these companies have negative enterprise values which indicate that the market attributes no value to their underlying magnetite deposits.

- Most of the companies have assets that contain commodities and minerals other than iron ore. In addition each company's projects vary in terms of the quality and quantity of iron ore. For example, Atlas Iron has much larger reserves with higher contained iron. Atlas Iron also operates four mines.

Whilst it is difficult to draw conclusive evidence from the analysis of the listed comparable companies above, we note that the assessed market value of TMM in absolute terms and the implied EV/Resources multiple does not appear conservative.

7 Sources of information, disclaimer and consents

7.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Draft Notice of Special Meeting;
- Draft Notice of General Meeting;
- Draft Explanatory Memorandum;
- Financial reports of TMM;
- Technical Report prepared by Polberro Consulting;
- ASX announcements;
- Other information provided by TMM;
- S&P Capital IQ;
- Consensus Economics Inc.;
- Various broker reports; and
- Other publicly available information.

7.2 Qualifications and independence

Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to TMM and all other parties involved in the Selective Capital Reduction with reference to the ASIC Regulatory Guide 112 "Independence of experts" and APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to TMM, its shareholders and all other parties involved in the Selective Capital Reduction.

Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with

TMM or its associated entities that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Selective Capital Reduction.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Selective Capital Reduction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Selective Capital Reduction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

7.3 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by TMM and other publicly available sources. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by TMM through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of TMM.

This report has been prepared to assist the Directors of TMM in advising the TMM Shareholders in relation to the Selective Capital Reduction. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Selective Capital Reduction is fair and reasonable to the TMM Shareholders.

TMM has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided, which TMM knew or should have known to be false and/or reliance on information, which was material information TMM had in its possession and which TMM knew or should have known to be material and which TMM did not provide to Grant Thornton Corporate Finance. TMM will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

7.4 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Explanatory Statement to be sent to the TMM Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

Appendix A – Glossary

AASB 136	AASB 136 "Impairment of Assets"
ASIC	Australian Securities and Investments Commission
ASX	Australia Stock Exchange
ATO	Australian Taxation Office
Capital Reduction Shares	Shares being cancelled for $1.80 per TMM share in cash
CAPM	Capital Asset Pricing Model
Consideration	$1.80 per TMM share in cash
Corporations Act	Corporations Act, 2001
DCF	Discounted cash flow
DMM	Dense Medium Magnetite
FSG	Financial Services Guide
FY15	The financial year ended 31 December 2015
Gindalbie	Gindalbie Metals Limited
Grange	Grange Resources Limited
Grant Thornton Corporate Finance or GTCF	Grant Thornton Corporate Finance Pty Ltd
HY16	The half-year ended 30 June 2016
Loaned Funds	Existing loan facility of approximately $1.2 million
LOM	Life of mine
Management	Management of TMM
Metroof or Majority Shareholder	Metroof Industries Pty Limited
Minority Shareholders	All shareholders other than the Majority Shareholder
NTA	Net tangible assets
PCI	Pulverized Coal Injections
Polbero Report	Ore Reserve Report prepared by Polberro Consulting dated January 2016
PPE	Property, plant and equipment
RG 111	Regulatory Guide 111 Content of experts reports
RG 112	Regulatory Guide 112 Independence of Experts
Selective Capital Reduction	The announcement made by TMM on 7 November 2016 to seek shareholder approval for a selective capital reduction
TMM or the Company	Tasmania Mines Limited
TMM Share	A share in TMM
WACC	Weighted average cost of capital
YTDSep16	The year to date 30 September 2016

Appendix B – Valuation methodologies

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company. The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Appendix C – Discount Rate

Introduction

The cash flows assumptions associated with the Kara Mine have been prepared on a real, ungeared and post-tax basis. Accordingly, we have assessed a range of real post-tax discount rates for the purpose of calculating their net present value.

The discount rate was determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgement.

Under a classical tax system, the nominal WACC is calculated as follows:

$$\text{WACC} = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

- Re = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- Rd = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

WACC Inputs

Required rate of return on equity capital

We have used the Capital Asset Pricing Model ("CAPM"), which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion. Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company's returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market – it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (R_e) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

- R_f = risk free rate
- β_e = expected equity beta of the investment
- $(R_m - R_f)$ = market risk premium

Risk free rate

In the absence of an official risk free rate, the yield on the Government Bonds is commonly used as a proxy. We have observed the yield on the 10-year Australian Government Bond for various periods as at 30 September 2016 as set out in the table below:

Australia Government Debt - 10 Year as at 30 September 2016	Range			Daily average
Previous 5 trading days	1.91%	-	1.97%	1.96%
Previous 10 trading days	1.91%	-	2.13%	2.02%
Previous 20 trading days	1.83%	-	2.13%	2.00%
Previous 30 trading days	1.82%	-	2.31%	2.00%
Previous 60 trading days	1.82%	-	2.66%	2.11%
Previous 1 year trading	1.82%	-	3.03%	2.43%
Previous 2 years trading	1.82%	-	3.50%	2.65%
Previous 3 years trading	1.82%	-	4.44%	3.04%
Previous 5 years trading	1.82%	-	4.58%	3.23%
Previous 10 years trading	1.82%	-	6.79%	4.53%

Source: S&P Capital IQ

Based on the above, we have adopted the risk free rate of 3.23%, which is primarily based on the 5-year average yield on the 10-year Australian Government Bond.

Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity.

For the purpose of this Report, we have had regard to the observed betas (equity betas) of broadly comparable companies that have some exposure to magnetite mining. It should be noted that there are no listed companies in Australia that are comparable to TMM in terms of nature of operations and size. The most comparable of the companies considered are Grange Resources Limited ("Grange") and Gindalbie Metals Limited ("Gindalbie") as they have magnetite projects. A key difference is that TMM's sole focus in the production of magnetite for coal washing whereas Grange and Gindalbie have other operations and their magnetite projects are not their flagship projects.

An analysis of the betas of comparable companies is set out below:

Company						Regressed against local index		Regressed against MSCI	
Beta analysis	Country	Market Cap $m	Equity beta[1]	R squared	Gearing ratio[1]	Ungeared beta	Regeared beta	Ungeared beta	Regeared beta
Tier 1 - Australian magnetite miners									
Grange Resources Limited	Australia	145	0.98	0.60	0.0%	0.98	1.02	0.88	0.91
Gindalbie Metals Ltd.	Australia	42	2.28	0.74	0.0%	2.28	2.37	1.85	1.92
Mount Gibson Iron Limited	Australia	367	1.15	0.39	0.0%	1.15	1.19	1.07	1.11
Atlas Iron Limited	Australia	174	1.78	0.65	109.6%	1.01	1.05	1.09	1.13
BC Iron Limited	Australia	65	2.36	0.08	5.0%	2.28	2.36	2.38	2.47
Brockman Mining Limited	Australia	1,048	0.78	0.02	0.0%	0.78	0.81	1.95	2.02
Tier 2 - International magnetite miners									
Strategic Minerals plc	United Kingdom	5	2.12	0.03	1.3%	2.10	2.17	1.19	1.24
IRC Limited	Hong Kong	1,631	1.62	0.02	8.3%	1.50	1.55	1.17	1.21
Average (Tier 1)			**1.56**	**0.41**	**19%**	**1.41**	**1.46**	**1.54**	**1.59**
Median (Tier 1)			**1.46**	**0.49**	**0%**	**1.08**	**1.12**	**1.47**	**1.53**

Note (1): Equity betas are calculated using data provided by Capital IQ. The betas are based on a five-year with monthly observations
Note (2): Market capitalisation is calculated as at 21 November 2016.
Source: Capital IQ and GTCF calculations

Grant Thornton has observed the betas of the comparable companies by reference to their local index as well as the MSCI.

It should be noted that the above betas are drawn from the actual and observed historical relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship. Consequently, while measuring equity betas of listed comparable companies provides a useful benchmark, the selection of an equity beta requires a level of judgement.

The asset betas are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparable companies, a process commonly referred to as de-gearing. We have then recalculated the equity beta based on an assumed 'optimal' capital structure deemed appropriate for the business (regearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the de-gearing and re-gearing exercise:

$$\beta_e = \beta_a \left[1 + \frac{D}{E} \times (1 - t) \right]$$

Where:

- βe = Equity beta
- βa = Asset beta
- t = corporate tax rate

The betas are de-geared using the average gearing level over the period in which the betas were observed and then re-geared using a gearing ratio[13] of approximately 5% (5% Debt and 95% Equity). The gearing ratio has been determined after considering the target/optimal capital structure of TMM.

In selecting an appropriate beta, we have considered the following:

- most of the comparable companies have numerous projects and their magnetite projects are not their flagship project
- a number of the companies are materially larger than TMM
- the average beta, based on the local index is 1.5 and 1.6 based on the MSCI

For the purposes of this valuation, we have selected a beta range of between 1.5 and 1.6 to calculate the required rate of return on equity capital for TMM.

Market risk premium

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned.

Empirical studies of the historical risk premium in Australia over periods of up to 100 years suggest the premium is between 6% and 8%. Current research indicates that the actual long term horizon risk premium is approximately 100 basis points less than that indicated by the Ibbotson full period data, i.e. 7%. As such, for the purpose of the discount rate assessment, Grant Thornton Corporate Finance has adopted a market risk premium of 6%. This is consistent with our assumption in relation to the long term risk free rate.

[13] Gearing ratio represents the Net debt/ Market capitalisation

Specific risk premium

The company specific risk premium represents the additional return an investor might expect to receive to compensate for project related risks not reflected in the beta.

For the purposes of the valuation assessment, we have adopted a specific risk premium of 3% to reflect the unique characteristics and risks of the Kara Mines and its comparatively smaller size compared with the listed comparable companies.

Cost of debt

For the purpose of estimating the cost of debt, Grant Thornton Corporate Finance has considered the following.

- The weighted average interest rate on credit outstanding for small businesses over the last 5 years as published by the Reserve Bank of Australia.
- The historical and current cost of debt for comparable companies and TMM.
- Expectations of yield curves.
- The capital structure adopted for the purpose of the WACC.
- TMM's financing arrangements.

Based on the above, Grant Thornton Corporate Finance has adopted a pre-tax cost of debt of 6%.

Inflation

In order to derive a real discount rate we have adopted an average Australian estimate of inflation of 2% per annum after considering forecast inflation rates prepared by various brokers and economic agencies.

Tax rate

Based on the above, Grant Thornton Corporate Finance has adopted a pre-tax cost of debt of 30%.

Capital structure

Grant Thornton Corporate Finance has considered the gearing ratio which a hypothetical purchaser of the business would adopt in order to generate a balanced return given the inherent risks associated with debt financing. Factors which a hypothetical purchaser may consider include the shareholders' return after interest payments, and the business' ability to raise external debt.

The appropriate level of gearing that is utilised in determining the WACC for a particular company should be the "target" gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- The quality and life cycle of a company.
- The quality and variability of earnings and cash flows.
- Working capital.
- Level of capital expenditure.
- The risk profile of the assets.

In determining the appropriate capital structure, we have had regard to the current average debt-to-asset ratio of the comparable companies and TMM's current and historic capital structure.

For the purpose of the valuation, Grant Thornton Corporate Finance has adopted a debt-to-equity ratio of 5% debt.

WACC calculation

The real discount rate determined using the WACC formula is set out below.

WACC calculation	Low	High
Cost of equity		
Risk free rate	3.2%	3.2%
Beta	1.50	1.60
Market risk premium	6.0%	6.0%
Specific risk premium	3.0%	3.0%
Cost of equity	**15.2%**	**15.8%**
Cost of debt		
Cost of debt (pre tax)	6.0%	6.0%
Tax	30%	30%
Cost of debt (post tax)	**4.2%**	**4.2%**
Capital structure		
Proportion of debt	5%	5%
Proportion of equity	95%	95%
	100%	100%
WACC (post tax, nominal)	**14.6%**	**15.2%**
Inflation estimate	2.0%	2.0%
WACC (post tax, real)	**12.4%**	**12.9%**
Say	**12.0%**	**13.0%**

Source: S&P Capital IQ and GTCF calculations

Appendix D – Description of comparable companies and transactions

Company	Description
Tier 1 – Australian magnetite miners	
Grange Resources Limited	Grange Resources Limited ("Grange") is a magnetite producer. Grange owns and operates integrated iron ore mining and pellet production business in the northwest region of Tasmania. The company mines for, processes, and sells iron ore deposits. It owns interests in the Savage River magnetite iron ore mine located to the southwest of the city of Burnie. The company also explores, evaluates, and develops Southdown magnetite project located in Western Australia; and associated Pellet Plant project in Port Latta. Grange Resources Limited is based in Burnie, Australia.
Gindalbie Metals Limited	Gindalbie Metals Ltd ("Gindalbie"), an independent iron ore company, engages in the exploration, evaluation, and development of iron ore projects in Australia. The company primarily holds a 47.84% equity interest in the Karara project located in the east of Geraldton in Western Australia. The Karara project delivers both high grade magnetite concentrate and hematite. Gindalbie also has a portfolio of exploration tenements in the Mid-West region. Gindalbie Metals Ltd is based in Perth, Australia.
Mount Gibson Iron Limited	Mount Gibson Iron Limited, together with its subsidiaries, engages in the mining, exploration, crushing, development, transportation, and sale of hematite iron ore deposits in Australia. The company primarily operates the Koolan Island hematite mine situated in the northern Kimberley coast of Western Australia; and the Extension Hill hematite project located in the Mount Gibson range in the mid-west region of Western Australia. Mount Gibson Iron Limited was founded in 1996 and is based in West Perth, Australia.
Atlas Iron Limited	Atlas Iron Limited, an independent iron ore company, explores for, develops, mines, and sells iron ore in the Pilbara region in Western Australia. Its primary projects include the Wodgina, Abydos, and Mt Webber mines. The company is based in Perth, Australia.
BC Iron Limited	BC Iron Limited primarily explores for, develops, and produces iron ore deposits in the Pilbara region of Western Australia. The company also explores for hematite and magnetite ores. Its principal projects include the Nullagine iron ore project located to the north of Newman; the Iron Valley project situated in the Central Pilbara; and the Buckland project located in the West Pilbara region. The company was founded in 2006 and is based in West Perth, Australia.
Brockman Mining Limited	Brockman Mining Limited, an investment holding company, engages in the acquisition, exploration, and development of iron ore projects in Western Australia. It is also involved in the exploitation, processing, and sale of copper, silver, and other mineral resources in the Yunnan province of the People's Republic of China. The company's flagship project is the Marillana iron ore project that covers 82 square kilometers located within the Pilbara region of Western Australia. It also engages in the rail and port infrastructure business. The company was formerly known as Wah Nam International Holdings Limited and changed its name to Brockman Mining Limited in September 2012.
Tier 2 – International magnetite miners	
Strategic Minerals Plc	Strategic Minerals Plc develops and operates mining projects in the United States, the United Kingdom, and Australia. The company sells iron ore magnetite for use in cement, fertilizer, landscaping, paint pigment, water jet cutting, ballast, magnets, coal cleaning, and dense media markets. It also explores for nickel, sulphide, rare earth products, and gold, as well as for copper, tin, and tungsten. Strategic Minerals Plc was founded in 2010 and is based in London, the United Kingdom.
IRC Limited	IRC Limited engages in the development and production of industrial commodities products in the People's Republic of China and internationally. The company operates through four segments: Mines in Production, Mines in Development, Engineering, and Other. The Mines in Production segment comprises iron ore projects in production phase. The Mines in Development segment consists of iron ore projects in the exploration and development phase, a magnetite project situated in the Jewish Autonomous region; Garinskoye project that focuses on iron ore deposits in the Amur region; an ilmenite and magnetite project; a molybdenum exploration project; and the Kostenginskoye and Garinskoye Flanks project located in the Russian Far East region. IRC also engages in the design and construction for mining clients, as well as provision of general trading, financing, engineering, and procurement services. IRC Limited is subsidiary of Cayiron Limited.

Source: S&P Capital IQ

I. Notice of General Meeting

Tasmania Mines Limited
A.C.N. 009 491 990
(Company)

Notice of General Meeting to approve a selective reduction of capital

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Notice is hereby given that a general meeting of members of the Company will be held at the offices of Kanji & Co, Level 33, Aurora Place, 88 Phillip Street, Sydney NSW 2000 at 10.00 am (Sydney time) on Tuesday, 21 February 2017.

Members will be asked at the meeting to consider and, if thought fit, approve the following as a **special resolution**.

"That the Company reduce its Share Capital by way of a selective capital reduction in accordance with section 256B of the Corporations Act 2001 by

(a) debiting to the Company's Share Capital account an amount equal to the product of A$0.30 and the number of ordinary shares in the Company cancelled under paragraph (c) of this resolution;

(b) debiting to the Company's Retained Earnings account an amount equal to the product of A$1.50 and the number of ordinary shares in the Company cancelled under paragraph (c) of this resolution;

*(c) on 26 April 2017 cancelling all shares in the Company held by members other than Metroof Industries Pty Limited A.C.N. 009 653 132 (the **Minority Shareholders**) as at 7:00pm (Sydney time)Wednesday 19 April 2017 (the **Participation Record Time**); and*

(d) paying each Minority Shareholder the sum of A$1.80 for each Share held by the Minority Shareholder as at the Participation Record Time and cancelled on 26 April 2017 as provided in paragraph (c) of this resolution,

provided however that this resolution shall not take effect and the selective capital reduction shall not proceed unless the selective capital reduction is also approved by a special resolution passed at a meeting of the Minority Shareholders."

Voting Restrictions

Votes cast in favour of the resolution by persons who are Minority Shareholders (as defined in the resolution) or their associates will be disregarded. However, such Minority Shareholders and their associates may vote against the resolution.

Registration at meeting

In order to enter the meeting, it will be necessary for all attendees to register their attendance.

Eligibility to vote

For the purposes of attending the meeting and voting, Shares will be taken to be held by the persons who are registered as shareholders at 7:00pm (Sydney Time) Friday 17 February 2017 ("**Voting Record Date**"). Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

If you wish to vote in person, you must attend the meeting. If you cannot attend the meeting, you may vote by proxy, attorney or, if you are a body corporate, by appointing a corporate representative.

Proxies

Each shareholder who is entitled to attend and vote has a right to appoint a proxy, and if a Shareholder is entitled to cast two or more votes that shareholder may appoint two proxies. A proxy form accompanies this Notice of General Meeting. Please refer to the proxy form for further information on how to vote. Additional proxy forms may be obtained from the Company's share registrar, Link Market Services Limited (see contact details below).

If a shareholder appoints two proxies, the shareholder may specify the proportion or number of votes each proxy is appointed to exercise. If a shareholder appoints two proxies and the appointment does not specify the proportion or number of votes, each proxy may exercise one half of the shareholder's votes. Neither proxy is entitled to vote on a show of hands if more than one proxy attends.

A proxy need not be a member of the Company. A proxy may be either an individual or a body corporate. If you wish to appoint a body corporate as your proxy, you must specify on the proxy form the name of the body corporate appointed as proxy.

Directing your proxy

You can direct your proxy how to vote by marking the "for", "against" or "abstain" boxes on the proxy form. However, due to the requirements of section 262C(2)(a) of the Corporations Act 2001, any vote on behalf of a Minority Shareholder (as defined in the resolution) or their associates in favour of the resolution will be disregarded.

If you do not direct your proxy how to vote, your proxy may vote, or abstain from voting at his or her discretion.

Power of Attorney

A shareholder may by power of attorney authorise another person to attend and vote at the meeting on their behalf.

Lodgement of proxy forms

A proxy form and the authority (if any) under which it is signed, or a power of attorney, or a certified copy an authority or power of attorney, must be lodged no later than 10 am (Sydney time) on Sunday, 19 February 2017. Lodgement may be -:

- **By mail** to: Tasmania Mines Limited.
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

- **By hand delivery** between 9:00am & 5:00pm Monday to Friday (excluding public holidays) to

  Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138 OR
Level 12, 680 George Street
Sydney NSW 2000

- **By fax** to: +61 (0)2 9287 0309

- **Online or by mobile device** at *www.linkmarketservices.com.au* – refer to the accompanying proxy form for instructions on how to lodge a proxy vote online or by mobile device.

Body corporate representatives

A shareholder that is a body corporate may appoint an individual to act as its corporate representative. The representative should bring to the meeting evidence of his or her appointment, including any authority (or a certified copy of the authority) under which it is signed.

Poll

On a poll, each shareholder eligible to vote and present either in person, by proxy, attorney or authorised representative has one vote for every Share that they hold.

By order of the Board

K.J. Broadfoot

Director/ Company Secretary

Date: 11 January 2017

J. Notice of Special Meeting of Minority Shareholders

Notice is hereby given that a meeting of members of the Company other than Metroof Industries Pty Limited A.C.N. 009 653 132 (the **Minority Shareholders**) will be held at Kanji & Co, Level 33, Aurora Place, 88 Phillip Street, Sydney NSW 2000 immediately following a general meeting of the Company to be held at the same address at 10:00am (Sydney time) on Tuesday, 21 February 2017.

The meeting of Minority Shareholders will be asked to consider and, if thought fit, approve the following as a **special resolution**.

> *"That the selective capital reduction under section 256B of the Corporations Act 2001 that was the subject of a special resolution passed at a general meeting of the Company today, and that involves cancelling all shares in the Company held by members other than Metroof Industries Pty Limited A.C.N. 009 653 132, be approved."*

Meeting contingent on passing of resolution at General Meeting

This Special Meeting of Minority Shareholders will not proceed if

- the General Meeting of members to be held immediately prior to this meeting does not occur; or
- the General Meeting of members occurs but does not pass the special resolution specified in the Notice of General Meeting.

Attendance & Voting Restrictions

As this is a meeting of Minority Shareholders only, Metroof Industries Pty Limited A.C.N. 009 653 132 is not entitled to attend the meeting or to vote.

Registration at meeting

In order to enter the meeting, it will be necessary for all attendees to register their attendance.

Eligibility to vote

For the purposes of attending the meeting and voting, shares will be taken to be held by the persons who are registered as shareholders at 7:00pm (Sydney Time) Friday 17 February 2017 ("**Voting Record Date**"). Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

If you wish to vote in person, you must attend the meeting. If you cannot attend the meeting, you may vote by proxy, attorney or, if you are a body corporate, by appointing a corporate representative.

Proxies

Each shareholder who is entitled to attend and vote has a right to appoint a proxy, and if a Shareholder is entitled to cast two or more votes that shareholder may appoint two proxies. A proxy form accompanies this Notice of Special Meeting. Please refer to the proxy form for further information on how to vote. Additional proxy forms may be obtained from the Company's share registrar, Link Market Services Limited (see contact details below).

If a shareholder appoints two proxies, the shareholder may specify the proportion or number of votes each proxy is appointed to exercise. If a shareholder appoints two proxies and the appointment does not specify the proportion or number of votes, each proxy may exercise one half of the shareholder's votes. Neither proxy is entitled to vote on a show of hands if more than one proxy attends.

A proxy need not be a member of the Company. A proxy may be either an individual or a body corporate. If you wish to appoint a body corporate as your proxy, you must specify on the proxy form the name of the body corporate appointed as proxy.

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You can direct your proxy how to vote by marking the "for", "against" or "abstain" boxes on the proxy form.

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  Australia

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  Level 12, 680 George Street
  Sydney NSW 2000

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By order of the Board

K.J. Broadfoot

Director/ Company Secretary
Date: 11 January 2017