

ASX ANNOUNCEMENT

ASX Code: MMX

27 January 2012

## ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER 2011

### HIGHLIGHTS

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#### Murchison

- Agreement reached to sell Murchison's interests in Crosslands and OPR to Mitsubishi for \$325 million
- Agreement received with Chameleon Mining to settle litigation
- Foreign Investment Review Board approval of Mitsubishi Transaction obtained
- General Meeting of Shareholders to approve Mitsubishi Transaction scheduled for 13 February 2012

#### Crosslands Resources Ltd (Murchison 50% Interest)

- Jack Hills Expansion Project ("JHEP") approved by WA Minister for Environment
- 481,072 tonnes of direct shipping ("DSO") lump and fines shipped during quarter
- Stage 1 mining operations completed according to five year mine plan
- Final Stage 1 shipments forecast to occur in February

#### Oakajee Port and Rail (Murchison 50% Interest)

- Amended Oakajee State Development Agreement to continue

## ABOUT MURCHISON

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Murchison Metals Limited ("Murchison") is an Australian ASX listed company.

Murchison is a 50% shareholder in Crosslands Resources Ltd ("Crosslands") which is the owner of the Jack Hills iron ore project located in the mid-west region of Western Australia. The remaining 50% of Crosslands is held by Mitsubishi Development Pty Ltd ("Mitsubishi"), a subsidiary of Mitsubishi Corporation, Japan's largest general trading company.

Murchison also has a 50% economic interest in an independent infrastructure business, Oakajee Port and Rail ("OPR"). OPR was established to construct new port and rail infrastructure to provide logistics services to miners (including Crosslands) and other potential customers in the mid-west region of WA. The remaining 50% economic interest in OPR is held by Mitsubishi.

In addition to its investments in Crosslands and OPR, Murchison owns the Rocklea iron ore project located in the Pilbara.

## CORPORATE

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The primary focus of Murchison's activities in the December quarter was progressing its Strategic Review, including the evaluation of options to meet the Company's funding requirements and advance the Oakajee infrastructure project and Jack Hills Expansion Project ("JHEP").

### Mitsubishi Transaction

On 24 November 2011, Murchison announced it had reached agreement to sell all of its interests in OPR and Crosslands to Mitsubishi for cash consideration of \$325<sup>1</sup> million (the "Transaction").

While the Strategic Review involved an extensive investigation of alternatives over several months, the Mitsubishi Transaction is the only proposal capable of acceptance to have emerged to date.

Murchison's Directors are unanimous in recommending the Transaction to Shareholders, in the absence of a superior proposal emerging, due to the significant benefits it provides for Shareholders. The Independent Expert, KPMG Corporate Finance (Aust) Pty Ltd, also concluded that the Transaction is, in the absence of a superior offer, in the best interests of Murchison Shareholders.

The Transaction will crystallise value for Shareholders at a substantial premium to Murchison's closing price prior to the announcement of the Transaction, with an estimated implied value per share following receipt of the net proceeds of the Transaction of \$0.48<sup>2</sup>, an implied premium of 75% to Murchison's pre-Transaction announcement closing share price.

The Transaction enables Murchison to realise certain cash value for its assets at a time when the Company is facing significant risks associated with the development of the Projects.

The Transaction is subject to satisfaction of a number of conditions precedent, including approval by a majority of Murchison Shareholders, settlement of the Chameleon litigation, approval by the Foreign Investment Review Board ("FIRB"), and the novation of key agreements (including the Oakajee State Development Agreement with the WA Government).

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<sup>1</sup> All dollar values are expressed in Australian dollars, unless stated otherwise.

<sup>2</sup> The implied value per Share is an indicative estimate only. It reflects the projected cash balance at Completion comprising the sale proceeds of the Transaction less net debt and other estimated cash payments to an assumed Completion date of 31 March 2012. The implied value per Share estimate disclosed on the announcement of the Transaction of \$0.51 specifically excluded corporate costs to Completion given the uncertainty associated with projecting corporate costs at that time. Corporate costs to Completion have now been able to be reasonably estimated and are included in the implied value per Share estimate. The implied value per Share assumes 452 million shares outstanding at Completion on a fully diluted basis. (This is comprised of 442 million Shares on issue as at 23 December 2011 (the last date practicable before finalising the Explanatory Memorandum), 6 million current in-the-money options and an estimated 1.8 million Shares and 2.0 million options issued to Resource Capital Fund V L.P. (RCF) in January 2012 in lieu of interest and financing charges).

An agreement to settle the outstanding litigation commenced by Chameleon Mining NL for \$25 million was reached on 23 December 2011. Under the agreement, Chameleon has been paid an initial sum of \$5 million with the remainder to be paid subject to and conditional on completion of the Mitsubishi Transaction.

On 28 December 2011, Murchison announced that FIRB had effectively approved the Transaction by issuing a letter of no objection.

A General Meeting of Murchison Shareholders to approve the Transaction is scheduled to occur in Perth on 13 February 2012. Murchison expects the remaining conditions precedent to be satisfied before the General Meeting. If that occurs and Shareholders approve the Transaction, completion of the Transaction is currently expected to occur on 20 February 2012.

On completion of the Transaction, and after the Company has met all its obligations, including debt repayments and transaction costs, Murchison expects to have cash assets of approximately \$217 million. The Board's current intention following Completion is to consider efficient mechanisms of distributing the majority of the Company's cash assets to Shareholders, against the alternative of investigating the merits of potential investment opportunities in the natural resources sector.

Full details of the Transaction, including an Independent Experts Report, are contained in the Notice of Meeting and Explanatory Memorandum which were released to ASX on 3 January 2012 and were subsequently dispatched to Murchison Shareholders.

If the Transaction successfully completes, the Company will cease to hold any interests in major operating or development projects.

Accordingly, the Board believes that the Company's current Board and management structure will need to be reduced to a relatively small team (consisting of core finance, legal and office management roles) to manage the evaluation of opportunities until such time as a firm decision is taken as to the use of proceeds from the Transaction.

## Funding

As at 31 December 2011, Murchison had cash, liquid investments and undrawn loan facilities totalling \$39.6 million. Interest earned on investments for the quarter amounted to \$0.063 million. The cash outflow for the quarter includes amounts paid to Crosslands and OPR of \$0.5 million and \$1.52 million respectively to fund ongoing project activities.

Murchison's existing US\$100 million debt facility provided by Resource Capital Fund V L.P. (RCF V) matures and is due for repayment in April 2012. At 31 December 2011, Murchison had drawn a total of US\$57 million against the facility, leaving remaining availability of US\$38 million. Part of the proceeds from the Mitsubishi Transaction will be used to repay all amounts outstanding under that facility. In the absence of a Superior Proposal emerging, if the Transaction does not proceed and Murchison is unable to refinance that facility, the Company's ability to continue as a going concern is likely to depend on the ongoing support of RCF.

## Annual General Meeting

The Annual General Meeting of Shareholders for the year ended 30 June 2011 was held on 24 November 2011. All resolutions put to Shareholders were approved, including the re-election of Non-executive Chairman Ken Scott-Mackenzie, and Non-executive Directors, Peter Wasow, Samantha Tough and S.M. Woo.

## EXPLORATION

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### Rocklea Project (Murchison 100% interest)

Murchison's Rocklea Project is located in the Pilbara region between the towns of Tom Price and Paraburdoo and is situated near existing and planned rail infrastructure.

Following completion of the Mitsubishi transaction, Murchison intends to undertake a review of the Rocklea Project, and its other remaining exploration assets, in order to assess the most effective way to maximise their value for Shareholders.

### CROSSLANDS RESOURCES LTD (MURCHISON 50% INTEREST)

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Crosslands is employing a two-stage strategy to develop its Jack Hills Project.

Stage 1 operations commenced in November 2006 utilising contract mining, crushing and screening under a five-year mine plan. Ore is transported by contract road haulage to ore storage and transfer facilities at the Port of Geraldton, ahead of shipment to customers. In November 2011, Crosslands announced that Stage 1 activities would cease in accordance with the five year mine plan and the project would be placed on care and maintenance.

The Jack Hills Expansion Project (JHEP) is targeting a substantial expansion of annual production capacity aimed at producing premium quality magnetite and hematite iron concentrates. Crosslands intends to utilise new port and rail infrastructure which Oakajee Port and Rail (OPR) plans to develop in the mid-west region of Western Australia that will enable ore from the mine to be transported by rail for shipment from the new Oakajee port.

#### STAGE 1 OPERATIONS

##### Production Summary

On 30 November 2011, Crosslands announced the planned cessation of Stage 1 mining operations in accordance with the five year mine plan.

Excavation in the Stage 1 pit concluded on 10 January 2012. Haulage and shipping is forecast to conclude by the end of February. At the cessation of mining, a total of 7.4 million tonnes of direct shipping ore ("DSO") had been extracted during the five year life of the Stage 1 operation. At the end of December 2011, a total of 7.28 million tonnes of DSO products had been exported from the Port at Geraldton over the life of the project.

The average total operating cash cost, including haulage, shipping and royalties for the December quarter was \$101/tonne of ore shipped, compared to \$135 per tonne in the previous quarter.

A comparative summary of operations statistics for the quarter is presented in Table 1:

Production Summary		Mar 11 Qtr	Jun 11 Qtr	Sept 11 Qtr	Dec 11 Qtr	Project to Date
Volume Waste	BCM	611,291	722,222	627,802	288,553	9,690,519
Volume Ore	BCM	6,676	62,498	91,500	81,175	1,871,959
Ore Mined	Tonnes	28,841	269,992	395,279	371,432	7,356,350
Ore Crushed	Tonnes	72,968	285,016	408,425	398,491	7,597,587
Ore Hauled to Port	Tonnes	270,615	413,648	401,673	431,843	7,292,626
Ore Shipped – lump	Tonnes	177,822	242,014	236,887	296,656	4,880,544
Ore Shipped – fines	Tonnes	121,956	187,342	120,944	184,416	2,401,474
Grade – lump	%Fe	62.2%	62.2%	62.0%	62.4%	64.0%
Grade - fines	%Fe	62.1%	61.8%	63.6%	61.7%	62.2%

**Table 1**

## Mining and Processing

Ore mined for the December quarter was 371,432 tonnes or 81,175 bcm. The total mined volume for the quarter was 369,728 bcm. The strip ratio was 3.6 compared with 6.9 in the previous quarter.

A total of 398,491 tonnes were crushed compared to 408,425 tonnes in the September quarter. The lump / fines crushed ratio for the quarter was 65:35.

## Haulage

Crosslands hauled 431,843 tonnes of ore to Geraldton port during the December quarter, a slight increase on the 401,673 tonnes hauled in the prior quarter.

## Shipping

Shipping for the quarter consisted of eight vessels totalling 481,072 tonnes of which 296,656 tonnes were DSO lump and 184,416 tonnes were DSO fines. A further three shipments are forecast in the current quarter.

## Marketing and Sales

The average realised price per tonne of ore shipped by Crosslands during the December quarter was \$146/tonne, compared to \$159/tonne in the preceding quarter. The average prices for lump and fines achieved by Crosslands during the quarter were \$150/tonne and \$139/tonne respectively, compared to \$160/tonne for lump and \$157/tonne for fines in the previous quarter.

## JACK HILLS EXPANSION PROJECT

During the December quarter, Crosslands continued to progress its revision of the JHEP feasibility study which was delivered at the end of the June quarter 2011. The study has undergone extensive independent and internal review and Crosslands is continuing additional study work as part of the feasibility study revision. Expenditure on feasibility study-related activities during the December quarter totalled \$10.6 million.

Optimisation and study-related activities undertaken during the quarter included:

- Mine planning and pit re-optimisation for the main Jack Hills deposit as well as the Brindal satellite deposit with the completion of a final mine schedule.
- Stockpile design and waste sequencing for the construction of the tailings embankment and to minimise haulage.
- Metallurgical test work to validate the feasibility study flowsheet, confirm product quality and provide samples for JHEP customers.
- Detailed technical and commercial work to identify the best power supply option for the project. While the base case remains a gas-fired power station on site fed via a gas lateral from the Dampier – Bunbury natural gas pipeline, an alternative option of a high-voltage direct current connect to the South West Interconnected System has also been developed. This option is dependent on Western Power proceeding with the construction of a 330kv transmission line from Neerabup north of Perth to Three Springs.
- A groundwater operating strategy to determine the location of future monitoring wells.

## Geology

There was no exploration drilling activity undertaken by Crosslands during the December Quarter. Activities included regional field reconnaissance, geological mapping, coordination of the hydrogeology drilling program, and resource estimate reporting for the satellite Brindal deposit.

## Material Approvals

Crosslands made significant progress with its regulatory licences and approvals during the quarter. Subsequent to the end of the quarter, in early January 2012 the WA Minister for the Environment granted approval for the JHEP under Part IV of the Environmental Protection Act 1986. The Ministerial Statement includes a \$2.12 million environmental offsets package of land purchases, research and support for regional conservation initiatives.

The Minister's approval follows a determination in April 2011 by the Commonwealth Department of Sustainability, Environment, Water, Population and Communities that the JHEP was not a "controlled action" and would not require further approval under the Environment Protection and Biodiversity Conservation Act 1999 ("EPBC Act").

Following the Minister's determination, Crosslands is now expecting the Department of Water to issue Letters of Undertaking confirming that approval to extract water from the Murchison and Byro borefields will be granted subject to Crosslands obtaining land tenure

## OAKAJEE PORT & RAIL (MURCHISON 50% ECONOMIC INTEREST)

In March 2009 OPR signed a State Development Agreement ("SDA") with the Western Australian Government ("the State") granting OPR the exclusive right to negotiate implementation agreements for the Oakajee port and associated northern rail infrastructure.

On 28 December 2011, the WA Government announced that the existing SDA would continue beyond 31 December 2011, subject to several amendments. As expected, OPR's exclusive right to negotiate implementation agreements for the project lapsed at the end of December 2011. However, the State and OPR remain obliged to use reasonable endeavours to finalise a number of project agreements, to be executed when the parties are satisfied the project has reached an appropriate stage of development.

Further details regarding the amended SDA can be found in Murchison's ASX announcement dated 28 December 2011.

Part V Environmental Protection Act works approvals were received for the Port Quarry and Port Accommodation Camp developments. Planning approvals for the quarry and port construction village were also

received from the Shire of Chapman Valley during the quarter. These recent approvals, combined with the native vegetation clearing permits and the EPA's decisions not to assess these proposals (received in the June and September quarters of 2011 respectively), means that all key environmental clearances have been obtained to allow these developments to be implemented.

Work continues on draft Ministerial Statement conditions for both the Port Terrestrial and Rail Development approvals.

Pre-construction flora and fauna inspections required by the draft Ministerial Statement for the rail development were successfully completed for approximately 290km of the rail development.

Detailed assessments of dwellings which are expected to be noise-affected due to the operation of the railway continued while work progressed with respect to the preparation of environmental management plans and monitoring programs, including the Compliance Assessment Plan, Vegetation Monitoring Program, Construction Noise Management Plan and Dust Best Practice report.

All construction related environmental management plans for the Port Marine development have been submitted to government for approval. It is anticipated that these plans will be approved by the second quarter of 2012.

**For further information, please contact:**

Trevor Matthews

*Chief Operating Officer*

**Murchison Metals Ltd**

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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10, 17/12/10

Name of entity

Murchison Metals Limited

ABN

38 078 257 799

Quarter ended ("current quarter")

31 December 2011

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(1,537)	(8,257)
(b) development	-	-
(c) production	-	-
(d) administration	(5,188)	(14,565)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	63	199
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
<b>Net Operating Cash Flows</b>	<b>(6,662)</b>	<b>(22,623)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	(500)	(13,100)
(c) other fixed assets	(87)	(88)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (litigation settlement )	(5,000)	(5,000)
<b>Net investing cash flows</b>	<b>(5,587)</b>	<b>(18,188)</b>
1.13 Total operating and investing cash flows (carried forward)	(12,249)	(40,811)

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(12,249)	(40,811)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	8,149	30,601
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	-	-
	<b>Net financing cash flows</b>	<b>8,149</b>	<b>30,601</b>
<b>Net increase (decrease) in cash held</b>		<b>(4,100)</b>	<b>(10,210)</b>
1.20	Cash at beginning of quarter/year to date	6,290	12,400
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>2,190</b>	<b>2,190</b>

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	579
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions  
 Payments for services received by the company from the directors.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$'000	Amount used \$'000
3.1 Loan facilities	US\$95,000	US\$57,000
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,750
4.2 Development	-
4.3 Production	-
4.4 Administration	14,700
<b>Total</b>	<b>16,450</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,190	2,109
5.2 Deposits at call	-	4,181
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>2,190</b>	<b>6,290</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	E45/4003	Registered Applicant	0%	100%
	E45/4004	Registered Applicant	0%	100%
	E45/4005	Registered Applicant	0%	100%
	E45/4006	Registered Applicant	0%	100%
6.2 Interests in mining tenements acquired or increased				

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference + securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	442,437,524	442,437,524		
7.4 Changes during quarter (a) Increases through issues: - upon exercise of options - payment of fees for bridge finance facility (b) Decreases through returns of capital, buy-backs	- 5,082,969	- 5,082,969		
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

7.7	<b>Options</b> <i>(description and conversion factor)</i>		<i>Exercise price</i>	<i>Expiry date</i>
		1,554,200	156c	Jun 12
		100,000	68c	Jun 12
		712,000	0c	Dec 13
		125,000	126c	Dec 13
		4,200,000	173c	Mar 14
		752,291	116c	Jul 14
		196,152	104c	Jul 14
		180,155	108c	Jul 14
		5,765	67c	Jul 14
		690,000	0c	Sep 14
		60,000	0c	Dec 14
		4,587,000	0c	Sep 16
		752,291	116c	Jul 14
		280,217	104c	Jul 14
		270,232	108c	Jul 14
		518,829	67c	Jul 14
		851,353	66c	Oct 14
		187,357	58c	Oct 14
7.8	Issued during quarter	752,291	116c	Jul 14
		280,217	104c	Jul 14
		270,232	108c	Jul 14
		518,829	67c	Jul 14
		851,353	66c	Oct 14
		187,357	58c	Oct 14
7.9	Exercised during quarter			
7.10	Expired / Cancelled during quarter	21,000	81c	Oct 11
		2,250,000	200c	Nov 12
7.11	<b>Debentures</b> <i>(totals only)</i>			
7.12	<b>Unsecured notes</b> <i>(totals only)</i>			

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 27 January 2012

Print name: Chris Foley

+ See chapter 19 for defined terms.

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report.
- 5 Accounting Standards ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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