



ABN 38 078 257 799

NOTICE OF GENERAL MEETING AND EXPLANATORY MEMORANDUM

A General Meeting of Shareholders of Murchison Metals Ltd
will be held at 10.00am (WST) on Thursday 16 August 2012
at The Celtic Club, 48 Ord St, West Perth, Western Australia

This is an important document and requires your careful attention. If you are in doubt as to how you should vote, you should seek advice from your professional adviser without delay.

If you are unable to attend the General Meeting of Shareholders you may complete and return the enclosed proxy form or vote online in accordance with the specified directions.

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Important notices

Read this document

You should read this document in its entirety carefully before making a decision on how to vote on the Resolution contained in the Notice of General Meeting.

Role of ASX and ASIC

A copy of this document has been lodged with ASX in accordance with the ASX Listing Rules. A copy of this document has also been lodged with ASIC in accordance with section 256C(5) of the *Corporations Act 2001 (Cth)*. Neither the ASX, ASIC nor any of their officers take any responsibility for the contents of this document.

Forward looking statements

The forward looking statements in this document are based on the Company's current expectations about future events. They are, however, subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of the Company and the Directors, that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by the forward looking statements in this document.

Disclaimer

This document does not take into account individual investment objectives, financial situation and particular needs of individual Shareholders or any other particular person. If you are in any doubt as to what you should do, you should consult your legal, financial or other professional adviser prior to voting.

Defined terms

Certain capitalised terms used in this document are defined in the Glossary included in this document.

Directors

Ken Scott-Mackenzie
Independent Non-Executive Chairman

Greg Martin
Managing Director

Soocheol Shin
Non-Executive Director

Registered Office

Level 1
5 Ord Street
West Perth WA 6005

Telephone 08 9492 2600
Facsimile 08 9492 2650
Email info@mml.net.au

Company Secretary

Christopher Foley

Postal Address

PO Box 904
West Perth WA 6872

Home Stock Exchange

Australian Securities Exchange Ltd
Exchange Plaza
2 The Esplanade
Perth WA 6000

Share Registry

Link Market Services
Level 12 / 680 George Street
Sydney NSW 2000

Auditors

Ernst and Young
11 Mounts Bay Road
Perth WA 6000

13 July 2012

Dear Shareholder

Extraordinary General Meeting – Capital Return

On 20 February 2012, Murchison announced that it had completed the sale of its 50% interest in Crosslands Resources Ltd (the owner of the Jack Hills iron ore project) and its 50% economic interest in the Oakajee Port and Rail project, to Mitsubishi Development Pty Ltd (**Mitsubishi Transaction**).

Following completion of the Mitsubishi Transaction, the Board undertook an extensive review process where it assessed the distribution of the majority of Murchison's cash assets to Shareholders, against the alternative of potential investment opportunities in the natural resources sector.

After an exhaustive process, the Board concluded that none of the investment opportunities considered had the potential to enhance shareholder value within an acceptable time horizon and accordingly the Board resolved to focus on the distribution of Murchison's cash assets to Shareholders.

In parallel with the review process, the Company applied to the Australian Taxation Office (**ATO**) for a ruling on the tax treatment of any distribution of the cash proceeds of the Mitsubishi Transaction to shareholders. On 27 June 2012, the Company received a final class ruling from the ATO confirming that the proposed distribution of funds will be treated as a return of capital, and not an unfranked dividend, for Australian tax purposes.

Following receipt of this final class ruling from the ATO, the Board proposes to reduce Murchison's share capital by returning an amount of \$0.46 per ordinary share from the Company's existing cash reserves to Shareholders (**Capital Return**), representing a return of approximately \$207 million of the Company's cash assets to Shareholders¹. As at 30 June 2012, the Company's unaudited cash balance was \$226.2 million.

Shareholders will have the opportunity to consider, and if thought fit approve, the Capital Return at a General Meeting to be held at 10.00am (WST) on Thursday 16 August 2012. In accordance with the Company's constitution, a reduction of share capital must be passed by at least 75% of the votes cast by Shareholders entitled to vote on the resolution.

If the Capital Return is approved by Shareholders at the General Meeting, it is anticipated to be implemented by no later than Friday 14 September 2012. In the meantime, the Board is considering options for dealing with its remaining non-cash assets. Thereafter, the most likely outcome is that the Company will seek approval from Shareholders in early 2013 to wind up the Company.

The Board has determined the amount of the Capital Return so as to leave the Company with sufficient funds to cover expected employee entitlements, corporate costs and contingent liabilities until the Company is wound up. The Board expects to seek approval to make a second distribution of any surplus funds to Shareholders at the time that Shareholders are asked to consider the winding up of the Company.

The proposed Capital Return, including its impact on the Company, is explained in more detail in the attached Explanatory Memorandum, which I encourage you to read in full.

Your Directors believe that the Capital Return is in the best interests of Shareholders and are unanimous in recommending that you vote in favour of the proposed Capital Return.

¹ Based on 450,093,277 Shares on issue.

CHAIRMAN'S LETTER

Your vote is important and your Directors encourage you to vote by attending the General Meeting, or by submitting a direct vote or appointing a proxy, attorney or corporate representative (in the case of corporate Shareholders) to vote on your behalf.

On behalf of the Board, I look forward to your support at the General Meeting.

Yours sincerely

Ken Scott-Mackenzie
Independent Non-Executive Chairman

ACTION REQUIRED BY SHAREHOLDERS

Step 1: Read the Notice and Explanatory Memorandum

The Notice and Explanatory Memorandum set out details of the Resolution to be voted on at the General Meeting. This information is important. You should read these documents carefully and if necessary seek advice from your professional adviser on any aspects about which you are not certain.

Step 2: Vote on the Resolution

Your vote is important. The General Meeting is scheduled to be held at 10.00am (WST) on Thursday 16 August 2012 at The Celtic Club, 48 Ord Street, West Perth, WA.

If you cannot attend the General Meeting in person and wish to vote on the Resolution, you can vote by completing the proxy form that accompanies this document and return it by no later than 10.00am (WST) on Tuesday, 14 August 2012 by one of the following means of delivery:

- (a) by hand to Link Market Services Ltd, 1A Homebush Bay Drive, Rhodes NSW 2138; or
- (b) by post to Murchison Metals Ltd, c/- Link Market Services, Locked Bag A14, Sydney South, New South Wales 1235; or
- (c) by facsimile on +61 2 9287 0309.

Alternatively, you can vote online by visiting www.linkmarketservices.com.au. Select 'Investor Login' and enter Murchison Metals Ltd or the ASX code (MMX) in the Issuer name field, your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) (which is shown on the front of your proxy form), postcode and security code which is shown on the screen and click 'Login'. Select the 'Voting' tab and then follow the prompts. You will be taken to have signed your proxy form if you lodge it in accordance with the instructions given on the website.

Please refer to the enclosed proxy form for more information about submitting proxy voting instructions.

Questions

If you have any questions about any matter contained in this Notice of General Meeting or the accompanying Explanatory Memorandum, please contact Chris Foley (Company Secretary) on +61 8 9492 2600.

Indicative key dates*

| | |
|--|--|
| Last date of acceptance of proxies | 10.00am (WST), Tuesday 14 August 2012 |
| Date for determining entitlement to vote at the General Meeting | 5.00pm (WST), Tuesday 14 August 2012 |
| Date of General Meeting | 10.00am (WST), Thursday 16 August 2012 |
| Record Date for determining entitlement to participate in Capital Return | 5.00pm (WST), Friday 24 August 2012 |
| Distribution of payments to Shareholders under the Capital Return | No later than Friday 14 September 2012 |

** All dates and times are indicative only. Murchison reserves the right to vary these dates and times. Murchison will make an announcement to ASX of any changes if they occur.*

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the General Meeting of the Shareholders of **MURCHISON METALS LTD** will be held at the following time and place:

Time: 10.00am (WST)
Date: Thursday 16 August 2012
Place: The Celtic Club, 48 Ord Street, West Perth WA

NOTICE OF GENERAL MEETING

Information on the following Resolution is set out in the accompanying Explanatory Memorandum which forms part of this Notice.

Special Business

Resolution – Capital Return

To consider and, if thought fit, to pass the following as a **special resolution**:

"That, for the purposes of rule 3.2(a) of the constitution of the Company, Part 2J.1 of the Corporations Act 2001 (Cth) and for all other purposes, approval is given for the Company to reduce its share capital by a total of \$0.46 per ordinary fully paid share in the capital of the Company by way of an equal capital reduction payable to all Shareholders registered on the Company's register of members on the Record Date."

Note: Being a special resolution, the resolution will only be passed if 75% or more of the votes cast by Shareholders entitled to vote on the resolution are cast in favour of the resolution.

Explanatory Memorandum

Shareholders are referred to the Explanatory Memorandum accompanying and forming part of this Notice of General Meeting.

Voting entitlement

Snapshot date

It has been determined that under Corporations Regulation 7.11.37 and ASX Settlement Operating Rule 5.6.1, for the purposes of this General Meeting, Shares will be taken to be held by the persons who are the registered holders at 5.00pm (WST) on Tuesday 14 August 2012. Accordingly, Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the General Meeting.

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. 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. A proxy need not be a Shareholder of the Company.

In accordance with section 250BA of the Corporations Act, Shareholders are advised that the proxy forms must be received by no later than 10.00am (WST) on Tuesday, 14 August 2012 by one of the following means of delivery:

- (a) by hand to Link Market Services, 1A Homebush Bay Drive, Rhodes NSW 2138; or
- (b) by post to Murchison Metals Ltd, c/- Link Market Services, Locked Bag A14 Sydney South, New South Wales, 1235; or
- (c) by facsimile on +61 2 9287 0309.

NOTICE OF GENERAL MEETING

Alternatively, Shareholders can vote online by visiting www.linkmarketservices.com.au. Select 'Investor Login' and enter Murchison Metals Ltd or the ASX code (MMX) in the Issuer name field, your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) (which is shown on the front of your proxy form), postcode and security code which is shown on the screen and click 'Login'. Select the 'Voting' tab and then follow the prompts. You will be taken to have signed your proxy form if you lodge it in accordance with the instructions given on the website.

Please refer to the enclosed proxy form for more information about submitting proxy voting instructions.

Recent changes to the law have impacted on the way proxies vote at Company meetings. Broadly, these changes include that:

- (a) if a proxy holder votes, they must cast all directed proxies as directed; and
- (b) any directed proxies which are not voted will automatically default to the Chairperson who must vote the proxies as directed.

Please consult your professional adviser for further details.

The Chairperson will vote undirected proxies in favour of the Resolution.

Corporate Representative

Any corporate Shareholder who has appointed a person to act as its corporate representative at the General Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative.

A Certificate of Appointment of Corporate Representative form is available from the Company's share registry.

By order of the Board

Dated: 13 July 2012

Chris Foley
Company Secretary

This Explanatory Memorandum forms part of the Notice of General Meeting and is intended to provide Shareholders with all information known by the Company that is material to the decision on how to vote on the Resolution contained in the Notice of General Meeting.

Your Directors recommend that you read this Explanatory Memorandum in its entirety before making any decision as to how to vote on the Resolution. If you have any questions regarding the matters set out in the Notice of General Meeting or the Explanatory Memorandum, please contact your accountant, solicitor or other professional adviser.

1 BACKGROUND AND REASONS FOR THE CAPITAL RETURN

On 20 February 2012, Murchison announced that it had completed the sale of its key assets, being its 50% interest in Crosslands Resources Ltd (the owner of the Jack Hills iron ore project) and its 50% economic interest in the Oakajee Port and Rail project, to Mitsubishi Development Pty Ltd (**Mitsubishi Transaction**).

Murchison also announced on 20 February 2012 that the Board proposed to undertake an extensive review process to assess the distribution of the majority of Murchison's cash assets received from the Mitsubishi Transaction to Shareholders, against the alternative of potential investment opportunities in the natural resources sector.

Following an exhaustive review, the Board concluded that none of the investment opportunities considered had the potential to enhance shareholder value within an acceptable time horizon, and accordingly resolved to focus on the distribution of Murchison's cash assets to Shareholders.

The Company received a final class ruling from the Australian Taxation Office (**ATO**) on 27 June 2012 confirming that the proposed distribution of the cash proceeds of the Mitsubishi Transaction will be treated as a return of capital, and not an unfranked dividend, for Australian tax purposes.

Following receipt of this final class ruling from the ATO, and having regard to the funds expected to be required for the ongoing operations of the Company, the Board proposes to return \$0.46 per fully paid ordinary share to Shareholders on the register as at the Record Date by way of a capital return (**Capital Return**), representing a return of approximately \$207 million of the Company's cash assets to Shareholders². As at 30 June 2012, the Company's unaudited cash balance was \$226.2 million.

The Board has determined the amount of the Capital Return so as to leave the Company with sufficient funds to cover expected employee entitlements, corporate costs and contingent liabilities.

The Record Date for determining entitlements to receive the Capital Return is expected to be 24 August 2012.

The approval of Shareholders is being sought to authorise the proposed Capital Return pursuant to Part 2J.1 of the Corporations Act. If the Capital Return is approved by Shareholders, it is anticipated to be implemented by no later than Friday 14 September 2012.

No Shares will be cancelled as a result of the Capital Return. Any fraction of a cent payable to any Shareholder in respect of the Shareholder's aggregate holding of Shares will be rounded down to the nearest whole cent.

The Company is currently considering options for dealing with its remaining non-cash assets. On 10 July 2012, the Company announced that it has reached an agreement to sell its Rocklea Iron Ore Project to Dragon Energy Ltd for cash consideration of \$3.2 million. The Company is also considering options for dealing with its 3.2% shareholding in Cashmere Iron Ltd.

The Board intends to investigate options to reduce ongoing administration costs, which may include delisting the Company's Shares from the ASX and / or implementing an unmarketable parcel sale facility so as to facilitate the sale of unmarketable parcels of the Company's Shares.

² Based on 450,093,277 Shares on issue.

If the Capital Return is approved the Board considers that the most likely outcome is that the Company will ultimately be wound up. As Shareholders have been previously advised, under the terms of the Mitsubishi Transaction, the Company may not be wound up until February 2013 at the earliest.

It is likely that a further meeting of Shareholders will be convened in the first quarter of 2013 to consider the distribution of any surplus cash reserves which are not required for the winding up of the Company, and the appointment of a liquidator to oversee the winding up process.

2 REQUIREMENTS FOR THE RETURN OF CAPITAL

The Capital Return is an equal reduction of capital for the purposes of the Corporations Act. This is because it relates only to ordinary shares in the Company, it applies to each holder of ordinary shares in proportion to the number of ordinary shares they hold and the terms of the reduction are the same for each holder of ordinary shares.

Under the Corporations Act, a company can only reduce its share capital in a way that is not otherwise required by law if the proposed capital return satisfies the following requirements:

- (a) ***The capital reduction must be fair and reasonable to the company's shareholders as a whole:***
The Board considers that the Capital Return is fair and reasonable to Shareholders as a whole. All Shareholders will be treated in the same manner in terms of the proportion of the share capital of the Company being returned.
- (b) ***The capital reduction must not materially prejudice the company's ability to pay its creditors:***
Murchison has undertaken a detailed review of the impact of the Capital Return on the Company's ability to pay its creditors. Based on Murchison's 30 June 2012 unaudited statement of financial position, Murchison had approximately \$1.4 million in liabilities.

The review focussed on identifying both actual as well as contingent creditors of the Company. In regards to contingent creditors, the Company considered the extent of the Company's potential liability as well as the likelihood of such claims being successfully prosecuted against the Company.

In particular, the Board assessed the Company's potential exposure in relation to the claim made by Premar Capital Ltd, as well as an ongoing dispute with O'Sullivan Partners. Murchison received an invoice for an amount of A\$6.8 million (including interest and GST) from Premar Capital Ltd by way of commission on sales of iron ore from the Jack Hills mine, which it is investigating to determine the extent of the Company's potential liability (if any). Murchison has also recently announced to ASX that it is vigorously defending a claim made by O'Sullivan Partners for an amount of \$5,077,162 (plus GST and interest on that amount) for fees that O'Sullivan Partners claim are payable pursuant to an engagement letter for the provision of advisory services to the Company.

The review referred to above concluded that with an estimated cash balance of \$27.4 million after payment of the Capital Return, the Board expects that Murchison would have the capacity to meet the claims of creditors (including any potential liability to Premar Capital Ltd and/or O'Sullivan Partners) following the proposed Capital Return.

For these reasons, the Board believes that the Capital Return will not materially prejudice the Company's ability to pay its creditors. The Board is also satisfied regarding the solvency of the Company following completion of the Capital Return.

The effect of the Capital Return on the financial position of the Company is shown in more detail in section 3(c) below.

- (c) *The capital reduction must be approved by shareholders under section 256C of the Corporations Act.* Shareholder approval is being sought to satisfy this requirement. Rule 3.2 of the Company's Constitution requires this approval to be obtained by way of a special resolution of Shareholders.

3 EFFECT OF THE CAPITAL RETURN ON MURCHISON

(a) Effect on capital structure

If the Capital Return is implemented, Murchison's issued share capital will be reduced by \$0.46 per Share, being approximately \$207 million³.

As no Shares will be cancelled in connection with the Capital Return, the Capital Return will not affect the number of Shares held by each Shareholder or the control of the Company. Murchison will continue to have approximately 450,093,277 Shares on issue immediately following completion of the Capital Return.

(b) Share price impact

If the Capital Return is implemented, Shares are likely to trade at a lower share price following the 'ex' date for the Capital Return, to reflect the outflow of funds to Shareholders and the reduction in the net tangible asset backing per Share.

(c) Impact on the financial position of Murchison

The proposed Capital Return will be funded from the Company's current cash reserves.

Based on Murchison's unaudited statement of financial position as at 30 June 2012, Murchison had approximately \$226.2 million in cash assets. The proposed Capital Return will reduce the Company's cash assets by approximately \$207 million. A summary of the expected impact of the Capital Return on Murchison's cash assets is set out in Figure 1 below.

Figure 1

| Reconciliation of cash and cash equivalents from 30 June 2012 (unaudited) to post Capital Return ¹ | | |
|--|-------------|---------------|
| Cash and cash equivalents as at 30 June 2012 (unaudited) | AUDm | \$226.2 |
| Expected net operating cashflow to date of return of capital distribution ² | AUDm | \$8.2 |
| Capital Return | AUDm | (\$207) |
| Expected cash and cash equivalents immediately following completion of the Capital Return | AUDm | \$27.4 |
| Notes: | | |
| 1 Assumes distribution pursuant to the Capital Return occurs no later than 14 September 2012. | | |
| 2 Murchison expects to receive cash consideration of \$3.2 million by 31 August 2012 for the sale of its interest in the Rocklea Iron Ore Project. This amount has been taken into account in determining net operating cash outflow up until the expected date of the capital distribution. | | |

³ Assumes that there remains 450,093,277 Shares on issue.

Murchison has undertaken a detailed review of the impact of the Capital Return on the Company's ability to pay its creditors. Based on Murchison's unaudited statement of financial position as at 30 June 2012, Murchison had total liabilities of approximately \$1.4 million.

As part of this review, the Board assessed the Company's potential exposure in relation to the claim made by Premar Capital Ltd, as well as an ongoing dispute with O'Sullivan Partners. Murchison received an invoice for an amount of A\$6.8 million (including interest and GST) from Premar Capital Ltd by way of commission on sales of iron ore from the Jack Hills mine, which it is investigating to determine the extent of the Company's potential liability (if any). Murchison has also recently announced to ASX that it is vigorously defending a claim made by O'Sullivan Partners for an amount of \$5,077,162 (plus GST and interest on that amount) for fees that O'Sullivan Partners claim are payable pursuant to an engagement letter for the provision of advisory services to the Company.

Based on its review, the Board expects that an estimated cash balance of \$27.4 million after completion of the Capital Return will be sufficient to satisfy the Company's liabilities in full including expected employee entitlements, ongoing corporate costs, closure costs and contingent liabilities, until the Company is wound up.

(d) Tax implications for Murchison

No adverse tax consequences are expected to arise for Murchison as a result of the Capital Return.

(e) Impact on Optionholders

If the Capital Return is implemented, the exercise price of any options over unissued Shares will be reduced by the amount of capital returned on each Share in accordance with the ASX Listing Rules.

4 MURCHISON'S INTENTIONS FOLLOWING IMPLEMENTATION OF THE CAPITAL RETURN

Following implementation of the Capital Return and completion of the sale of the Rocklea Iron Ore Project, Murchison's main assets will comprise its 3.2% shareholding in unlisted iron ore company, Cashmere Iron Ltd, and approximately \$27.4 million in cash assets. Murchison is considering options to either realise value for its shareholding in Cashmere Iron Ltd or alternatively distribute these shares to its shareholders.

If the Capital Return is approved, the Board intends to investigate options to reduce ongoing administration costs, which may include delisting the Company's Shares from the ASX and / or implementing an unmarketable parcel sale facility so as to facilitate the sale of unmarketable parcels of the Company's Shares.

Ultimately, if the Capital Return is approved, it is the Board's intention to seek the approval of Shareholders in the first quarter of 2013 to appoint a liquidator to wind the Company up. Under the terms of the Mitsubishi Transaction, neither Murchison nor its wholly owned subsidiaries may be wound up before 20 February 2013 without the consent of Mitsubishi Development Pty Ltd. Accordingly, it is expected that any meeting of Shareholders to consider the winding up of the Company would be held as soon as practicable after 20 February 2013. The Board expects to seek approval to make a second distribution of any surplus funds to Shareholders at the time that Shareholders are asked to consider the winding up of the Company.

5 TIMETABLE

Subject to Shareholder approval, the proposed Capital Return is expected to take effect in accordance with the following timetable.

| Event | Date* |
|--|---|
| Last date of acceptance of proxies | 10.00am (WST) on Tuesday 14 August 2012 |
| Date for determining entitlement to vote at the General Meeting | 5.00pm (WST) Tuesday 14 August 2012 |
| General Meeting to approve the Capital Return | 10.00am (WST) Thursday 16 August 2012 |
| Trading in the Shares on an 'ex return of capital' basis (assuming Capital Return is approved) | Monday 20 August 2012 |
| Record Date for determining entitlement to participate in Capital Return | 5.00pm (WST) on Friday 24 August 2012 |
| Distribution of payments to Shareholders under the Capital Return | No later than Friday 14 September 2012 |

** All dates and times are indicative only. Murchison reserves the right to vary these dates and times. Murchison will make an announcement to ASX of any changes if they occur.*

6 TAX TREATMENT OF THE CAPITAL RETURN

6.1 ATO Class Ruling

Murchison sought, and has now obtained, a class ruling from the ATO in relation to the tax treatment of the Capital Return for certain Shareholders (**Class Ruling**). The Class Ruling indicates that the full amount of the Capital Return will be treated as distributions of capital (and not unfranked dividends) for income tax purposes based on the scheme outlined in the Class Ruling. The Class Ruling also applies to any subsequent return of capital prior to a winding up of the Company.

The following is a broad outline of the income tax consequences for Shareholders associated with the Capital Return based on the Class Ruling. You should refer to the Class Ruling, a copy of which can be obtained from the ATO website, for detailed information regarding the income tax consequences of the Capital Return.

This outline is not exhaustive of all possible income tax considerations that could apply to a particular Shareholder and should not be substituted for complete taxation advice from a professional tax adviser. There are a number of limitations to this outline including that:

- it applies only to the extent that the Capital Return is consistent with the scheme as outlined in the Class Ruling;
- it applies only to the extent that a Shareholder holds their Shares at both the Record Date and the payment date for the Capital Return;
- it applies only where Shareholders hold their Shares on capital account. It does not apply where the Shares are held on revenue account or as trading stock; and

- It applies only to Shareholders who are not subject to the Taxation of Financial Arrangements (TOFA) regime in respect of gains and losses on their Shares.

Murchison and its directors, officers and advisers take no responsibility in respect of any statement concerning the taxation consequences of the Capital Return or in respect of the taxation consequences themselves. It is important that Shareholders seek their own independent taxation advice from a professional tax adviser, specific to their own circumstances, in order to determine their own tax implications resulting from the Capital Returns.

6.2 Australian resident Shareholders

The receipt of the respective Capital Returns will give rise to a capital gains tax (CGT) event. The relevant CGT event is "G1".

For Australian resident Shareholders, if the cost base of the Share is greater than the Capital Return on that Share, then the effect will be to reduce the existing cost base in that Share by the amount of the distribution. No capital gain will arise at the time of the Capital Return, however, due to the reduction in the cost base there may be a larger capital gain made by the Shareholder in future.

If the cost base of the Australian resident Shareholder's Share is less than the Capital Return on that Share, then an immediate capital gain will arise to the extent the Capital Return exceeds the cost base. In addition, the cost base of the Share will be reduced to nil for the purposes of determining any future capital gain made by the Shareholder in relation to the Share.

If the Share has been held by the Australian resident Shareholder for 12 months or more then any capital gain arising under CGT event G1 as a result of the Capital Return may be a "discounted capital gain" if the Shareholder is an individual, trust or a complying superannuation fund, such that the capital gain included in the Shareholder's assessable income may be reduced by half (for individuals and trusts) or one third (for complying superannuation funds).

6.3 Non-Australian resident Shareholders

For non-Australian resident Shareholders, the receipt of the respective Capital Returns will also give rise to CGT event G1 with similar consequences to those discussed at section 6.2 above.

However, any capital gain arising to non-Australian resident Shareholders under CGT event G1 in relation to their Shares will be disregarded unless, broadly:

- (a) the company is considered "land rich" for Australian income tax purposes (that is, greater than 50% of the market value of the company's underlying assets is derived from Australian real property interests or certain mining interests) and the non-Australian resident Shareholder has an associate-inclusive interest of at least 10% in the company;
- (b) the non-Australian resident Shareholder has used the Shares at any time in carrying on a business through an Australian permanent establishment; or
- (c) the non-Australian resident Shareholder was previously an Australian resident Shareholder and has made an election to treat their Shares as taxable Australian property upon ceasing to be an Australian resident.

As the Company should not be land rich for Australian income tax purposes at the time of the Capital Return, the only non-Australian resident Shareholders who may be required to recognise a capital gain on receipt of a Capital Return are those covered by paragraphs (b) or (c) above.

EXPLANATORY MEMORANDUM

In these circumstances, the non-Australian resident Shareholder will be required to recognise a capital gain to the extent that a Capital Return is greater than the cost base of the non-Australian resident Shareholder's Share.

7 ADDITIONAL INFORMATION

7.1 Directors interests

The Directors do not hold any Shares, and no Director will receive any payment or benefit of any kind as a consequence of the Capital Return.

Non-Executive Director Mr Soocheol Shin is the Managing Director of POSCO Australia Pty Ltd, Murchison's largest shareholder holding approximately 13.85% of the Company's issued share capital.

7.2 Payment of proceeds from the Capital Return

Shareholders who wish to can arrange to have the proceeds from the Capital Return paid directly into a bank, building society or credit union account in Australia by completing the enclosed Request for Direct Credit of Payments form and returning it, duly signed, to Murchison's registry, Link Market Services, before the Record Date. If a Request for Direct Credit of Payments form is not received, payments will be made by cheque to Shareholders.

7.3 Consequences if the Capital Return is not approved by Shareholders

If Shareholders do not approve the Capital Return by the requisite majority, the Board will meet to determine the Company's strategy in regards to its cash assets. This may include attempting to identify and considering potential investment opportunities in the natural resources sector.

Shareholders should be aware that under the ASX Listing Rules, ASX may suspend quotation of a company's securities if it has 50% or more of its total assets in cash or in a form readily convertible to cash. If the Capital Return is not implemented, Murchison will continue to hold almost all of its total assets in the form of cash assets. Accordingly, in these circumstances, there is the risk that ASX may suspend quotation of Murchison Shares until Murchison makes an announcement regarding its future activities.

7.4 Directors' recommendation

The Directors are of the opinion that the Capital Return is fair and reasonable to Shareholders as a whole and does not materially prejudice the Company's ability to pay its creditors. The Directors also believe that the Capital Return is in the best interests of Shareholders. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolution.

7.5 Disclosure to ASX

Murchison is a 'disclosing entity' for the purposes of section 111AC of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations. These disclosure obligations require Murchison to disclose to ASX (ASX code: MMX) any information that a reasonable person would expect to have a material effect on the price or value of the securities in Murchison.

Since 1 January 2012, the Company has made the following announcements:

| Date | Announcement |
|------------|--|
| 10/07/2012 | Murchison sells Rocklea Project for \$3.2 million cash |
| 04/07/2012 | Claim by O'Sullivan Partners (Advisory) Pty Ltd |

EXPLANATORY MEMORANDUM

| Date | Announcement |
|------------|--|
| 02/07/2012 | Murchison to seek approval for Capital Return |
| 28/06/2012 | Change in substantial holding in MMX by DB Group |
| 27/06/2012 | Murchison receives favourable final ATO ruling |
| 26/06/2012 | Ceasing to be a substantial holder |
| 12/06/2012 | Change in substantial holding |
| 08/06/2012 | Change in substantial holding in MMX by DB Group |
| 08/06/2012 | Change in substantial holding in MMX by DB Group- Schedule 2 |
| 08/06/2012 | AMENDMENT - Change in substantial holding in MMX by DB Group |
| 28/05/2012 | Murchison Receives Favourable Draft ATO Ruling |
| 07/05/2012 | Claim by Premar Capital Pty Ltd Update |
| 04/05/2012 | Claim by Premar Capital Pty Ltd |
| 04/05/2012 | Change in substantial holding |
| 26/04/2012 | Change in substantial holding |
| 26/04/2012 | Change in substantial holding in MMX by DB Group-Schedule 2 |
| 26/04/2012 | Change in substantial holding in MMX by DB Group |
| 18/04/2012 | Final Director's Interest Notice |
| 18/04/2012 | Change in substantial holding in MMX by DB Group |
| 18/04/2012 | Quarterly Activities and Cashflow Statement |
| 23/03/2012 | Change in substantial holding in MMX by DB Group |
| 23/03/2012 | Change in substantial holding in MMX by DB Group-Schedule 3 |
| 23/03/2012 | Change in substantial holding in MMX by DB Group-Schedule 2 |
| 23/03/2012 | AMENDMENT – Becoming a substantial holder in MMX by DB Group |
| 14/03/2012 | Appendix 3B and Section 708A Notice |
| 09/03/2012 | Change in substantial holding in MMX by DB Group-Schedule 3 |
| 09/03/2012 | Change in substantial holding in MMX by DB Group-Schedule 2 |
| 09/03/2012 | Change in substantial holding in MMX by DB Group |
| 07/03/2012 | Financial Report for Half Year Ended 31 December 2011 |
| 01/03/2012 | Initial Directors' Interest Notice x 2 |
| 01/03/2012 | Final Directors' Interest Notice x 5 |
| 01/03/2012 | Murchison announces Board Restructure |
| 29/02/2012 | Change in substantial holding |
| 28/02/2012 | Appendix 3B and Section 708A Notice |
| 23/02/2012 | Becoming a substantial holder |
| 22/02/2012 | CHM: Litigation Update |
| 21/02/2012 | Chameleon Litigation Update |
| 20/02/2012 | Completion of Mitsubishi Transaction |
| 13/02/2012 | Results of General Meeting of Shareholders |

EXPLANATORY MEMORANDUM

| Date | Announcement |
|------------|---|
| 13/02/2012 | Mitsubishi Transaction |
| 01/02/2012 | Letter to Shareholders |
| 27/01/2012 | Quarterly Activities Report and Cashflow Statement |
| 18/01/2012 | Appendix 3B and Section 708A Notice |
| 10/01/2012 | Appendix 3B |
| 10/01/2012 | JHEP Receives State Environmental Approval |
| 03/01/2012 | Notice of General Meeting to Approve Mitsubishi Transaction |

Further information can also be found on the Company's website at www.mml.net.au.

7.6 Other material information

There is no other information material to the making of a decision by Shareholders whether or not to vote in favour of the Resolution (being information that is known to the Directors which has not previously been disclosed to Shareholders) other than as set out in this document.

GLOSSARY

In this document:

\$ means Australian dollars, unless otherwise stated.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Ltd or Australian Securities Exchange, as the context requires.

ATO means Australian Taxation Office.

Board means the Company's board of Directors from time to time.

Capital Return means the proposed capital return the subject of this Notice of Meeting and Explanatory Memorandum.

CGT means Capital Gains Tax.

Chairperson means the person chairing the Meeting from time to time.

Company or Murchison means Murchison Metals Ltd (ABN 38 078 257 799).

Corporations Act means the *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Director means a director of Murchison from time to time.

Explanatory Memorandum means this explanatory memorandum accompanying the Notice of Meeting.

Listing Rules means the Official Listing Rules of ASX.

Meeting or General Meeting means the general meeting convened by the Notice.

Mitsubishi Transaction means the sale by Murchison of its 50% interest in Crosslands Resources Ltd and 50% economic interest in the Oakajee Port and Rail infrastructure projects to Mitsubishi Development Pty Ltd, which was completed on 20 February 2012.

Notice or Notice of Meeting means the notice of general meeting of Shareholders of Murchison which is enclosed with this Explanatory Memorandum.

O'Sullivan Partners means O'Sullivan Partners (Advisory) Pty Ltd.

Record Date means 5.00pm (WST) on 24 August 2012, or such other time and date as may be determined by the Company.

Resolution means the resolution set out in the Notice.

Shareholder means a holder of one or more Shares.

Share means a fully paid ordinary share in Murchison.

Unmarketable parcel means a parcel of Shares held by a Shareholder which has a value of less than \$500 calculated in accordance with the procedures of the ASX Operating Rules.

WST means Western Standard Time, Australia.



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SHAREHOLDER VOTING FORM

I/We being a member(s) of Murchison Metals Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

the Chairman
of the Meeting
(mark box)

OR if you are NOT appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the General Meeting of the Company to be held at **10:00am (WST) on Thursday, 16 August 2012, at The Celtic Club, 48 Ord Street, West Perth WA** and at any adjournment or postponement of the meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. Please read the voting instructions overleaf before marking any boxes with an


STEP 2

VOTING DIRECTIONS

Resolution 1

That, for the purposes of rule 3.2(a) of the constitution of the Company, Part 2J.1 of the Corporations Act 2001 (Cth) and for all other purposes, approval is given for the Company to reduce its share capital by a total of \$0.46 per ordinary fully paid share in the capital of the Company by way of an equal capital reduction payable to all Shareholders registered on the Company's register of members on the Record Date.

For Against Abstain*

 * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

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HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together.

Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the company's share registry.

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (WST) on Tuesday, 14 August 2012**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE  www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the proxy form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



by mail:

Murchison Metals Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



by fax:

+61 2 9287 0309



by hand:

delivering it to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138.

If you would like to attend and vote at the General Meeting, please bring this form with you.
This will assist in registering your attendance.



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A REQUEST FOR DIRECT CREDIT OF PAYMENTS

Please use a BLACK pen. Print CAPITAL letters inside the shaded areas.

| | | |
|---|---|---|
| A | B | C |
|---|---|---|

| | | |
|---|---|---|
| 1 | 2 | 3 |
|---|---|---|

Insert details of your Australian Financial Institution, Branch and Account into which you wish to have your payments made. This request will not cancel any reinvestment plan participation (if any) unless we receive specific instructions from you. A detailed payment advice will be provided for each payment.

A direct credit request form is required for each holding.

Name(s) in which your account is held

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BSB Number (*must be 6 digits*)

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Account Number

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Account Type (*eg S1*)

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Name of Financial Institution

| |
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Branch Suburb/Town

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B SIGNATURE(S) OF SECURITYHOLDER(S) – THIS MUST BE COMPLETED

Securityholder 1 (Individual)

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Joint Securityholder 2 (Individual)

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Joint Securityholder 3 (Individual)

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Sole Director and Sole Company Secretary/Director (delete one)

Director/Company Secretary (delete one)

Date ____/____/____

Signing Instructions: This form should be signed by the securityholder. If a joint holding, all securityholders should sign. If signed by the securityholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth) (or for New Zealand companies, the *Companies Act 1993*).

Privacy Clause: Link Market Services Limited advises that Chapter 2C of the *Corporations Act 2001* requires information about you as a securityholder (including your name, address and details of the securities you hold) to be included in the public register of the entity in which you hold securities. Information is collected to administer your securityholding and if some or all of the information is not collected then it might not be possible to administer your securityholding. Your personal information may be disclosed to the entity in which you hold securities. You can obtain access to your personal information by contacting us at the address or telephone number shown on this form. Our privacy policy is available on our website (www.linkmarketservices.com.au).






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EMAIL COLLECTION FORM

We are currently updating our Investor Information details and note we do not have your email address recorded.

By providing us with your email address we will be able to notify you of important communications including Annual and Half Year reports, Notices of Shareholder Meetings, payment advices, as well as potential new investment opportunities and capital raisings.

To record your email address either:

- visit the Share Registry's website at www.investorcentre.linkmarketservices.com.au and follow the steps below;
 -  click on the "REGISTER NOW" icon to create your portfolio or enter as a "single holding" by entering the required information.
 -  enter your Securityholder Reference Number (SRN) or Holder Identification Number (HIN), this can be found under the barcode at the top of this form.
 -  once you are logged in, click on 'Communications' from the top menu and select 'Preferences'. From here you can enter your email address and select your preferred method of electronic communications.
- OR**
- complete the form below and return it to us in the reply paid envelope provided.

Example: sam.sample@sampleville.com.au

My email address is:

Thank you for your support in helping us better communicate with you.

