murchison

ACN 078 257 799

ANNUAL REPORT 2012

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Contents

Directors' Report

The Directors present their report on Murchison Metals Ltd ("the Company") for the financial year ended 30 June 2012.

DIRECTORS

The names of Directors of the Company in office during the financial year and until the date of this report are as follows:

Ken Scott-Mackenzie

Greg Martin

Soocheol Shin (Appointed: 1 March 2012)

Ian Burvill (Appointed: 1 March 2012; resigned: 17 April 2012)

Paul Kopejtka (Resigned: 26 October 2011)

James McClements (Resigned: 29 February 2012)

Rodney Baxter (Resigned: 29 February 2012)

Sun Moon Woo (Resigned: 1 March 2012)

Samantha Tough (Resigned: 29 February 2012)

Peter Wasow (Resigned: 29 February 2012)

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

COMPANY SECRETARY

The following person held the position of Company Secretary during the financial year:

Chris Foley

ABOUT MURCHISON

Murchison Metals Limited ("**Murchison**") is an Australian ASX listed company. Prior to 20 February 2012, Murchison was a 50% shareholder in Crosslands Resources Ltd ("**Crosslands**"), the owner of the Jack Hills iron ore project located in the mid-west region of Western Australia. Murchison also had a 50% economic interest in an independent infrastructure business, Oakajee Port and Rail ("**OPR**"), which 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% of both Crosslands and OPR was held by Mitsubishi Development Pty Ltd ("**Mitsubishi**"). Mitsubishi purchased Murchison's interest in Crosslands and OPR in February 2012.

PRINCIPAL ACTIVITIES

Murchison is in the process of distributing the majority of its cash assets to shareholders by way of a return of capital which was approved on 16 August 2012 at a General Meeting of Shareholders.

CHANGES IN STATE OF AFFAIRS

During the year, Murchison sold its interests in Crosslands and OPR to Mitsubishi. Further details of the Transaction are provided below.

OPERATING RESULT

The profit/(loss) after providing for income tax amounted to the following:

CONSOLIDATED	
30 June 2012 $'000	30 June 2011 $'000
2,305	(16,554)

No dividends have been paid or declared by the Company during the year (2011: Nil).

REVIEW OF OPERATIONS

CORPORATE

Mitsubishi Transaction

On 24 November 2011, Murchison and Mitsubishi entered into a Share and Asset Purchase Agreement ("SAPA") by which Murchison agreed to sell its interests in both Crosslands and OPR to Mitsubishi for cash consideration of $325[1] million (the "Transaction").

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

The final condition precedent was satisfied on 13 February 2012 when a General Meeting of Murchison Shareholders approved the Transaction. Completion of the Transaction occurred on 20 February 2012. The proceeds received from Mitsubishi were used to repay the balance of a debt facility and final fees owing to Resource Capital Fund V L.P. ($61,400,000) and the balance required to finalise the settlement of the Chameleon litigation ($20,000,000).

On completion of the Transaction, and after the Company had met all its obligations, including debt repayments, transaction costs, employee entitlements, corporate costs and allowance for operating costs and closure costs, Murchison's net available funds were $223,000,000.

Under the terms of the SAPA neither Murchison nor its wholly owned subsidiaries, Jack Hills Holdings Pty Ltd, MMX Port Holdings Pty Ltd or MMX Rail Holdings Pty Ltd may be wound up during the period ending 12 months after completion without Mitsubishi's consent. Mitsubishi may not make any claim under or in connection with the SAPA unless it has given Murchison notice of the claim and an estimate of the loss arising from the claim within the period of 12 months after completion.

Distribution Process

Following the announcement of the Transaction in November 2011, Murchison commenced work on an application to the Australian Taxation Office ("ATO") for a class ruling to enable it to distribute the net cash proceeds from the Transaction to Shareholders as a return of capital ("Distribution Process").

In parallel with the Distribution Process, the Board considered numerous opportunities that were presented to, or identified by, the Company to invest the proceeds from the Transaction in the natural resources sector.

On 18 April 2012 Murchison announced that as none of the potential investment opportunities that were presented to, or identified by, the Company since the announcement of the Transaction were considered to represent a compelling reinvestment opportunity with the potential to enhance shareholder value within an acceptable time frame, the Company would not proactively seek new investment opportunities and would focus on distribution of the Company's available cash.

On 27 June 2012 the Company received a final class ruling (consistent with a draft ruling received in May 2012) confirming that the proposed distribution of funds will be treated as a return of capital and not an unfranked dividend for Australian tax purposes.

On 2 July 2012 Murchison announced that subject to obtaining shareholder approval, Murchison will return an amount of approximately $207,000,000 to shareholders representing a return of 46 cents per share. A General Meeting of Shareholders held on 16 August 2012 approved the return of capital. It is expected that shareholders will receive payment by 14 September 2012.

1 All dollar values are expressed in Australian dollars, unless otherwise stated.

Directors' Report

Board Restructure

On 1 March 2012 Murchison announced that as a consequence of having completed the Transaction, Mr James McClements, Mr S M Woo, Mr Rod Baxter, Mr Peter Wasow and Ms Samantha Tough had resigned as Non-Executive Directors. Mr Ian Burvill and Mr S C Shin were subsequently appointed as Non-Executive Directors.

As a consequence of the Board decision to focus on the Distribution Process, Mr Burvill, who joined the Board primarily to assist with the assessment of investment opportunities, resigned as a Director on 17 April 2012.

EXPLORATION

Rocklea Project (Murchison 100% interest)

On 10 July 2012 the Company announced that it had sold its Rocklea iron ore project to Dragon Energy Ltd for $3,200,000 in cash. The Rocklea project is located in the Pilbara iron ore province between the towns of Tom Price and Paraburdoo. The sale of the Rocklea project is expected to be completed by the end of August 2012. Murchison will then no longer hold an interest in the project.

FINANCIAL POSITION

The net assets of the Group have increased from $225,667,000 at 30 June 2011 to $235,101,000 at 30 June 2012. The Group had Cash and Cash Equivalents of $3,052,000 at 30 June 2012 and Term Deposits of $223,140,000 (total $226,192,000) (2011: Cash and Cash Equivalents: $12,400,000; Term Deposits: nil). The increase is attributable to the proceeds received from completion of the Transaction net of debt repayment, transaction costs and payment of employee entitlements. The Company has no remaining external debt.

SUBSEQUENT EVENTS

As at the date of this report, no other matters or circumstances of which Directors are aware, other than those referred to in the financial statements or notes thereto, have arisen since the end of the financial year which significantly affect, or may significantly affect the operations, results or state of affairs of the Consolidated Entity in subsequent financial periods.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 22 and forms part of this report.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Following implementation of the return of capital, Murchison's main assets will comprise its 3.2% shareholding in unlisted iron ore company, Cashmere Iron Ltd, and approximately $27,400,000 in cash assets. Murchison is considering options to either realise value for its shareholding in Cashmere Iron Ltd or, alternatively, distribute these shares in specie to its shareholders.

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. Currently, the Board expects 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 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.

ENVIRONMENT REGULATIONS

During the year, the Group was subject to significant environmental regulations in respect of its operations, evaluation and development activities. The Group aims to ensure the appropriate standard of environmental care is achieved and in doing so, that it is aware of and is in compliance with all environmental legislation.

The Directors of the Group reviewed the Group's projects during the year and are not aware of any breach of environmental legislation for the financial year under review.

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

CURRENT DIRECTORS AND COMPANY SECRETARY

The names and particulars of the current Directors and Company Secretary of the Company are:

Ken Scott-Mackenzie	Independent Non-Executive Director (Chairman)
Qualifications:	B.E. (Mining), Dip Law
Experience:	Currently the Chairman of major ASX-listed mining and civil contractor Macmahon Holdings Ltd and a Non-Executive Director of construction materials producer Adelaide Brighton Ltd, Mr Scott-Mackenzie has 36 years experience in the engineering, mining and construction sectors in Australia and overseas. A qualified mining engineer and lawyer, Mr Scott-Mackenzie spent 12 years as a senior executive of major Australian infrastructure developer Abigroup, including two years as CEO after its takeover by German group Bilfinger Berger AG. Before retiring in 2009, Mr Scott-Mackenzie was for four years the inaugural CEO of Bilfinger Berger Australia Pty Ltd, which was established to consolidate all of Bilfinger's Australian businesses, Abigroup, Baulderstone and Bilfinger Berger Services. Prior to joining Abigroup, he spent 12 years in various roles with South African mining and construction group Murray & Roberts.
Interest in Shares and Options at the date of this report:	Nil
Directorships held in other listed entities in the past three years:	Macmahon Holdings Ltd (Appointed 12 May 2009) Adelaide Brighton Ltd (Appointed 26 July 2010)

Greg Martin	Managing Director
Qualifications:	B.Ec, LLB., FAIM, MAICD
Experience:	Mr Martin has 30 years experience in the energy, utility and infrastructure sectors. Mr Martin is currently Chairman of Prostar Capital Pte Ltd and a Non-Executive Director of major Australian oil and gas producer Santos Ltd as well as the Australian Energy Market Operator. Mr Martin spent 25 years with The Australian Gas Light Company Ltd ("AGL"), one of Australia's oldest and biggest publicly listed downstream energy companies, including five years as Chief Executive Officer and Managing Director between 2001 and 2006. After leaving AGL, Mr Martin spent two and a half years as CEO of the infrastructure division of ASX-listed Challenger Financial Services Group, during which time Challenger-backed consortiums led several major international infrastructure acquisitions.
Interest in Shares and Options at the date of this report:	Nil
Directorships held in other listed entities in the past three years:	Santos Ltd (Appointed: 29 October 2009) Energy Developments Ltd (Appointed: 16 May 2006) Jackgreen Ltd (Appointed: 6 July 2009, resigned: 16 December 2010) Everest Financial Group (Appointed: 14 August 2009; resigned: 18 July 2011)

Directors' Report

INFORMATION ON DIRECTORS AND COMPANY SECRETARY (CONTINUED)

CURRENT DIRECTORS AND COMPANY SECRETARY (CONTINUED)

SC Shin	Non-Executive Director (Appointed 1 March 2012)
Qualifications:	BA Public Administration
Experience:	Mr Shin joined POSCO in 1989 and has worked in the Raw Materials Purchasing Division for 23 years. He has extensive experience in the natural resources and logistics which includes purchasing coal, iron ore pellets, Ferro and non-ferro alloys along with investments in Australian coal assets and ocean transportation using bulk vessels. Mr Shin is currently Managing Director of POSCO Australia Pty Ltd which is a 100% subsidiary of POSCO.
Interest in Shares and Options at the date of this report:	Nil
Directorships held in other listed entities in the past three years:	Cockatoo Coal Ltd (Appointed: 26 March 2012) Jupiter Mines Ltd (Appointed: 19 March 2012) Sandfire Resources NL (Appointed: 28 February 2012)

Chris Foley	Company Secretary
Qualifications:	BJuris, LLB
Experience:	Mr Foley holds a Bachelor of Jurisprudence and Bachelor of Laws from the University of Western Australia and a Graduate Diploma in Applied Corporate Governance. He has over 20 years experience in the resources sector in private practice and various corporate roles.
Interest in Shares and Options at the date of this report:	544,000 Ordinary Fully Paid Shares 70,000 Unlisted Options
Directorships held in other listed entities in the past three years:	None

INFORMATION ON DIRECTORS AND COMPANY SECRETARY (CONTINUED)

PAST DIRECTORS

The names and particulars of the Directors who ceased being Directors during the year are:

Ian Burvill	Non-Executive Director (Appointed 1 March 2012; resigned 17 April 2012)
Qualifications:	BE, MBA CPEng
Experience:	Mr Burvill has more than 26 years of experience in the mining industry. He started his career as a mechanical engineer, designing and constructing mineral process plants. He was then employed by Rothschild Australia Limited, providing project finance for mining projects. He is now a Senior Vice President of Resource Capital Funds ("RCF") a mining-focused private equity firm. He is a member of the IEAust, AusIMM and AICD.
Directorships held in other listed entities in the past three years:	Australian Solomons Gold Limited (Appointed: 18 December 2006; resigned: 4 December 2009) Highlands Pacific Limited (Appointed: 6 March 2006; resigned: 31 December 2009) Bannerman Resources Ltd (Appointed: 14 June 2012)

Paul Kopejtka	Non-Executive Director (Resigned: 26 October 2011)
Qualifications:	B Eng (Chemical)
Experience:	Mr Kopejtka has over 20 years experience in the mining industry as an engineer and consultant in the areas of green and brown fields project evaluation and feasibility study management, plant design and engineering and commissioning. This experience extends to both the Australian and overseas mining industry. Throughout the 1990s Mr Kopejtka held tenure as a technical consultant with the Minproc and Bateman engineering groups before branching out in a similar capacity working with a number of major publicly listed companies.
Directorships held in other listed entities in the past three years:	Indo Mines Ltd (Appointed: 25 May 2010; resigned: 3 July 2012)

James McClements	Non-Executive Director (Resigned: 29 February 2012)
Qualifications:	B. Econ (Hons)
Experience:	Mr McClements has more than 25 years experience in the resources industry and investment banking and he is a co-founder of Resource Capital Funds a mining-focused private equity firm based in Denver, Colorado and Perth, Australia. Mr McClements has experience in the resources industry, particularly in the field of resource financing and investing in junior mining companies globally. Mr McClements was Senior Vice President and Director of NM Rothschild & Sons (Denver), responsible for the North American Resources banking. Prior to this, Mr McClements worked with Rothschild Australia Limited, specialising in the financing of mining companies.
Directorships held in other listed entities in the past three years:	Rey Resources Ltd (Appointed: 29 August 2007; resigned: 1 October 2011) Bannerman Resources Ltd (Appointed: 17 December 2008; resigned: 27 May 2011)

INFORMATION ON DIRECTORS AND COMPANY SECRETARY (CONTINUED)

PAST DIRECTORS (CONTINUED)

Rodney Baxter	Non-Executive Director (Resigned: 29 February 2012)
Qualifications:	PhD, MBA
Experience:	Mr Baxter is currently the Managing Director of Calibre Group Limited (CGH) and has over 20 years' experience in the infrastructure and engineering resources sectors. Mr Baxter was previously the Managing Director of Consolidated Minerals where he presided over its strategic transformation and sale. Before that, Mr Baxter enjoyed a near 10 year career at Anglo American and Anglo Platinum in various executive and business development roles.
Directorships held in other listed entities in the past three years:	Calibre Group Limited (Appointed: 1 July 2009; listing date 2 August 2012)

Sun Moon Woo	Non-Executive Director (Resigned: 1 March 2012)
Qualifications:	Masters of Mining Engineering
Experience:	Mr Woo joined POSCO in 1983 and has worked in the Raw Material Purchasing Division and Investment Division for 25 years. He has extensive experience in the natural resources industry and has managed POSCO investments in iron ore and coal projects globally including Australia and Brazil. Mr Woo also held the position of Managing Director of POSCO Australia Pty Ltd which is a 100% subsidiary of POSCO.
Directorships held in other listed entities in the past three years:	Cockatoo Coal Ltd (Appointed: 25 September 2007; resigned: 26 March 2012) Jupiter Mines Ltd (Appointed: 21 September 2009; resigned: 19 March 2012)

Samantha Tough	Non-Executive Director (Resigned: 29 February 2012)
Qualifications:	BJuris, LLB, GAICD
Experience:	Ms Tough is a professional Non-Executive Director with two decades of corporate experience, primarily in the WA natural resources sector. Ms Tough spent five years as a senior executive with leading Australian energy group Woodside Energy Ltd, including four years as General Manager of the North West Shelf project, Australia's largest operating resources development. After leaving Woodside in 2005, Ms Tough was Director of Strategy at ASX-listed oil producer Hardman Resources prior to its takeover by UK-based Tullow Oil Plc. Ms Tough has also held numerous senior advisory roles, including Senior Vice President, Strategic Counsel Natural Resources for Commonwealth Bank of Australia. Ms Tough is currently Chairman of ASX-listed explorer Southern Cross Goldfields Ltd, Non-Executive Director of Strike Resources Limited and Chairman of structural engineering group Structerre Pty Ltd and Chairman of RemCo Ltd, the retail market operator of the retail gas market in Western Australia.
Directorships held in other listed entities in the past three years:	Enerji Ltd (Appointed: 23 February 2010; resigned: 15 July 2010) Southern Cross Goldfields Ltd (Appointed: 24 July 2007) Strike Resources Limited (Appointed: 23 January 2012)

REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the Director and Executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for, directly or indirectly, planning, directing and controlling the activities of the Company and the Group, including any Director (whether executive or otherwise) of the Company.

KEY MANAGEMENT PERSONNEL (KMP)

Directors

Ken Scott-Mackenzie	Non-Executive Independent Director (Chairman)
Greg Martin	Managing Director
SC Shin	Non-Executive Director (Appointed: 1 March 2012)
Ian Burvill	Non-Executive Director (Appointed: 1 March 2012; resigned: 17 April 2012)
Paul Kopejtka	Non-Executive Director (Resigned: 26 October 2011)
James McClements	Non-Executive Director (Resigned: 29 February 2012)
Rodney Baxter	Non-Executive Director (Resigned: 29 February 2012)
SM Woo	Non-Executive Director (Resigned: 1 March 2012)
Samantha Tough	Non-Executive Director (Resigned: 29 February 2012)
Peter Wasow	Non-Executive Director (Resigned: 29 February 2012)

Executives

Chris Foley	Company Secretary/Legal Counsel
Vanitha McVeigh	General Manager - Finance (KMP from 7 March 2012)
Trevor Matthews	Chief Operating Officer (Cessation date: 20 February 2012)
John Westdorp	Chief Financial Officer (Cessation date: 6 March 2012)
Luca Rocchi	General Manager – Crosslands Joint Venture (Cessation date: 14 February 2012)
Jamie Wright	General Manager – Corporate Development (Cessation date: 14 February 2012)

There were no changes of the Directors or Executives after the reporting date and before the date the financial report was authorised for issue other than stated above.

Remuneration Committee

Prior to 29 February 2012, the Company had a Remuneration Committee which was responsible for making recommendations to the Board regarding remuneration arrangements for Directors and Executives. Following the Board restructure, the Board of Directors performs the function of the Remuneration Committee and is responsible for determining and reviewing remuneration arrangements for Directors and Executives.

The Board assesses the appropriateness of the nature and amount of remuneration of Executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from attracting and retaining a high quality, high performing team of Directors and Executives.

The performance of the Company depends upon the quality of its Directors, Executives and staff. To meet the significant challenges facing the Company, the Company must motivate and retain highly skilled Directors, Executives and staff. To this end, the Company applies the following principles in its remuneration framework:

- Motivate Directors and Executives to execute the strategy and objectives approved by the Board within an appropriate control framework; and
- Align the interest of key leadership with interests of the Company's shareholders through the use of appropriate incentive structures.

REMUNERATION REPORT (AUDITED) (CONTINUED)

During the transition of the Company over the 8 months leading up to the Transaction, the retention of staff was critically important to ensure the continuation of retained knowledge for the strategic review and completion of the Transaction to include the satisfaction of condition precedent. The importance of retaining key staff during this period cannot be over emphasised.

Remuneration Structure

In accordance with best practice corporate governance, the structure of remuneration paid to Non-Executive Directors and Executive remuneration is separate and distinct.

Non-Executive Directors' Remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, for a cost that is acceptable to shareholders.

Structure

The Company's constitution and the ASX listing rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a General Meeting of Shareholders of the Company. At the Annual General Meeting (AGM) of the Company held on 24 November 2011 shareholders approved aggregate remuneration payable to Non-Executive Directors of $950,000 per year.

The aggregate amount of remuneration and the fee structure is reviewed annually. The Board considers advice from external consultants as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

The remuneration of Non-Executive Directors for the year ended 30 June 2012 is detailed in Table 1 in this report.

The Board has no intention to provide long term incentives to Non-Executive Directors in the form of options. There were no options issued to Non-Executive Directors during the year ended 30 June 2012.

Executive Remuneration

Objective

The Group aims to reward Executive Directors and Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- Reward Executive Directors and Executives for individual performance. Where appropriate, targets referenced to appropriate milestones form the basis of incentive payments;
- Align the interests of the Executive Directors and Executive with those of shareholders;
- Ensure total remuneration is competitive by market standards; and
- Attract and retain well qualified and experienced Executive Directors and Executives.

A formal short term incentive plan was implemented during the financial year comprised of cash and option components. The plan was implemented as an incentive strategy to enable the Company to retain key staff including Executive Directors and Executives during a critical phase of the business to enable the Company to undertake a strategic review which ultimately led to the sale of the Company's joint venture interests. Refer to Table 1 for options and cash bonuses paid to Key Management Personnel.

Structure

In determining the level and make up of Executive remuneration, the Board obtains independent advice and benchmarking reports from external consultants. These consultants provide advice directly to the Board of Directors.

The remuneration structure consists of the following key elements:

- Fixed remuneration (base salary, superannuation and non-monetary benefits);
- Variable remuneration - long term incentives; and
- Variable remuneration - short term incentives.

REMUNERATION REPORT (AUDITED) (CONTINUED)

The Company promotes a performance culture and accordingly sets annual performance objectives for Executive Directors, Executives and staff.

The proportion of fixed remuneration and variable remuneration for each Executive is set out in Table 1.

Fixed remuneration

Objective

Fixed remuneration is reviewed annually by the Board of Directors. The process consists of a review of Company and individual performance, relevant comparative remuneration in the market and internally and where appropriate, external advice on policies and practices. As noted above, the Board has access to external advice independent of management.

Structure

Executives receive their fixed (primary) remuneration in the form of a salary and superannuation payment every month. The fixed remuneration component of Executives is detailed in Table 1.

Variable remuneration – long term incentives

Objective and structure

Executive Directors

There were no long term incentives provide to Executive Directors during the year. The Board has no current intention of providing long term incentive to Executive Directors.

No options were issued to Executive Directors during the year ended 30 June 2012.

Executives

The objective in providing long term incentives is to reward Executives in a manner that aligns remuneration with the creation of shareholder wealth and ensures continuity of the experienced Executive team is maintained during the critical phases of the business. Long term incentives have been provided in the past to Executives in the form of share options under an Employee Incentive Plan (EIP). Under the plan, the share options vest over periods of up to 2.5 years subject to meeting continuity of employment provisions and subject to the Board's discretion. Executives are able to exercise the share options after vesting until a set expiry date. Zero exercise price options were issued to Executives during the year ended 30 June 2012 in accordance with the terms of the EIP approved by Shareholders at the Annual General Meeting on 17 November 2010.

Refer to Table 2 for details of options granted during the year.

The Company has not used performance hurdles in assessing and granting share options to Executives under the EIP as the EIP has been utilised as a key retention mechanism.

In the event of the resignation, termination with cause or by consent of the employment of an option holder, the options granted and unvested lapse immediately, unless the Directors, in their absolute discretion, determine otherwise. In the event of redundancy or termination without cause of an option holder, the unvested options vest immediately.

A share trading policy was in place for the duration of the financial year ended 30 June 2012. The share trading policy prohibited Directors and Executives from entering into a margin loan or similar arrangement in relation to the Company's securities.

Refer to Table 3 below for details relating to options granted and the value of options granted, exercised and lapsed during the year.

Variable remuneration – short term incentives

Executive Bonuses

A formal short term employee incentive plan (EIP) was in place during the financial year as discussed above. There were no formal EIPs in place in the prior year. No bonuses were paid to Executives during the year ended 30 June 2012 in respect of the year ended 30 June 2011.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Group Performance

The table below shows the performance of the Group (as measured by the Group's EPS) for the past five years (including the current year).

Year	2008 $	2009 $	2010 $	2011 $	2012 $
EPS (cents/share)	14.30	0.18	(5.06)	(3.80)	0.51
Share Price	2.95	1.68	2.01	0.77	0.47

Table 1: Remuneration of Key Management Personnel of the Company and the Group

	Short-term			Post-employment		Share-based payments		
2012	Salary and fees $	Cash Bonus $	Other[10] $	Super-annuation $	Termination Benefits $	Options $	Total $	Performance related %
Directors								
Ken Scott-Mackenzie	383,516	-	7,633	16,450	-	-	407,599	-
Greg Martin	1,424,220	1,575,000	114,543	15,775	-	-	3,129,538	50
SC Shin [1]	-	-	3,637	-	-	-	3,637	-
Ian Burvill [2]	18,426	-	3,637	-	-	-	22,063	-
Paul Kopejtka [3]	33,269	-	8,533	2,994	547,198	-	591,994	-
James McClements [4]	31,247	-	7,633	-	-	-	38,880	-
Rodney Baxter [4]	65,117	-	7,633	4,893	-	-	77,643	-
Sun Moon Woo [5]	35,153	-	7,633	-	-	-	42,786	-
Samantha Tough [4]	123,085	-	57,633	11,078	-	-	191,796	-
Peter Wasow [4]	126,941	-	7,633	11,425	-	-	145,999	-
Executives								
Trevor Matthews [6, 11]	359,993	1,200,000	19,204	31,229	650,430	1,225,150	3,486,006	17
John Westdorp [7]	252,458	300,000	13,409	22,721	423,270	367,568	1,379,426	22
Jamie Wright [8]	165,640	300,000	12,147	14,908	315,054	343,783	1,151,532	26
Luca Rocchi [8]	162,206	300,000	105,179	14,837	308,132	343,783	1,234,137	24
Chris Foley	310,663	300,000	38,890	27,960	-	334,447	1,011,960	30
Vanitha McVeigh [9]	58,569	-	11,805	5,271	-	-	75,645	-
Total	3,550,503	3,975,000	426,782	179,541	2,244,084	2,614,731	12,990,641	-

1 Appointment date 1 March 2012.
2 Appointment date 1 March 2012, cessation date 17 April 2012.
3 Cessation date 26 October 2011.
4 Cessation date 29 February 2012.
5 Cessation date 1 March 2012.
6 Position made redundant 20 February 2012.
7 Position made redundant 6 March 2012.
8 Position made redundant 14 February 2012.
9 Remuneration shown from 7 March 2012 being the date on which the employee met the definition of key management personnel.
10 Other short term benefits includes leave entitlements accrued during the year, insurance policy premiums, accommodation benefits, consulting fees, car parking benefits and other minor benefits.
11 Other short term benefits includes an amount of $5,910 being the commercial interest amount that would have been charged on a short term salary advance of $302,500 (7.2%). The advance was repaid in full in July 2011. Further disclosure is provided in relation to Key Management Personnel transactions.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Table 1: Remuneration of Key Management Personnel of the Company and the Group (Continued)

	Short-term			Post-employment		Share-based payments		
2011	Salary and fees $	Cash Bonus $	Other[3] $	Super-annuation $	Other $	Options $	Total $	Performance related %
Directors								
Ken Scott-Mackenzie [2]	20,274	-	1,490	1,825	-	-	23,589	-
Greg Martin [2]	21,096	-	1,490	1,899	-	-	24,485	-
Paul Kopejtka [4, 6]	490,000	-	51,101	44,100	-	53,177	638,378	-
James McClements	43,000	-	5,465	3,870	-	-	52,335	-
Rodney Baxter	43,000	-	5,465	3,870	-	-	52,335	-
Sun Moon Woo	43,000	-	5,465	3,870	-	-	52,335	-
Samantha Tough [2]	21,096	-	1,490	1,899	-	-	24,485	-
Peter Wasow [2]	20,274	-	1,490	1,825	-	-	23,589	-
Executives								
Trevor Matthews [1,4,5,7]	533,000	-	61,387	47,970	-	(1,489,805)	(847,448)	-
John Westdorp	330,000	-	39,605	29,700	-	243,153	642,458	-
Jamie Wright	245,000	-	31,015	22,050	-	115,244	413,309	-
Luca Rocchi	261,350	-	191,432	26,380	-	165,337	644,499	-
Chris Foley	308,500	-	38,267	26,768	-	224,736	598,271	-
Total	2,379,590	-	435,162	216,026	-	(688,158)	2,342,620	-

1 T Matthews ceased being a Director as at 11 May 2011 and was appointed to the position of Chief Executive Officer until 30 June 2011. Effective from 4 July 2011, T Matthews was appointed to the position of Chief Operating Officer.

2 Appointed 12 May 2011.

3 Other short term benefits include employee entitlements accrued during the year, insurance premiums paid on behalf of Key Management Personnel and other fringe benefits.

4 Share based payments includes reversal of prior year expense associated with 2,250,000 options which were cancelled due to non-fulfilment of vesting conditions.

5 Share based payments includes a reversal of prior year expense associated with 2,250,000 options which were deemed to have a nil probability of vesting.

6 P Kopejtka ceased to be the Executive Chairman on 3 July 2011 and assumed the position of Non-Executive Director on 4 July 2011.

7 Other short term benefits includes an amount of $5,904 being the commercial interest amount that would have been charged on a short term salary advance of $302,500 (7.2%). The advance was repaid subsequent to year end. Further disclosure is provided in relation to Key Management Personnel transactions.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Table 2: Compensation options: Granted and vested during the year (Consolidated)

	Granted 2012		Granted prior years		Terms and conditions for each grant					Vested during year	
2012 Executives	No.	Grant Date	No.	Grant Date	Fair Value per option at grant date $ (Note 30)	Exercise price per option $ (Note 30)	Expiry Date	First Exercise Date	Last Exercise Date	No.	%
Trevor Matthews	690,000	27 Sept 11	-	-	0.34	0.00	27 Sept 14	20 Feb 12	27 Sept 14	690,000	100
	1,775,000	12 Sep 11	-	-	0.56	0.00	12 Sept 16	20 Feb 12	12 Sept 16	1,775,000	100
John Westdorp	444,000	12 Sept 11	-	-	0.56	0.00	12 Sept 16	20 Feb 12	12 Sept 16	444,000	100
	-	-	77,500	24 Dec 10	1.24	0.00	24 Dec 13	1 Jan 12	24 Dec 13	77,500	100
	-	-	77,500	24 Dec 10	1.24	0.00	24 Dec 13	7 Mar 12	24 Dec 13	77,500	100
Jamie Wright	444,000	12 Sept 11	-	-	0.56	0.00	12 Sept 16	14 Feb 12	12 Sept 16	444,000	100
	-	-	62,000	24 Dec 10	1.24	0.00	24 Dec 13	1 Jan 12	24 Dec 13	62,000	100
	-	-	62,000	24 Dec 10	1.24	0.00	24 Dec 13	14 Feb 12	24 Dec 13	62,000	100
Luca Rocchi	444,000	12 Sept 11	-	-	0.56	0.00	12 Sept 16	14 Feb 12	12 Sept 16	444,000	100
	-	-	62,000	24 Dec 10	1.24	0.00	24 Dec 13	1 Jan 12	24 Dec 13	62,000	100
	-	-	62,000	24 Dec 10	1.24	0.00	24 Dec 13	14 Feb 12	24 Dec 13	62,000	100
Chris Foley	444,000	12 Sept 11	-	-	0.56	0.00	12 Sept 16	20 Feb 12	12 Sept 16	444,000	100
	-	-	70,000	24 Dec 10	1.24	0.00	24 Dec 13	1 Jan 12	24 Dec 13	70,000	100
	-	-	70,000	24 Dec 10	1.24	0.00	24 Dec 13	1 Jan 13	24 Dec 13	-	-
Total	4,241,000		543,000							4,714,000	

Table 3: Options granted as part of remuneration[1]

2012 Executives	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
Executives				
Trevor Matthews	1,225,150	1,225,150	(5,694,750)	35
John Westdorp	248,640	440,840	(614,250)	26
Jamie Wright	248,640	402,400	(229,000)	30
Luca Rocchi	248,640	402,400	(258,740)	28
Chris Foley	248,640	335,440	(591,630)	33
Total	2,219,710	2,806,230	(7,388,370)	

[1] For details on the valuation of the options, including models and assumptions used, please refer to Note 30.

There were no modifications to the terms and conditions of the options granted as remuneration since their grant date. Other than as mentioned above, there were no other forfeitures during the period.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Table 4: Shares issued on the exercise of compensation options

30 June 2012	Shares Issued No.	Exercise Price $
Executives		
Trevor Matthews	2,465,000	0.00
John Westdorp	599,000	0.00
Jamie Wright	568,000	0.00
Luca Rocchi	568,000	0.00
Chris Foley	514,000	0.00
Total	4,714,000	

Shares issued on exercise of compensation options (Consolidated)

There were 6,024,000 shares issued to employees including Key Management Personnel on exercise of compensation options during the year (2011: nil). No other shares were issued to Key Management Personnel on the exercise of compensation options. Each option converts into one ordinary share of Murchison Metals Ltd.

Other transactions with Key Management Personnel

Murchison provided a short term salary advance to T Matthews of $302,500 during the 30 June 2011 financial year; the loan was repaid in full in July 2011. No interest was payable on the salary advance. The benefit received by Mr Matthews as at 30 June 2012 was $5,910 (30 June 2011: $5,904) being the commercial interest amount that would have been charged on the salary advance (7.2%) (30 June 2011: 7.2%); this amount has been included in Table 1 of the Remuneration Report under other short-term benefits paid.

Other related party transactions

As disclosed in Murchison's Financial Report for the Year Ended 30 June 2011, Murchison secured a US$100 million loan from Resource Capital Fund V L.P. (RCF) (the Facility) in April 2011. RCF was a related party of Murchison for the purposes of AASB 124 *Related Party Disclosures* by virtue of James McClements being a Director of Murchison and also a Partner of other entities within the Resource Capital Funds group.

During the year, the Facility limit was reduced to US$95 million. Murchison continued to draw down on the Facility and issued shares and options to RCF in satisfaction of fees payable under the Facility. All transactions with RCF during the year were on commercial terms on an arms-length basis. Mr McClements abstained from any Board discussions on the Facility. The Facility was repaid and closed on 21 February 2012. Mr McClements resigned as a Director of Murchison on 29 February 2012 subsequent to the completion of the Transaction. RCF was not considered a related party for the purposes of the Corporations Act 2001(Cth).

Other related party transactions

There were no other related party transactions other than noted above.

Employment Contracts

The Group has contracts for services with Key Management Personnel or their related entities. During the financial year ended 30 June 2012, the Company had contracts of employment with the Managing Director (Greg Martin) and Executives. Details of the contracts in place during the year and subsequent to year end are provided below.

Key terms of these contracts are as follows:

REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive Directors

Managing Director

Mr Martin held the position of Managing Director. The key terms of Mr Martin's contract of employment are:

- $5,000 per day and leave entitlements calculated on the basis of a three day working week;
- The employee may resign from his position by giving three months written notice. On termination, the employee is entitled to that portion of remuneration that is fixed, up to the date of the termination;
- The Company may terminate the contract by providing not less than 7 days and not more than 3 months notice. If the Company terminates the contract (without cause) the Company shall pay the employee an amount equivalent to the salary, superannuation received by the employee in the month preceding the termination date and any accrued leave entitlements; and
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. In that event, the employee is only entitled to that portion of remuneration that is fixed up to the date of termination.

Executives

All Executives have rolling employment contracts with the Company. The Company may terminate the Executive's employment agreement by providing no less than 7 days and not more than 3 months written notice. If the Company terminates the contract (without cause), the Company shall pay the Executive an amount equivalent to 12 months salary and superannuation and any share options that have not yet vested will vest immediately. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the Executive is only entitled to that portion of remuneration that is fixed up to the date of termination.

End of the Remuneration Report.

MEETINGS OF DIRECTORS

Attendance by Directors at the Board meetings held during the year was as follows:

	Directors' Meetings	
	Number eligible to attend	Number attended
Ken Scott-Mackenzie (Chair)	25	25
Greg Martin	25	25
SC Shin	6	6
Ian Burvill	4	4
Paul Kopejtka	6	2
James McClements	19	15
Rod Baxter	19	16
SM Woo	19	14
Samantha Tough	19	19
Peter Wasow	19	18

The Company had the following committees for the period 1 July 2011 to 29 February 2012 following which the functions were performed by the restructured Board as a whole:

- Audit and Risk Committee;
- Remuneration and Nomination Committee;
- Finance and Strategy Committee; and
- Health, Safety and Technical Committee.

Membership of the Committees prior to the Board restructure was as follows:

Audit & Risk	Remuneration & Nomination	Finance & Strategy	Health, Safety & Technical
Rod Baxter (Chair) Peter Wasow James McClements	Samantha Tough (Chair) James McClements Ken Scott-Mackenzie Greg Martin	Peter Wasow (Chair) James McClements Greg Martin	Ken Scott-Mackenzie (Chair) Rod Baxter Greg Martin

Directors' Report

MEETINGS OF DIRECTORS (CONTINUED)

Attendance at meetings of the Committees held during the period 1 July 2011 to 29 February 2012 was as follows:

	Remuneration & Nomination	
	Number eligible to attend	Number attended
Samantha Tough (Chair)	1	1
Ken Scott-Mackenzie	1	1
Greg Martin	1	1
	Audit and Risk	
	Number eligible to attend	Number attended
Rod Baxter (Chair)	1	1
James McClements	1	1
Peter Wasow	1	1

Attendance at meetings of the Committees held during the period 1 March 2011 to 30 June 2012 was as follows:

	Remuneration & Nomination	
	Number eligible to attend	Number attended
Ken Scott-Mackenzie (Chair)	1	1
Greg Martin	1	1
SC Shin	1	1

	Audit and Risk	
	Number eligible to attend	Number attended
Ken Scott-Mackenzie (Chair)	1	1
Greg Martin	1	1
SC Shin	1	1

INDEMNIFYING OFFICERS

Except to the extent permitted by law, the Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as an officer or auditor.

During the financial year, the Company paid premiums to insure the Directors of the Company (Murchison Metals Ltd), the Company Secretary and all Executive Officers of the Company and of any related body corporate against a liability incurred as such a Director, Company Secretary or Executive Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

OPTIONS

At the date of this report, the unissued ordinary shares of Murchison Metals Ltd under option are as follows:

Date of Expiry	Exercise Price $	Class of Shares	Number under Option
24-Dec-13	0.00	Ordinary	70,000
31-Dec-13	1.26	Ordinary	125,000
29-Mar-14	1.73	Ordinary	4,200,000
12-Jul-14	1.16	Ordinary	1,855,651
12-Jun-14	1.04	Ordinary	607,137
12-Jun-14	1.08	Ordinary	576,495
12-Jun-14	0.67	Ordinary	766,714
12-Oct-14	0.66	Ordinary	1,418,922
12-Oct-14	0.58	Ordinary	425,811
Total			10,045,730

There were 6,024,000 shares issued during the financial year as a result of exercise of options.

PROCEEDINGS ON BEHALF OF COMPANY

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

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

NON-AUDIT SERVICES

Refer to Note 7 for details of non-audit services provided by the Company's auditors Ernst & Young during the year.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 22 of the financial report and forms part of this Directors' Report.

ROUNDING OFF OF AMOUNTS

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

G. Martin

Mr Greg Martin
Managing Director
Perth, 17 August 2012

Auditor's Independence Declaration

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Auditor's Independence Declaration to the Directors of Murchison Metals Limited

In relation to our audit of the financial report of Murchison Metals Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
17 August 2012

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2012

		CONSOLIDATED	
	Note	2012 $'000	2011 $'000
CONTINUING OPERATIONS			
Revenue	2	4,905	1,990
Other revenue	3(a)	2,324	1,432
Revenue		7,229	3,422
Administration expenses	4(a)	(4,896)	(5,311)
Depreciation and amortisation expense		(144)	(257)
Employee and Director expenses	4(a)	(5,817)	(2,764)
Hired services expenses	4(a)	(3,623)	(5,551)
Impairment write-down expense on exploration assets	10	(8,934)	(1,271)
Travel expenses		(611)	(557)
Other expenses		(18)	(9)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX		(16,814)	(12,298)
Income tax expense	5	-	-
LOSS FROM CONTINUING OPERATIONS AFTER INCOME TAX		(16,814)	(12,298)
Discontinuing Operations			
Gain on disposal of jointly controlled assets	3(b)	8,438	-
Gain on disposal of jointly controlled entity	3(b)	28,821	-
Employee and Director expenses	4(b)	(10,603)	(1,801)
Finance costs	17	(6,465)	(1,674)
Share of loss from jointly controlled assets	14	(1,383)	(2,063)
Share of profit from a jointly controlled entity	12	311	1,282
PROFIT/(LOSS) FROM DISCONTINUING OPERATIONS BEFORE INCOME TAX		19,119	(4,256)
Income tax expense	5	-	-
PROFIT/(LOSS) FROM DISCONTINUING OPERATIONS AFTER INCOME TAX		19,119	(4,256)
PROFIT/(LOSS) FOR THE YEAR AFTER INCOME		2,305	(16,554)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	-
Income tax on items of other comprehensive income	5	-	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	-
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR		2,305	(16,554)
PROFIT/(LOSS) FOR THE YEAR IS ATTRIBUTED TO:			
Owners of the parent		2,305	(16,554)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR IS ATTRIBUTED TO:			
Owners of the parent		2,305	(16,554)

	2012	2011
Profit/(Loss) per share attributable to ordinary equity holders from continuing and discontinuing operations:		
Basic (cents per share)	0.51	(3.80)
Diluted (cents per share)	0.50	(3.80)
Loss per share attributable to ordinary equity holders from continuing operations:		
Basic (cents per share)	(3.74)	(2.82)
Diluted (cents per share)	(3.74)	(2.82)
Profit/(Loss) per share attributable to ordinary equity holders from discontinuing operations:		
Basic (cents per share)	4.25	(0.98)
Diluted (cents per share)	4.24	(0.98)

The accompanying notes form part of these financial statements

Statement of Financial Position

FOR THE YEAR ENDED 30 JUNE 2012

		CONSOLIDATED	
	Note	2012	2011
		$'000	$'000
CURRENT ASSETS			
Cash and cash equivalents	25(c)	3,052	12,400
Term Deposits	25(c)	223,140	-
Trade and other receivables	9	4,528	1,162
Prepayments		182	306
Other financial assets		-	1,099
		230,902	14,967
Non Current assets classified as held for sale			
Available-for-sale financial assets	13	2,000	-
Exploration and evaluation expenditure	10	3,279	-
Property plant and equipment	11	233	-
		5,512	-
TOTAL CURRENT ASSETS		236,414	14,967
NON CURRENT ASSETS			
Exploration and evaluation expenditure	10	-	68,861
Property, plant and equipment	11	-	837
Investments accounted for using the equity method	12	-	171,043
Available-for-sale financial assets	13	-	2,000
TOTAL NON CURRENT ASSETS		-	242,741
TOTAL ASSETS		236,414	257,708
CURRENT LIABILITIES			
Trade and other payables	15	830	5,933
Provisions	16	483	2,316
Interest bearing loans and borrowings	17	-	23,792
TOTAL CURRENT LIABILITIES		1,313	32,041
TOTAL LIABILITIES		1,313	32,041
NET ASSETS		235,101	225,667
EQUITY			
Contributed equity	18	245,944	243,003
Reserves	19	24,812	20,624
Accumulated losses	20	(35,655)	(37,960)
TOTAL EQUITY		235,101	225,667

The accompanying notes form part of these financial statements

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2012

CONSOLIDATED	Fully paid ordinary shares $'000	Equity Benefits Reserve $'000	(Accumulated Losses) $'000	Total Equity $'000
BALANCE AT 1 JULY 2011	243,003	20,624	(37,960)	225,667
Other comprehensive income for the year	-	-	-	-
Profit for the year	-	-	2,305	2,305
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	2,305	2,305
Transactions with owners in their capacity as owners:				
Issue of shares	2,941	-	-	2,941
Share based payments	-	4,188	-	4,188
BALANCE AT 30 JUNE 2012	245,944	24,812	(35,655)	235,101
BALANCE AT 1 JULY 2010	242,252	19,307	(21,406)	240,153
Other comprehensive income for the year	-	-	-	-
Loss for the year	-	-	(16,554)	(16,554)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	-	-	(16,554)	(16,554)
Transactions with owners in their capacity as owners:				
Issue of shares	751	-	-	751
Share based payments	-	1,317	-	1,317
BALANCE AT 30 JUNE 2011	243,003	20,624	(37,960)	225,667

The accompanying notes form part of these financial statements

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2012

	Note	CONSOLIDATED 2012 $'000	2011 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(30,916)	(14,413)
Interest received		439	2,164
Finance costs		(2,155)	1
GST paid		(4,076)	(452)
Net cash used in operating activities	25(a)	(36,708)	(12,700)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt from disposal of jointly controlled assets and jointly controlled entities		305,693	-
Investment in term deposits		(223,140)	-
Payment for settlement of litigation		(5,250)	-
Purchase of plant and equipment		(88)	(95)
Exploration and evaluation expenditure		(21)	(49)
Repayment of loan to jointly controlled entity		-	123
Proceeds on sale of plant and equipment		-	100
Proceeds on sale of tenements and related assets		1,410	1,000
Exploration and evaluation expenditure for jointly controlled assets divested during year		(8,741)	(26,416)
Increase in investment in joint venture entities divested during year		(19,300)	(43,800)
Net cash provided by/(used in) investing activities		50,563	(69,137)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest bearing borrowings		37,522	23,435
Repayment of interest bearing borrowings		(60,725)	-
Repayment of loan to jointly controlled entity		-	(2,608)
Net cash (used in)/provided by financing activities		(23,203)	20,827
NET DECREASE IN CASH AND CASH EQUIVALENTS		(9,348)	(61,010)
Cash and cash equivalents at the beginning of the year		12,400	73,410
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	25(c)	3,052	12,400

The accompanying notes form part of these financial statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 (Cth), Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

The financial report presents the consolidated financial statements of the Group.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100.

The financial report of the Group for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on 16 August 2012.

Going Concern

The financial report has being prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. Murchison obtained approval at a General Meeting of Shareholders on 16 August 2012 for a return of capital to Shareholders by 14 September 2012 of 46 cents per share, totalling approximately $207,000,000. Immediately following the distribution, the Company will have available cash assets of approximately $27,400,000. The Directors are satisfied that the Company will have sufficient cash resources available to enable the Company to continue as a going concern for at least 12 months from the date of signing the financial report.

Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Group's accounting policies.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2011. The adoption of the standards and interpretations below did not have a material impact on the financial statements or performance of the Group for the year ended 30 June 2012 or comparative period:

Reference	Title	Application date of standard	Application date for group
AASB 124 (Revised)	The revised AASB 124 *Related Party Disclosures (December 2009)* simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.	1 January 2011	1 July 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] Makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 *Operating Segments* to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	1 July 2011
AASB 2010-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13] Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 July 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Application date of standard	Application date for group
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	1 July 2011
AASB 1054	Australian Additional Disclosures This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard, with AASB 2011-1 relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the entity is a for-profit or not-for-profit entity (d) Whether the financial statements are general purpose or special purpose (e) Audit fees (f) Imputation credits	1 July 2011	1 July 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] The amendments increase the disclosure requirements for transactions involving transfers of financial assets but which are not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 July 2011
AASB 2011-5	Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASB 127, AASB 128 & AASB 131] This Standard makes amendments to: - AASB 127 Consolidated and Separate Financial Statements - AASB 128 Investments in Associates - AASB 131 Interests in Joint Ventures to extend the circumstances in which an entity can obtain relief from consolidation, the equity method or proportionate consolidation, and relates primarily to those applying the reduced disclosure regime or not-for-profit entities.	1 July 2011	1 July 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following Australian Accounting Standards that are relevant to the Group have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2012:

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for group
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate *SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets* into AASB 112.	1 January 2012	The impact on the group has not yet been assessed.	1 July 2012
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	The impact on the group has not yet been assessed.	1 July 2012
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.	1 January 2013	The impact on the group has not yet been assessed.	1 July 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for group
AASB 9	Financial Instruments (Continued)	c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.			
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	The impact on the group has not yet been assessed.	1 July 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for group
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly-controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.	1 January 2013	The impact on the group has not yet been assessed.	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The impact on the group has not yet been assessed.	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	The impact on the group has not yet been assessed.	1 July 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for group
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	The impact on the group has not yet been assessed.	1 July 2013
Annual Improve-ments 2009–2011 Cycle ****	Annual Improvements to IFRSs 2009–2011 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: IFRS 1 First-time Adoption of International Financial Reporting Standards • Repeated application of IFRS 1 • Borrowing costs IAS 1 Presentation of Financial Statements • Clarification of the requirements for comparative information IAS 16 Property, Plant and Equipment • Classification of servicing equipment IAS 32 Financial Instruments: Presentation • Tax effect of distribution to holders of equity instruments IAS 34 Interim Financial Reporting • Interim financial reporting and segment information for total assets and liabilities	1 January 2013	The impact on the group has not yet been assessed.	1 July 2013

**** These IFRS amendments have not yet been adopted by the AASB.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for group
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	The impact on the group has not yet been assessed.	1 July 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: a) Tier 1: Australian Accounting Standards b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this Standard) (b) The Australian Government and State, Territory and Local Governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities (c) Public sector entities other than the Australian Government and State, Territory and Local Governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.	1 July 2013	The impact on the group has not yet been assessed.	1 July 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2012 and the comparative information presented in these financial statements for the year ended 30 June 2011.

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Murchison Metals Ltd and its subsidiaries as at 30 June each year (the Group).

Subsidiaries are all those entities including special purpose entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity. The results of subsidiaries disposed of during the year are included in the Consolidated Statement of Comprehensive Income up to the effective date of disposal, as appropriate.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Entity, using consistent accounting policies. In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries prior to 1 July 2009 are accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Subsequent to 1 July 2009, the acquisition of subsidiaries are accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

b) Foreign currency translation

The functional and presentation currency of the Company and its subsidiaries is Australian Dollars.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of Financial Position date.

All exchange differences in the consolidated financial report are taken to profit or loss.

c) Cash and cash equivalents

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

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

d) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or available-for-sale financial assets, as appropriate. The classification depends on the purpose for which the investments were acquired or originated. When financial assets are recognised initially they are measured at fair value plus, in the case of investments, at fair value through profit or loss plus directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and when allowed and appropriate, re-evaluates this designation at each financial year-end.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Investments and other financial assets (Continued)

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as either financial assets at fair value through profit or loss, loans and receivables, or held to maturity investments. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised directly in equity, until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost, using the effective interest method less impairment. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current.

e) Joint ventures

Jointly controlled entities

Interests in jointly controlled entities in which the Group is a venturer (and so has joint control) are accounted for under the equity method in the consolidated financial statements.

Jointly controlled assets

Interests in jointly controlled assets in which the Group is a venturer and has joint control are included in the financial statements by recognising the Group's share of jointly controlled assets, the share of liabilities incurred and the Group's share of expenses incurred by or in respect of each joint venture.

f) Property, plant and equipment

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

Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

Buildings	5 to 10 years
Plant and equipment	5 to 15 years
IT equipment	3 years
Motor vehicles	4 years
Furniture and Fittings	5 years

The assets' residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, at each financial year end.

Derecognition

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

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Leases

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

Group as a lessee

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

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

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense.

h) Impairment of non-financial assets other than goodwill

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

i) Trade and other payables

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

j) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Murchison Metals Limited does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of the provision to be reimbursed for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee benefits

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

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

l) Share based payment transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the Statement of Comprehensive Income is the product of:

(i) the grant date fair value of the award;

(ii) the current best estimates of the awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and

(iii) the expired portion of the vesting period.

The charge to the Statement of Comprehensive Income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Equity-settled awards granted by the Group to employees of subsidiaries are recognised in the Parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. These amounts are eliminated on consolidation. As a result, the expense recognised by the Group in relation to equity-settled awards only represents the expense associated with grants to employees of the Parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If a non-vesting condition is within the control of the Group, Company or employee, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Group, Company or employee is not satisfied during the vesting period, any expense for the award not previously recognised is recognised over the remaining vesting period unless the award is forfeited.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Share based payment transactions (Continued)

If the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 8).

m) Earnings per share

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

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

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares.

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

n) Pensions and other post employment expenditure

Contributions to defined contribution superannuation plans are expensed when the obligation is incurred.

o) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

p) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest revenue

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Income tax and other taxes

Current and deferred income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

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

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

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

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

- when the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit not taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to an extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit and loss.

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

Tax consolidation legislation

Murchison Metals Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2004.

The current and deferred tax amounts for the Tax Consolidated Group are allocated among the entities in the Group using a stand-alone taxpayer approach whereby each entity in the Tax Consolidated Group measures its current and deferred tax as if it continued to be a separately taxable entity in its own right. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's Statement of Financial Position and their tax values applying under tax consolidation.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Income tax and other taxes (Continued)

Tax consolidation legislation (continued)

In addition to its own current and deferred tax amounts, Murchison also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the Tax Consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreements are disclosed in Note 5.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivable and payables, which are stated with the amount of GST included.

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

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

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

r) Exploration and evaluation expenditure

Expenditure on exploration and evaluation is accounted for in accordance with the ‘area of interest’ method. Exploration and evaluation expenditure is capitalised provided the rights to tenure of the area of interest is current and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or relating to, the area of interest are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Impairment

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimate recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the Statement of Comprehensive Income.

s) Mine development expenditure

Mine development expenditure represents the costs incurred in preparing mines for production and includes stripping and waste removal costs incurred before production commences. These costs are capitalised to the extent they are expected to be recouped through successful exploitation of the related mining leases. Once production commences, these costs are amortised using the units-of-production method based on the estimated economically recoverable reserves to which they relate or are written off if the mine property is abandoned.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Mine development expenditure (Continued)

Impairment

The carrying value of capitalised mine development expenditure is assessed for impairment whenever the facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

The recoverable amount of capitalised mine development expenditure is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Any impairment losses are recognised in profit or loss.

t) Provisions for decommissioning and restoration costs

The Group is required to decommission and rehabilitate mines and processing sites at the end of their producing lives to a condition acceptable to the relevant authorities.

The expected cost of any approved decommissioning or rehabilitation programme, discounted to its net present value, is provided when the related environmental disturbance occurs. The cost is capitalised when it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of closure. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision for the expected cost is included in financial expenses. Expected decommissioning and rehabilitation costs are based on the discounted value of the estimated future cost of detailed plans prepared for each site. Where there is a change in the expected decommissioning and restoration costs, the value of the provision and any related asset are adjusted and the effect is recognised in profit or loss on a prospective basis over the remaining life of the operation.

u) Operating segments

The Group has identified one operating segment which is mineral resources investment activities in Australia. Each area of operation has been aggregated and therefore the operations of the Group present one operating segment under AASB 8 *Operating Segments*.

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of the financial report

v) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the Statement of Comprehensive Income, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the Statement of Comprehensive Income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

w) Significant accounting judgements, estimates and assumptions

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experiences and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

(i) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effects on the amounts recognised in the financial statements:

Recoverability of potential deferred income tax assets

The Group recognises deferred income tax assets in respect of tax losses to the extent that it is probable that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the Group to make significant estimates related to expectations of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, this could result in significant changes to the deferred income tax assets recognised, which would in turn impact future financial results.

Determination of mineral resources and ore reserves

The determination of reserves impacts on the accounting for asset carrying values, depreciation and amortisation rates, deferred stripping costs (if applicable) and provisions for decommissioning and restoration. Murchison Metals Ltd estimates its mineral resources and ore reserves in accordance with the *Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004* ('JORC'). The information on mineral resources was prepared by and under the supervision of Competent Persons as defined by the JORC code. The amounts presented are based on the mineral resources determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

(ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting periods are:

Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decide to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale. Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

w) Significant accounting judgements, estimates and assumptions (Continued)

Impairment of capitalised mine development expenditure of a jointly controlled entity

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of proved, probable and inferred mineral resources, future technological changes that could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

- estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices; and
- future cash costs of production and capital expenditure.

Variations to the expected future cash flows and the timing thereof could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

Provisions for decommissioning and restoration costs of a jointly controlled entity

Decommissioning and restoration costs are a normal consequence of mining and the majority of this expenditure is incurred at the end of a mine's life. In determining an appropriate level of provision consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the mine) and the estimated future level of inflation.

The ultimate cost of decommissioning and restoration is uncertain and costs can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example, in response to changes in reserves or to production rates.

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial model with the assumptions detailed in Note 30. The accounting estimates and assumptions relating to equity-settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

NOTE 2: REVENUE FROM CONTINUING OPERATIONS

	CONSOLIDATED	
	2012 $'000	2011 $'000
CONTINUING OPERATIONS		
Interest – Banks	4,905	1,990
	4,905	1,990

NOTE 3(A): OTHER INCOME FROM CONTINUING OPERATIONS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Profit on sale of tenements and related assets	1,316	946
Net gain on foreign exchange (realised and unrealised)	1,000	363
Other income	8	123
	2,324	1,432

NOTE 3(B): GAIN ON DISPOSAL FROM DISCONTINUING OPERATIONS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Gain on disposal of jointly controlled entities		
Gain on disposal of 50% direct interest in Crosslands Resources Ltd		
Carrying value at 30 June 2011	171,043	-
Share of profit from equity accounted investment	311	-
Cash calls paid between 1 July 2011 and 20 February 2012	19,300	-
Carrying value at the date of disposal	190,654	-
Proceeds from disposal	251,566	-
Less carrying value at date of disposal	(190,654)	-
Less settlement of Chameleon Mining N.L. litigation	(25,000)	-
Less transaction costs directly attributable to sale	(7,091)	-
Gain on disposal before tax	28,821	-
Income tax expense	-	-
Net gain on disposal after tax	28,821	-
Gain on disposal of 50% direct interest in Oakajee Port and Rail Pty Ltd		
Proceeds from disposal	-	-
Less carrying value at date of disposal	-	-
Less transaction costs directly attributable to sale	-	-
Gain on disposal before tax	-	-
Income tax expense	-	-
Net gain on disposal after tax	-	-
Net gain on disposal of jointly controlled entities after tax	28,821	-

NOTE 3(B): GAIN ON DISPOSAL FROM DISCONTINUING OPERATIONS (CONTINUED)

	CONSOLIDATED	
	2012 $'000	2011 $'000
Gain on disposal of jointly controlled assets		
Gain on disposal of 25% direct interest in OPR Port unincorporated joint venture		
Carrying value at 30 June 2011	27,905	-
Share of loss from equity accounted investment	(687)	-
Cash calls paid between 1 July 2011 and 20 February 2012	4,461	-
Carrying value at the date of disposal	31,679	-
Proceeds from disposal	37,259	-
Less carrying value at date of disposal	(31,679)	-
Less transaction costs directly attributable to sale	(1,519)	-
Gain on disposal before tax	4,061	-
Income tax expense	-	-
Net gain on disposal after tax	4,061	-
Gain on disposal of 25% direct interest in OPR Rail unincorporated joint venture		
Carrying value at 30 June 2011	27,389	-
Share of loss from equity accounted investment	(696)	-
Cash calls paid between 1 July 2011 and 20 February 2012	4,280	-
Carrying value at the date of disposal	30,973	-
Proceeds from disposal	36,869	-
Less carrying value at date of disposal	(30,973)	-
Less transaction costs directly attributable to sale	(1,519)	-
Gain on disposal before tax	4,377	-
Income tax expense	-	-
Net gain on disposal after tax	4,377	-
Gain on disposal of 25% direct interest in Oakajee Port Marketing unincorporated joint venture		
Proceeds from disposal	-	-
Less carrying value at date of disposal	-	-
Less transaction costs directly attributable to sale	-	-
Gain on disposal before tax	-	-
Income tax expense	-	-
Net gain on disposal after tax	-	-
Gain on disposal of 25% direct interest in Oakajee Rail Marketing unincorporated joint venture		
Proceeds from disposal	-	-
Less carrying value at date of disposal	-	-
Less transaction costs directly attributable to sale	-	-
Gain on disposal before tax	-	-
Income tax expense	-	-
Net gain on disposal after tax	-	-
Net gain on disposal of jointly controlled assets after tax	8,438	-

NOTE 4(A): LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

Loss for the year from continuing operations has been arrived at after charging the following gains and losses:

	CONSOLIDATED	
	2012 $'000	2011 $'000
ADMINISTRATION EXPENSE		
Accounting and audit fees	483	221
Bank charges	6	6
Compliance and secretarial	379	252
Impairment write-down on property, plant and equipment	367	-
Insurance	66	192
Legal expenses	1,589	3,345
Office rental	451	500
Other general administration expenses	1,504	629
Printing and stationery	51	166
	4,896	5,311
EMPLOYEE AND DIRECTOR EXPENSES		
Salaries and wages	917	849
Defined contribution superannuation expense	182	229
Executive Directors' salaries and Non-Executive Directors' fees	1,786	1,119
Share based payment expenses	595	278
Short term incentive plan expense	1,975	-
Payroll tax	236	51
Recruitment	9	91
Other	117	147
	5,817	2,764
HIRED SERVICES EXPENSES		
Air charter	46	9
Consultants	3,541	5,494
Other	36	48
	3,623	5,551

NOTE 4(B): PROFIT FOR THE YEAR FROM DISCONTINUING OPERATIONS

Profit/(loss) for the year from discontinuing operations has been arrived at after charging/(crediting) the following gains and losses:

	CONSOLIDATED	
	2012 $'000	2011 $'000
EMPLOYEE AND DIRECTOR EXPENSES		
Salaries and wages	2,518	1,740
Defined contribution superannuation expense	174	155
Executive Directors' salaries and Non-Executive Directors' fees	411	675
Redundancy payments	2,375	-
Payroll tax	310	140
Short term incentive expense	2,100	-
Share based payment expenses/(reversal)	2,715	(909)
	10,603	1,801

NOTE 5: INCOME TAX

Income tax expense

The major components of income tax (benefit)/expense are:

	CONSOLIDATED	
	2012 $'000	2011 $'000
Current income tax		
Current income tax charge/(benefit) before applying tax losses	21,982	(4,722)
Adjustments in respect of current income tax of previous years	-	-
Deferred income tax		
Relating to the origination and reversal of temporary differences	(1,061)	(34)
Derecognition of temporary differences previously booked	-	-
Deferred tax assets relating to tax losses brought to account	(22,452)	-
Deferred tax assets not brought to account	1,531	4,756
Income tax expense/(benefit) reported in the income statement	-	-
Attributable to:		
Continuing operations	-	-
Discontinuing operations	-	-
	-	-
Amounts charged or credited directly to equity		
Deferred income tax related to items charged or credited directly to equity	-	-
Income tax expense/(benefit) reported directly in equity	-	-

NOTE 5: INCOME TAX (CONTINUED)

Reconciliation between aggregate tax expense recognised in the Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate

The product of accounting profit/(loss) before income tax multiplied by the applicable income tax rate is reconciled to the income tax expense/(benefit) as follows:

	CONSOLIDATED	
	2012 $'000	2011 $'000
Accounting loss from continuing operations	(16,814)	(12,298)
Accounting profit/(loss) from discontinuing operations	19,119	(4,256)
Total accounting profit/ (loss) before income tax	2,305	(16,554)
Tax benefit at the statutory income tax rate (30%) (2011: 30%)	692	(4,966)
Share based payments	1,256	(189)
Non-deductible legal expenditure	-	395
Under/(over) provision for income tax return	-	-
Non-deductible expenditure	12	4
Tax profits in excess of accounting gains	18,961	-
Deferred tax assets relating to tax losses not previously recognised, now brought to account	(22,452)	-
Deferred tax assets not brought to account	1,531	4,756
Aggregate income tax expense/(benefit)	-	-

	CONSOLIDATED			
	STATEMENT OF FINANCIAL POSITION		STATEMENT OF COMPREHENSIVE INCOME	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
DEFERRED INCOME TAX				
Deferred income tax at 30 June relates to the following:				
Deferred income tax liabilities				
Unrealised foreign exchange gain	-	(70)	70	(70)
Exploration	(983)	(3,627)	2,644	3
Gross deferred income tax liabilities	(983)	(3,697)		
Deferred income tax assets				
Provisions	145	696	(551)	635
Accruals	35	220	(185)	(724)
Impairment write-down on exploration tenement	-	375	(375)	375
Unrealised foreign exchange loss	-	-	-	(41)
Other business related costs	209	747	(538)	(145)
Tangible Fixed Assets	-	4	(4)	1
Tax losses recognised	594	1,655	-	-
Gross deferred income tax assets	983	3,697		
Net deferred income tax asset	-	-		
Deferred income tax charge			1,061	34

NOTE 5: INCOME TAX (CONTINUED)

TAX LOSSES

The Group has revenue losses for which no deferred tax asset is recognised on the Statement of Financial Position of $19,526,000 (2011: $77,253,000) which are available for offset against future taxable income subject to continuing to meet relevant statutory tests.

TAX CONSOLIDATION

Murchison Metals Ltd and its 100% owned Australian resident subsidiaries have formed a Tax Consolidated Group with effect from 11 November 2004. Murchison Metals Ltd is the Head Entity of the Tax Consolidated Group. Members of the Group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro rata basis. The agreement provides for the allocation of income tax liabilities between the entities should the Head Entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

TAX EFFECT ACCOUNTING BY MEMBERS OF THE TAX CONSOLIDATED GROUP

The current and deferred tax amounts for the Tax Consolidated Group are allocated among the entities in the Group using a stand-alone taxpayer approach whereby each entity in the Tax Consolidated Group measures its current and deferred taxes as if it continued to be a separately taxable entity in its own right. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's Statement of Financial Position and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the Head Entity from the subsidiaries in the Tax Consolidated Group are recognised in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution to or distribution from the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary and are then recognised as revenue.

The Company recognises deferred tax assets arising from unused tax losses or the Tax Consolidated Group to the extent that it is probable that future taxable profits of the Tax Consolidated Group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the Head Entity only.

The members of the Tax Consolidated Group have entered into a tax funding arrangement which sets out the funding obligations of members of the Tax Consolidated Group in respect of tax amounts. The tax funding arrangements require payments to/from the Head Entity equal to the current tax liability / (asset) assumed by the Head Entity and any tax-loss deferred tax asset assumed by the Head Entity.

NOTE 6: KEY MANAGEMENT PERSONNEL

a) Compensation of Key Management Personnel

The aggregate compensation of the Key Management Personnel of the Consolidated Entity is set out below:

	CONSOLIDATED	
	2012 $'000	2011 $'000
Short term employee benefits and fees	7,952,285	2,814,752
Post-employment benefits	2,423,625	216,026
Share-based payments	2,614,731	(688,158)
Total Compensation	12,990,641	2,342,620

b) Option holdings of Key Management Personnel

						VESTED AS AT THE END OF YEAR		
	Balance at beginning of year	Granted as remuneration	Options exercised	Net change lapse/expired	Balance at end of year /immediately following termination	Total	Exercisable	Not Exercisable
2012	No.	No.	No.	No.	No.	No.	No.	No.
Directors								
Ken Scott-Mackenzie	-	-	-	-	-	-	-	-
Greg Martin	-	-	-	-	-	-	-	-
SC Shin	-	-	-	-	-	-	-	-
Ian Burvill	-	-	-	-	-	-	-	-
Paul Kopejtka	2,250,000	-	-	(2,250,000)	-	-	-	-
James McClements	-	-	-	-	-	-	-	-
Rodney Baxter	-	-	-	-	-	-	-	-
Sun Moo Woo	-	-	-	-	-	-	-	-
Samantha Tough	-	-	-	-	-	-	-	-
Peter Wasow	-	-	-	-	-	-	-	-
Executives								
Trevor Matthews [1]	2,250,000	2,465,000	(2,465,000)	(2,250,000)	-	-	-	-
John Westdorp [2]	845,000	444,000	(599,000)	(690,000)	-	-	-	-
Jamie Wright [3]	354,000	444,000	(568,000)	(230,000)	-	-	-	-
Luca Rocchi [3]	416,000	444,000	(568,000)	(292,000)	-	-	-	-
Chris Foley	804,000	444,000	(514,000)	(664,000)	70,000	-	-	70,000
Vanitha McVeigh [4]	-	148,000	(148,000)	-	-	-	-	-

1 Position made redundant 20 February 2012.
2 Position made redundant 6 March 2012.
3 Position made redundant 14 February 2012.
4 Employee met the definition of KMP from 7 March 2012.

NOTE 6: KEY MANAGEMENT PERSONNEL (CONTINUED)

b) Option holdings of Key Management Personnel (Continued)

						VESTED AS AT THE END OF YEAR		
	Balance at beginning of year	Granted as remuneration	Options exercised	Net change lapse/expired	Balance at end of year	Total	Exercisable	Not Exercisable
2011	No.	No.	No.	No.	No.	No.	No.	No.
Directors								
Ken Scott-Mackenzie [3]	-	-	-		-	-	-	-
Greg Martin [3]	-	-	-		-	-	-	-
Paul Kopejtka [2]	4,500,000	-	-	(2,250,000)	2,250,000	-	-	-
James McClements [1]	100,000	-	-	(100,000)	-	-	-	-
Rodney Baxter	-	-	-	-	-	-	-	-
Sun Moo Woo	-	-	-	-	-	-	-	-
Samantha Tough [3]	-	-	-	-	-	-	-	-
Peter Wasow [3]	-	-	-	-	-	-	-	-
Executives								
Trevor Matthews [2, 4]	4,500,000	-	-	(2,250,000)	2,250,000	-	-	-
John Westdorp	690,000	155,000	-		845,000	690,000	690,000	-
Jamie Wright	230,000	124,000	-	-	354,000	230,000	230,000	-
Luca Rocchi	292,000	124,000	-	-	416,000	292,000	292,000	-
Chris Foley	664,000	140,000	-	-	804,000	664,000	664,000	-

1 Net change relates to options which lapsed during the year.
2 Net change relates to 2,250,000 options per individual which were cancelled due to non-fulfilment of vesting conditions.
3 Appointed 12 May 2011.
4 T Matthews ceased to be a Director on the 11 May 2011 and assumed the position of Chief Executive Officer from 12 May 2011 to 3 July 2011. T Matthews assumed the position of Chief Operating Officer from 4 July 2011.

No other Key Management Personnel held options during the year ended 30 June 2012 or 30 June 2011.

NOTE 6: KEY MANAGEMENT PERSONNEL (CONTINUED)

c) Share holdings of Key Management Personnel

Shares held in Murchison Metals Limited (number)

						VESTED AS AT THE END OF THE YEAR
2012	Balance at the beginning of year No.	Granted as remuneration No.	On exercise of options No.	(Sale) / Purchase of shares No.	Net change other No.	Balance at end of year / immediately following termination No.
Directors						
Ken Scott-Mackenzie	-	-	-	-	-	-
Greg Martin	-	-	-	-	-	-
SC Shin	-	-	-	-	-	-
Ian Burvill	-	-	-	-	-	-
Paul Kopejtka	22,280,000	-	-	-	-	22,280,000
James McClements	-	-	-	-	-	-
Rodney Baxter	200,000	-	-	-	-	200,000
Sun Moo Woo	-	-	-	-	-	-
Samantha Tough	-	-	-	-	-	-
Peter Wasow	-	-	-	-	-	-
Executives						
Trevor Matthews [1]	170,000	-	2,465,000	-	-	2,635,000
John Westdorp [2]	272,500	-	599,000	(77,500)	-	794,000
Jamie Wright [3]	66,400	-	568,000	(128,400)	-	506,000
Luca Rocchi [3]	-	-	568,000	(31,000)	-	537,000
Chris Foley	100,000	-	514,000	(70,000)	-	544,000
Vanitha McVeigh [4]	-	-	148,000	-	-	148,000

1 Position made redundant 20 February 2012.
2 Position made redundant 6 March 2012.
3 Position made redundant 14 February 2012.
4 Employee met the definition of KMP from 7 March 2012.

NOTE 6: KEY MANAGEMENT PERSONNEL (CONTINUED)

c) Share holdings of Key Management Personnel (Continued)

						VESTED AS AT THE END OF THE YEAR
2011	Balance at the beginning of year No.	Granted as remuneration No.	On exercise of options No.	(Sale) / Purchase of shares No.	Net change other No.	Balance at end of year No.
Directors						
Ken Scott- Mackenzie	-	-	-	-	-	-
Greg Martin	-	-	-	-	-	-
Paul Kopejtka	22,280,000	-	-	-	-	22,280,000
James McClements	-	-	-	-	-	-
Rodney Baxter	200,000	-	-	-	-	200,000
Sun Moon Woo	-	-	-	-	-	-
Samantha Tough	-	-		-	-	-
Peter Wasow	-	-	-	-	-	-
Executives						
Trevor Matthews	1,500,000	-	-	(1,330,000)	-	170,000
John Westdorp	67,500	-	-	205,000	-	272,500
Jamie Wright	-	-	-	66,400	-	66,400
Luca Rocchi	-	-	-	-	-	-
Chris Foley	100,000	-	-	-	-	100,000

No other Key Management Personnel held shares during the year ended 30 June 2012 or 30 June 2011.

All equity transactions with Key Management Personnel other than those arising from the grant or exercise of remuneration shares/options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

d) Transactions and balances with Key Management Personnel

Murchison provided a short term salary advance to T Matthews of $302,500 during the 30 June 2011 financial year. The loan was repaid in full in July 2011. No interest was payable on the salary advance. The benefit received by Mr Matthews as at 30 June 2012 was $5,910 (30 June 2011: $5,904) being the commercial interest amount that would have been charged on the salary advance (7.2%) (30 June 2011: 7.2%). This amount has been included in Table 1 of the Remuneration Report under other short-term benefits paid.

e) Other transactions and balances with Key Management Personnel

There are no other transactions or balances with Key Management Personnel that have not been disclosed above.

f) Other related party transactions

As disclosed in Murchison's Financial Report for the Year Ended 30 June 2011, Murchison secured a US$100 million loan from Resource Capital Fund V L.P. (RCF) (the Facility) in April 2011. RCF was a related party of Murchison for the purposes of AASB 124 *Related Party Disclosures* by virtue of James McClements being a director of Murchison and also a Partner of other entities within the Resource Capital Funds group.

During the year, the Facility limit was reduced to US$95 million. Murchison continued to draw down on the Facility and issued shares and options to RCF in satisfaction of fees payable under the Facility. All transactions with RCF during the year were on commercial terms on an arms-length basis. Mr McClements abstained from any Board discussions on the Facility. The Facility was repaid and closed on 21 February 2012. Mr McClements resigned as a Director of Murchison on 29 February 2012 subsequent to the completion of the Transaction. RCF was not considered a related party for the purposes of the Corporations Act 2001(Cth).

NOTE 7: AUDITORS REMUNERATION

	CONSOLIDATED	
	2012 $'000	2011 $'000
The auditor of Murchison Metals Ltd is Ernst & Young.		
Amounts received or due and receivable by Ernst & Young (Australia) for:		
Audit or review of the financial report of the entity and any other entity in the Group	222	146
Non-audit services relating to agreed upon procedures engagements	91	-
Total Fees	313	146

NOTE 8: EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit/(loss) for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit/(loss) attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the net profit/(loss) and share data used in the basic and diluted earnings per share computations:

a) Earnings used in calculating earnings per share

	CONSOLIDATED	
	2012 $'000	2011 $'000
For basic and diluted earnings per share:		
Net loss from continuing operations attributable to ordinary equity holders of the parent	(16,814)	(12,298)
Net profit/(loss) from discontinuing operations attributable to ordinary equity holders of the parent	19,119	(4,256)

b) Weighted average number of ordinary shares for basic profit/(loss) per share

	2012 No. '000	2011 No. '000
Weighted average number of ordinary shares for basic profit/(loss) per share	450,093	435,739
Effect of dilution:		
Share options	404	-
Weighted average number of ordinary shares adjusted for the effect of dilution	450,497	435,739

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between reporting date and the date of completion of these financial statements.

c) Information on the classification of securities

Options

Options granted to employees (including Key Management Personnel) as described in Note 30 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These shares have not been included in the determination of basic earnings per share.

The following ordinary shares could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share for continuing operations for the current year and continuing operations and discontinuing operations for the comparative period because they are anti-dilutive. Consequently, the diluted earnings per share is the same as basic earnings per share for continuing operations for the current year and continuing and discontinuing operations for the comparative period:

NOTE 8: EARNINGS PER SHARE (CONTINUED)

c) Information on the classification of securities (Continued)

	CONSOLIDATED	
	2012 No.	2011 No.
Share options not included in diluted earnings per share calculation	10,380	12,532

NOTE 9: TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2012 $'000	2011 $'000
Current		
Interest receivable	4,482	32
Amounts receivable from Australian Taxation Authorities	46	147
Sundry debtors	-	681
Other receivables	-	302
Total trade and other receivables	4,528	1,162

(a) Ageing

Balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these balances will be received when due.

(b) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer receivables to special purpose entities.

All amounts are receivable in Australian Dollars and are not considered past due or impaired.

NOTE 10: EXPLORATION AND EVALUATION EXPENDITURE (NON-CURRENT ASSETS HELD FOR SALE)

	CONSOLIDATED	
	2012 $'000	2011 $'000
Exploration and evaluation expenditure in respect of areas of interest:		
Balance at the beginning of the year	68,861	45,667
Additions	5,907	24,465
Exploration assets relating to minor tenements divested during the year	(45)	-
Exploration assets relating to jointly controlled assets divested during the year [1]	(62,510)	-
Impairment write-down - Rocklea Project [2]	(8,934)	(1,271)
Balance at the end of the year [3]	3,279	68,861

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

1. The movement in exploration assets relates to Murchison's 25% direct interest in the OPR Port and Rail unincorporated joint ventures which were sold on 20 February 2012 to Mitsubishi Development Pty Ltd.
2. Subsequent to year end, Murchison entered into an agreement with Dragon Energy Ltd for the sale of the Rocklea project for cash consideration of $3.2 million subject only to obtaining consent for the assignment of a standard heritage agreement. The acceptance of the offer resulted in an impairment write-down in order to record the capitalised exploration expenditure at recoverable value at 30 June 2012. The sale is expected to be completed by the end of August 2012. Murchison will then no longer hold an interest in the Rocklea project.
3. Exploration and evaluation expenditure was reclassified as non-current assets held for sale during the year resulting in a current classification at 30 June 2012 (2011: non-current).

NOTE 11: PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT ASSETS HELD FOR SALE)

CONSOLIDATED	Plant & Equipment	Buildings	IT Equipment	Capital work in progress	Furniture & Fittings	Mobile Equipment	Total
2012	$'000	$'000	$'000	$'000	$'000	$'000	$'000
COST							
As at 1 July 2011	24	690	527	2	278	12	1,533
Additions	-	-	92	-	4	-	96
Impairment write-down	(22)	(623)	-	-	(176)	-	(821)
Disposals	(2)	-	(192)	(2)	(92)	(12)	(300)
As at 30 June 2012	-	67	427	-	14	-	508
ACCUMULATED DEPRECIATION							
As at 1 July 2011	15	239	317	-	121	4	696
Current year depreciation	2	80	67	-	28	1	178
Impairment write-down	(17)	(319)	-	-	(118)	-	(454)
Disposals	-	-	(109)	-	(31)	(5)	(145)
As at 30 June 2012	-	-	275	-	-	-	275
NET CARRYING VALUE							
As at 1 July 2011	9	451	210	2	157	8	837
As at 30 June 2012 [1]	-	67	152	-	14	-	233
2011	$'000	$'000	$'000	$'000	$'000	$'000	$'000
COST							
As at 1 July 2010	48	784	361	72	254	17	1,536
Additions	-	-	91	27	4	-	122
Disposals	(25)	(94)	(1)	-	-	(5)	(125)
Transfer	1	-	76	(97)	20	-	-
As at 30 June 2011	24	690	527	2	278	12	1,533
ACCUMULATED DEPRECIATION							
As at 1 July 2010	14	116	193	-	70	3	396
Current year depreciation	6	146	125	-	51	2	330
Eliminated on disposal of assets	(5)	(23)	(1)	-	-	(1)	(30)
As at 30 June 2011	15	239	317	-	121	4	696
NET CARRYING VALUE							
As at 1 July 2010	34	668	168	72	184	14	1,140
As at 30 June 2011	9	451	210	2	157	8	837

[1] Property plant and equipment was reclassified as non-current assets held for sale during the year as the Company expects to realise the carrying value of the assets through sale rather than continuing use. Property plant and equipment is no longer depreciated.

Property, plant and equipment pledged as security for liabilities

No assets for the Group were pledged as securities for non-current liabilities in the current year (2011: Nil).

NOTE 12: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

NAME OF ENTITY	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST (%) 2012	2011
Crosslands Resources Limited [1]	Australia	Mining	-	50
Oakajee Port and Rail Pty Ltd [2]	Australia	Construction	-	50

1 Prior to the Transaction, the Group held a 50% direct interest in Crosslands Resources Limited.
2 Prior to the Transaction, the Group held a 25% direct interest in Oakajee Port and Rail Pty Ltd through MMX Port Holdings and an additional 25% indirect interest through Murchison's 50% interest in Crosslands Resources Ltd.

	CONSOLIDATED	
	2012 $'000	2011 $'000
Investments in jointly controlled entities	-	171,043
Reconciliation of movement in investments accounted for using the equity method		
Balance at 1 July	171,043	125,960
Investments during the year	19,300	43,801
Share of profit for the year	311	1,282
Divestment of interest in jointly controlled entities	(190,654)	-
Balance at 30 June	-	171,043

NOTE 13: AVAILABLE-FOR-SALE FINANCIAL ASSETS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Unlisted shares classified as non-current asset at start of year	2,000	2,000
Reclassified to non-current asset held for sale during year	(2,000)	-
Unlisted shares classified as non-current asset at end of year	-	-
Unlisted shares classified as non-current asset held for sale	2,000	2,000

Available-for-sale investments consist of investments in ordinary shares of public unlisted company, Cashmere Iron Ltd and therefore have no fixed maturity date or coupon rate. The Group expects to realise the carrying value of the assets principally through a sale or in specie distribution during the next 12 months rather than through continuing use or development. Accordingly, the investment has been reclassified as a non-current asset held for sale. The unlisted shares are carried at cost as their fair value cannot be measured reliably.

NOTE 14: SHARE OF LOSS FROM JOINTLY CONTROLLED ASSETS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Share of revenue from jointly controlled assets	38	77
Administration expenses	(285)	(423)
Depreciation and amortisation expense	(35)	(73)
Employee and director expenses	(878)	(1,273)
Hired services expenses	(211)	(364)
Other expenses	(4)	(6)
Travel expenses	(8)	(1)
Group share of expenses from jointly controlled assets	(1,383)	(2,063)

NOTE 15: TRADE AND OTHER PAYABLES

	CONSOLIDATED	
Current	2012 $'000	2011 $'000
Trade payables [1]	725	5,556
Other payables [2]	105	372
Related party payable [3]	-	5
	830	5,933

1 Trade payables are non-interest bearing and are normally settled on 30 day terms.
2 Other payables are non-trade payables, are non-interest bearing and have an average term of 3 months.
3 Related party payables' terms and conditions are detailed in Note 27(d).

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

NOTE 16: PROVISIONS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Provision for employee leave entitlements	233	270
Provision for legal matters/settlements	250	2,046
	483	2,316

a) Movement in Provision for employee leave entitlements

	CONSOLIDATED	
	2012 $'000	2011 $'000
Employee leave entitlements		
Balance at 1 July	270	201
Arising during the year	367	331
Utilised/paid out	(404)	(262)
Balance at 30 June	233	270

NOTE 16: PROVISIONS (CONTINUED)

b) Employee Numbers

	CONSOLIDATED	
	2012 No.	2011 No.
Average Number of employees	20	18

c) Superannuation

The Company contributes to employees' superannuation plans in accordance with the requirements of Occupational Superannuation Legislation. Contributions by the Company represent a defined percentage of each employee's salary.

	CONSOLIDATED	
	2012 $'000	2011 $'000
Superannuation contributions for the year	357	383

NOTE 17: INTEREST BEARING LOANS AND BORROWINGS

On 16 March 2011, Murchison entered into a bridging facility agreement with Resource Capital Fund V L.P. (RCF) for US$100 million (Facility Agreement). The Facility limit was reduced to US$95 million on 24 November 2011 upon execution of the Share Asset and Purchase Agreement with Mitsubishi. The loan was repaid in full and the Facility closed on 21 February 2012 following completion of the Transaction. Had the loan not been repaid on 21 February 2012, the loan would have otherwise been due for repayment on 10 April 2012 being 12 months from the first drawn down date. Interest was payable at a fixed coupon rate of 10% per annum.

Under the terms of the agreement, the Company paid a facility establishment fee comprised of 4,200,000 options with an exercise price of $1.73, expiring 29 March 2014. The establishment fee options were issued during the year ended 30 June 2011 (Note 30). A commitment fee of 2% of the undrawn balance was payable quarterly in arrears. In addition, a utilisation fee of one quarter of a share option per annum per dollar drawn on the facility applied quarterly in arrears. Prior to 24 November 2011, Murchison had the ability to elect to settle interest obligations and the commitment fees by way of issue of share capital. Utilisation fees were no longer payable after 24 November 2011. Interest and commitment fees which accrued post 24 November 2011 were payable in cash.

	CONSOLIDATED	
	2012 $'000	2011 $'000
Loan – at amortised cost		
Loan from Resource Capital Fund V L.P.	-	23,792
Reconciliation of movement in interest bearing borrowings		
Balance at beginning of year	23,792	-
Drawdowns, fees and foreign exchange revaluation	36,933	23,792
Repayment of borrowings	(60,725)	-
Balance at the end of the year	-	23,792

Fees and Interest

Total commitment and utilisation fees and interest payable under the Facility during the year was as follows:

	CONSOLIDATED	
	2012 $'000	2011 $'000
Total fees payable to Resource Capital Fund V L.P.	(6,465)	(1,674)

NOTE 18: CONTRIBUTED EQUITY

	CONSOLIDATED	
	2012 $'000	2011 $'000
Ordinary Shares		
Issued and fully paid	245,944	243,003

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Movements in ordinary shares on issue: Fully paid ordinary shares

	2012		2011	
	No. '000	$ '000	No. '000	$ '000
Balance at beginning of financial year	435,884	243,003	435,384	242,252
Issued during year	14,209	2,941	500	751
Balance at end of financial year	450,093	245,944	435,884	243,003

NOTE 19: RESERVES

	CONSOLIDATED	
	2012 No.	2011 No.
Share based payment reserve	24,812	20,624
SHARE BASED PAYMENT RESERVE		
Balance at the beginning of the financial year	20,624	19,307
Share based payments	4,188	1,317
Balance at the end of the financial year	24,812	20,624

The Nature of the Reserve is used to record the value of equity benefits provided to employees and Directors as remuneration and also includes options issued in respect of interest bearing loans and borrowings. Further information in relation to the nature of share options issued during the year is provided below.

Share options granted under the employee incentive plan

In accordance with the provisions of the Employee Incentive Plan, as at 30 June 2012, Executives and senior employees (including former employees) have options over 195,000 ordinary shares (70,000 of which are unvested) (2011: 12,532,200 of which 5,442,000 were unvested), with various expiry dates.

Options granted under the Employee Incentive Plan carry no rights to dividends and no voting rights. Further details of the Employee Incentive Plan are contained in Note 30.

During the year 5,984,799 options were issued to Resource Capital Fund V L.P. in satisfaction of fees payable under the Facility Agreement. The options vested immediately and had exercise prices between $0.27c and $1.16. The options have an expiry period of up to 3 years. Options granted under the Facility Agreement carry no rights to dividends and no voting rights.

NOTE 20: ACCUMULATED LOSSES

	CONSOLIDATED	
	2012 No.	2011 No.
Accumulated loss at the beginning of the financial year	(37,960)	(21,406)
Net profit/(loss) attributable to the members of the company	2,305	(16,554)
Accumulated loss at the end of the financial year	(35,655)	(37,960)

NOTE 21: PARENT ENTITY

Summarised financial information in respect of the Parent Entity is set out below:

	PARENT	
	2012 $'000	2011 '000
FINANCIAL PERFORMANCE		
Loss for the year	(2,630)	(14,522)
Other comprehensive income	-	-
Total comprehensive loss	(2,630)	(14,522)
FINANCIAL POSITION		
ASSETS		
Current Assets	236,410	14,294
Non-Current Assets	22,163	213,220
Total Assets	258,573	227,514
LIABILITIES		
Current Liabilities	1,313	69,010
Non current Liabilities	94,257	-
Total Liabilities	95,570	69,010
Net Assets	163,003	158,504
EQUITY		
Contributed equity	245,944	243,003
Accumulated losses	(107,753)	(105,123)
RESERVES		
Equity benefits reserve	24,812	20,624
TOTAL EQUITY	163,003	158,504

a) Guarantees

No guarantees were entered into by the Parent in relation to the debts of its subsidiaries in respect of the year ended 30 June 2012 (2011: Nil).

NOTE 21: PARENT ENTITY (CONTINUED)

a) Guarantees (Continued)

Subsidiaries of Murchison Metals Ltd

	Country of Incorporation	Percentage Owned (%)	
		2012	2011
ATL Exploration Pty Ltd	Australia	100	100
MMX Investments Pty Ltd	Australia	100	100
Jack Hills Holdings Pty Ltd	Australia	100	100
MMX Port Holdings Pty Ltd	Australia	100	100
MMX Rail Holdings Pty Ltd	Australia	100	100
Weld Range Mining Pty Ltd	Australia	100	100

b) Commitments

Refer to note 22 for commitments in respect of the Parent Entity.

NOTE 22: COMMITMENTS

a) Capital Expenditure commitments

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
PLANT AND EQUIPMENT				
Continuing operations:				
Within one year	-	88	-	88
After one year but no longer than five years	-	-	-	-
Longer than five years	-	-	-	-
	-	88	-	88

b) Operating commitments

Operating commitments relate to the company offices, office equipment and vehicle rentals. These leases have an average life of three years:

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Continuing operations:				
Within one year	20	425	20	425
After one year but no longer than five years	-	753	-	753
Longer than five years	-	-	-	-
	20	1,178	20	1,178

During the year, Murchison entered into an agreement with an external party to assign the lease of Murchison's office premises. Murchison no longer has any office rental commitments. Murchison has the right to continue to occupy part of the office premises until 30 June 2013 at no charge.

NOTE 22: COMMITMENTS (CONTINUED)

c) Tenement Commitments

Commitments for the tenements contracted for at the reporting date not recognised as liabilities:

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Continuing operations:				
Within one year	45	196	45	196
After one year but no longer than five years	180	122	180	122
Longer than five years	-	11	-	11
	225	329	225	329

d) Other expenditure commitments

There are no other items of significant expenditure to which the Company is currently committed as at 30 June 2012.

NOTE 23: CONTINGENT LIABILITIES

Contingent liabilities at balance date include:

O'Sullivan Partners

In July 2012, Murchison announced to the ASX that it is vigorously defending a claim made by O'Sullivan Partners (OP) for an amount of $5,077,162 (plus GST and interest on that amount) for fees that OP claim are payable pursuant to an engagement letter for the provision of advisory services to the Company.

OP provided advisory services to Murchison in connection with the strategic review undertaken by the Company prior to the sale of Murchison's interests in Crosslands Resources Ltd and the Oakajee Port and Rail joint ventures to Mitsubishi in February 2012. The Company is currently engaged in an expert determination process in relation to the claim.

No provision has been made in the financial statements for a payment to OP as the Company is unable to determine if it is probable that an outflow of economic resources will occur.

Premar Capital

In May 2012, Murchison received a claim from Premar Capital Ltd (Premar) for services Premar claims to have provided pursuant to the terms of a mandate letter executed in March 2005. Murchison received an invoice for an amount of A$6.8 million (including interest and GST) for commissions on sales of iron ore from the Jack Hills mine. The Company is investigating the matter to determine the extent of the Company's potential liability (if any). No provision has been made in the financial statements for a payment to Premar as the Company is unable to determine if it is probable that an outflow of economic resources will occur.

Settlement of Chameleon Litigation

On 24 November 2011, Murchison signed a Share Asset and Purchase Agreement (SAPA) with Mitsubishi Development Pty Ltd for the sale of Murchison's interest in Crosslands Resources Ltd (Crosslands) and the Oakajee Port and Rail joint ventures (OPR) for consideration of $325 million. The settlement of litigation commenced by Chameleon Mining NL (Chameleon) against Murchison and Crosslands was a condition precedent to settlement under the SAPA. On 23 December 2011, Murchison executed a settlement agreement with Chameleon for an irrevocable upfront payment of $5 million payable within 5 days of execution and $20 million conditional upon completion of the SAPA. Murchison made the upfront payment of $5 million to Chameleon on 23 December 2011. The remaining $20 million was paid by Mitsubishi from the SAPA consideration directly to Chameleon on Murchison's behalf on 20 February 2012. No further liabilities exist in relation to this matter.

NOTE 23: CONTINGENT LIABILITIES (CONTINUED)

Equitable Investments

In November 2010, Equitable Investments Ltd (EIL) commenced proceedings against Murchison in the NSW Supreme Court (Proceedings) asserting that EIL was entitled to the issue of 3.9 million shares and 1.9 million options in Murchison. The Proceedings related to an agreement made in November 2003 for the sale and purchase of EIL's shares in ATL Exploration Pty Ltd. The matter was settled for $250,000 during the year. No further liabilities remain in relation to this matter.

NOTE 24: SEGMENT REPORTING

The Group has identified one operating segment which is mineral resources investment activities in Australia, based on the internal reports that are reviewed and used by the Managing Director and his management team in assessing performance and in determining the allocation of resources.

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of the financial statements.

NOTE 25: CASH FLOW INFORMATION

a) Reconciliation of net loss after tax to net cash flow from operations

	CONSOLIDATED	
	2012 $'000	2011 $'000
Profit/(Loss) from ordinary activities	2,305	(16,554)
Non-cash flows in loss from ordinary activities:		
Depreciation	144	257
Gain on disposal of assets	(37,259)	(946)
Gain on disposal for available-for-sale assets	(1,316)	-
Share based payments for employees	3,309	1,317
Share issues for settlement of litigation	-	755
Unrealised foreign exchange loss	1,102	(361)
Financing cost	4,310	1,104
Impairment write down on tenements	8,934	1,271
Impairment write-down on property, plant and equipment	367	-
Payment for settlement of litigation included in investing activities	5,250	-
Settlement of litigation paid directly to Chameleon by Mitsubishi from sales proceeds	(20,000)	-
Share of loss from jointly controlled entities and assets	1,072	782
Other non-cash general expenses	3,588	-
Changes in assets and liabilities:		
Increase in trade and other receivables and prepayments	(3,909)	(1,935)
Decrease in trade and other creditors	(2,772)	(505)
(Decrease)/Increase in provisions	(1,833)	2,115
Net cash flow used in operations	(36,708)	(12,700)

NOTE 25: CASH FLOW INFORMATION (CONTINUED)

b) Non-cash financing and investing activities

	CONSOLIDATED	
	2012 $'000	2011 $'000
Settlement of Litigation	20,000	755
Financing cost	4,310	1,104
	24,310	1,859

c) Reconciliation of Cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	CONSOLIDATED	
	2012 $'000	2011 $'000
Cash at bank and in hand	1,551	4,772
Short term deposits (90 days or less)	1,501	7,628
Cash and Cash Equivalents	3,052	12,400
Term deposits (greater than 90 days)	223,140	-

d) Reconciliation of Cash

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is $3,052,000 (2011: $12,400,000).

NOTE 25: CASH FLOW INFORMATION (CONTINUED)

e) Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	CONSOLIDATED	
	2012 $'000	2011 $'000
Total Facilities		
– Bank	300	750
– Private Equity Fund[1]	-	93,119
	300	93,869
Total Facilities used at reporting date		
– Bank	293	369
– Private Equity Fund[1]	-	23,047
	293	23,416
Total Facilities unused at reporting date		
– Bank	7	381
– Private Equity Fund[1]	-	70,072
	7	70,453

[1] 2011 includes US$100 million loan facility which has been translated to A$ at the 30 June 2011 month end rate of A$/US$ 1.0739, including the total facilities, total used and total unused. Refer to Note 17 for key terms of the facility. The Facility was repaid in full and closed on 21 February 2012.

NOTE 26: EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to year end, Murchison entered into an agreement with Dragon Energy Ltd to sell its 100% interest in the Rocklea project for cash consideration of $3.2 million. The sale is conditional only on obtaining consent to the assignment of a standard heritage agreement. Upon completion of the sale, Murchison will no longer hold an interest in the Rocklea project. The sale of the Rocklea project is expected to be completed by the end of August 2012.

As at the date of this report, other than noted above, no other matters or circumstances of which Directors are aware, other than those referred to in the financial statements or notes thereto, have arisen since the end of the financial year which significantly affect, or may significantly affect the operations, results or state of affairs of the Consolidated Entity in subsequent financial periods.

NOTE 27: RELATED PARTY TRANSACTIONS

a) Key Management Personnel compensation

Details of Key Management Personnel compensation are disclosed in Note 6 to the financial statements.

b) Key Management Personnel equity holdings

Details of Key Management Personnel equity holdings are disclosed in Note 6 to the financial statements.

c) Other transactions with Key Management Personnel (and their related entities)

Fees were paid to Director related entities in respect of their services. These amounts have been included in their compensation as disclosed in the Directors' report.

As disclosed in Murchison's Financial Report for the Year Ended 30 June 2011, Murchison secured a US$100 million loan from Resource Capital Fund V L.P. (RCF) (the Facility) in April 2011. RCF was a related party of Murchison for the purposes of AASB 124

NOTE 27: RELATED PARTY TRANSACTIONS (CONTINUED)

c) Other transactions with Key Management Personnel (and their related entities) (Continued)

Related Party Disclosures by virtue of James McClements being a Director of Murchison and also a Partner of other entities within the Resource Capital Funds group.

During the year, the Facility limit was reduced to US$95 million. Murchison continued to draw down on the Facility and issued shares and options to RCF in satisfaction of fees payable under the Facility. All transactions with RCF during the year were on commercial terms on an arms-length basis. Mr McClements abstained from any Board discussions on the Facility. The Facility was repaid and closed on 21 February 2012. Mr McClements resigned as a Director of Murchison on 29 February 2012 subsequent to the completion of the Transaction. RCF was not considered a related party for the purposes of the Corporations Act 2001(Cth).

d) Loans to and from related parties

There are no loans payable to or receivable from related parties outside the Murchison Group.

NOTE 28: INTEREST IN JOINTLY CONTROLLED OPERATIONS AND ASSETS

The Consolidated Entity had the following interests in jointly controlled assets:

		OUTPUT INTEREST %	
Name of Operation	Principal Activity	2012	2011
Oakajee Port	Infrastructure	-	50 [1]
Oakajee Rail	Infrastructure	-	50 [1]
Duck Hill	Mineral Exploration	50	50
Turtle	Mineral Exploration	-	50
Tarraji	Mineral Exploration	-	10
Halls Creek	Mineral Exploration	-	10

[1] Prior to 20 February 2012, the Group held a 25% direct interest in the Oakajee Port and Rail unincorporated joint ventures through MMX Port Holdings Pty Ltd and MMX Rail Holdings Pty Ltd respectively and an additional 25% direct interest through Murchison's 50% interest in Crosslands Resources Ltd. The ownership structure resulted in Murchison holding a 50% economic interest in both OPR unincorporated joint ventures. Murchison disposed of its interests in the OPR joint ventures and Crosslands Resources Ltd to Mitsubishi on 20 February 2012.

Mineral exploration joint ventures

These joint ventures are of the type where initially one party contributes tenements with the other party earning a specified percentage by funding exploration activities; thereafter, the parties often share exploration and development costs and output in proportion to their ownership of joint venture assets. There has been no significant activity in these tenements in the last financial year (2011: Nil) and there are no significant assets or liabilities to be disclosed for the year ended 30 June 2012 (2011: Nil).

Joint venture net assets

The Consolidated Entity's share of assets and liabilities in jointly controlled operations is detailed below.

	CONSOLIDATED	
	2012 $'000	2011 $'000
NON-CURRENT ASSETS		
Exploration and Evaluation Expenditure	-	56,769

Capital commitments and contingent liabilities

Capital commitments and contingent liabilities arising from the Group's interest in the joint ventures are disclosed in Note 22.

NOTE 29: FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's principal financial instruments during the current year comprised of receivables, payables, available-for-sale investments, interest bearing loans and borrowings and cash and cash equivalents.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Board of Directors. The Board reviews and approves policies for managing each of the risks identified below.

a) Capital risk management

The capital structure of the Company and Group consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

The Company and Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company and Group's overall strategy has changed since the prior year. The Company obtained Shareholder approval for a 46 cents per share return of capital to Shareholders at a General Meeting of Shareholders held on 16 August 2012. The distribution totalling approximately $207,000,000 will represent a significant portion of the Company's cash assets. In determining the amount of the distribution, the Board has given consideration to the funds required to be retained to enable the Company to continue as a going concern.

b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instruments are disclosed in Note 1 to the financial statements.

c) Categories of financial instruments

	CONSOLIDATED	
	2012 $'000	2011 $'000
FINANCIAL ASSETS		
Cash and cash equivalents	3,052	12,400
Term deposits (greater than 90 days)	223,140	-
Receivables and prepayments	4,710	1,468
Available-for-sale financial assets [1]	2,000	2,000
Other financial assets	-	1,099
	232,902	16,967

1 Available-for-sale financial assets are a level 3 category asset meaning that if the assets were to be recorded at fair value, the value would need to be estimated using inputs for the asset that are not based on observable market data as the investment represents shareholdings in a public unlisted company (Cashmere Iron Ltd). Accordingly, as their fair value cannot be measured reliably, the unlisted shares are carried at cost.

NOTE 29: FINANCIAL INSTRUMENTS (CONTINUED)

c) Categories of financial instruments (Continued)

	CONSOLIDATED	
	2012 $'000	2011 $'000
FINANCIAL LIABILITIES		
Trade and other payables	830	5,933
Interest bearing loans and borrowings	-	23,792
	830	29,725

d) Interest rate risk management

The Group is subject to interest rate risk exposure through its cash and cash equivalents. The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions and a mix of fixed and variable interest rates.

At Statement of Financial Position date, the Group had the following financial assets exposed to variable interest rate risk:

	CONSOLIDATED	
	2012 $'000	2011 $'000
FINANCIAL ASSETS		
Cash and cash equivalents	3,052	12,400
Term Deposits	223,140	-
Net Exposure	226,192	12,400

Interest rate sensitivity

The sensitivity analyses below have been determined based on exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to Key Management Personnel and represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates (cash rate) had been 50 basis points higher or lower and all other variables were held constant, post tax profit would have been affected as follows:

	IMPACT ON POST TAX PROFIT HIGHER/(LOWER) CONSOLIDATED	
	2012 $'000	2011 $'000
+0.5% (50 basis points) (PY +0.5%)	1,130	62
-0.5% (50 basis points) (PY -0.5%)	(1,130)	(62)

The sensitivity is higher in 2012, compared to 2011 due to the increase in the cash and cash equivalents balance.

e) Credit risk

Credit risk is managed on a Group basis. Credit risk predominantly arises from cash, cash equivalents and deposits with banks and financial institutions. Management mitigates some credit risk by using a number of different counterparties. The Group's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the Statement of Financial Position.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

NOTE 29: FINANCIAL INSTRUMENTS (CONTINUED)

e) Credit risk (continued)

	CONSOLIDATED	
	2012 $'000	2011 $'000
CASH AND CASH EQUIVALENTS AND TERM DEPOSITS		
Counterparties with external credit ratings		
A1+	216,462	12,400
A1	3,128	-
A2	6,602	-
	226,192	12,400

f) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who built an appropriate framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The following table details the Company and the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	CONSOLIDATED	
	2012 $'000	2011 $'000
Less than one month	830	5,846
Later than one month and not later than three months	-	82
Later than three months and not later than one year	-	23,797
Later than one year and not later than five years	-	-
	830	29,725

NOTE 29: FINANCIAL INSTRUMENTS (CONTINUED)

f) Liquidity risk (continued)

Maturity analysis of financial assets and liabilities based on management's expectations:

CONSOLIDATED	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	LESS THAN ONE MONTH	LATER THAN ONE MONTH AND NOT LATER THAN THREE MONTHS	LATER THAN THREE MONTHS AND NOT LATER THAN ONE YEAR	LATER THAN ONE YEAR AND NOT LATER THAN FIVE YEARS	TOTAL
2012	%	$'000	$'000	$'000	$'000	$'000
FINANCIAL ASSETS						
Non-interest bearing	-	4,710	-	2,000	-	6,710
Variable interest rate	5.4	1,551	1,501	223,140	-	226,192
		6,261	1,501	225,140	-	232,902
FINANCIAL LIABILITIES						
Non-interest bearing	-	(830)	-	-	-	(830)
Fixed interest rate	-	-	-	-	-	-
		(830)	-	-	-	(830)
NET MATURITY		5,431	1,501	225,140	-	232,072
2011	%	$'000	$'000	$'000	$'000	$'000
FINANCIAL ASSETS						
Non-interest bearing	-	1,468	-	1,099	2,000	4,567
Variable interest rate	5.5	6,787	5,613	-	-	12,400
		8,255	5,613	1,099	2,000	16,967
FINANCIAL LIABILITIES						
Non-interest bearing	-	(5,846)	(82)	(5)	-	(5,933)
Fixed interest rate	10.0	-	-	(23,792)	-	(23,792)
		(5,846)	(82)	(23,797)	-	(29,725)
NET MATURITY		2,409	5,531	(22,698)	2,000	(12,758)

The risks implied from the values shown in the table above, reflects a balanced view of cash inflows and outflows.

g) Net fair values

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

NOTE 30: SHARE BASED PAYMENTS

a) Recognised share based payment expenses

The amount recognised for employee services received during the year and options issued to Resource Capital Fund V L.P. in respect of the US$ Facility Agreement are shown in the table below:

	CONSOLIDATED	
	2012 $'000	2011 $'000
Expense arising from equity-settled share-based payment transactions in respect of:		
Directors and Employees	3,309	(632)
Resource Capital Fund V L.P.	879	1,949
Total share-based payment during the year	4,188	(1,317)

b) Type of share based payment plans – Directors and Employees

Directors

There were no long term incentives provided to Directors during the year. The Board has no intention of providing long term incentives to Directors. There were no options issued to Directors during the year ended 30 June 2012.

Executives

The objective in providing long term incentives is to reward Executives in a manner that aligns remuneration with the creation of shareholder wealth and ensures that continuity of the experienced Executive team is maintained during the critical phases of the business. Long term incentives have been provided to Executives in the form of options under an Employee Incentive Plan. Under the plan, the options vest over periods of up to 2.5 years subject to meeting continuity of employment provisions, and subject to the Board's discretion. Executives are able to exercise the options after vesting until a set expiry date.

The Company does not use performance hurdles in assessing and granting options to Executives under the Employee Incentive Plan as the options are used as a retention mechanism.

In the event of the resignation or termination of employment of an option holder, the options granted and unvested lapse immediately, unless the Directors, in their absolute discretion, determine otherwise. In the event of redundancy of an option holder, the options granted and unvested vest immediately.

Employees

The objective of the long term incentives is to reward employees in a manner that aligns remuneration with the creation of shareholder wealth. Long term incentives to employees are delivered in the form of options under the Employee Incentive Plan. The options vest over periods of up to 2 years subject to continuity of employment of 12 months, and subject to the Board's discretion. Employees are able to exercise the options after vesting until the set expiry date.

In the event of the resignation, redundancy or termination of employment of an option holder, the options granted lapse immediately, unless the Board, at their absolute discretion, determine otherwise.

c) Type of share based payment plans – Resource Capital Fund V L.P.

Resource Capital Fund V L.P. was issued 4,200,000 Facility establishment options on 29 March 2011 under the terms of the Bridging Facility Loan Agreement entered into on 16 March 2011. The options have a fair value of $0.464 per option and an exercise price of $1.73. The options expire on 29 March 2014. There are no vesting restrictions in respect of the options. The options vested immediately upon issue. The options are exercisable into one fully paid ordinary share per option exercised. Upon exercise, the options will rank equally with existing fully paid ordinary shares. During the year, an additional 5,984,799 options were issued to RCF in respect of the utilisation fee payable under the Facility Agreement. Refer to Note 17 for further details of the fee structure. The utilisation fee options vested immediately and had a fair value in the range of $0.05 to $0.37. The options have a life of up to 3 years from grant date.

NOTE 30: SHARE BASED PAYMENTS (CONTINUED)

d) Summaries of options granted under Executive and employee share option plans and options issued in relation to interest bearing loans and borrowings

	2012	2012	2011	2011
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	12,532,200	1.75	11,998,000	2.00
Granted during the year	11,261,799	-	5,142,00	1.44
Exercised during the year	(6,024,000)	-	-	-
Forfeited during the year [1]	(2,250,000)	200	(4,507,800)	1.99
Expired during the year	(5,140,200)	1.94	(100,000)	5.19
Outstanding at the end of the year	10,379,799	1.22	12,532,200	1.75

1 Includes options which were cancelled during the year due to non-fulfilment of vesting conditions.

The following share based payment arrangements were in existence during the current and comparative reporting periods:

Option Series	Expiry Date	Exercise Price	Class of Shares	Number Under Option
Series 1	30-Jun-11	2.70	Ordinary	100,000
Series 2	30-Jun-11	3.96	Ordinary	100,000
Series 3	22-Aug-11	2.34	Ordinary	1,014,000
Series 4	22-Aug-11	0.94	Ordinary	47,000
Series 5	23-Sep-11	1.27	Ordinary	17,000
Series 6	15-Oct-11	0.81	Ordinary	21,000
Series 7 [1]	18-Nov-11	2.00	Ordinary	4,500,000
Series 8	17-Feb-12	0.61	Ordinary	2,000
Series 9	26-Jun-12	1.56	Ordinary	1,691,400
Series 10	30-Jun-12	0.68	Ordinary	100,000
Series 11	18-Nov-12	1.25	Ordinary	200,000
Series 12 [2]	18-Nov-12	2.00	Ordinary	4,500,000
Series 13	24-Dec-13	-	Ordinary	667,000
Series 14	31-Dec-13	1.26	Ordinary	125,000
Series 15	31-Dec-13	-	Ordinary	90,000
Series 16	29-Mar-14	1.73	Ordinary	4,200,000
Series 17	31-Dec-14	-	Ordinary	60,000
Series 18	12-Sept-16	-	Ordinary	4,587,000
Series 19	23-Sept-14	-	Ordinary	690,000
Series 20	12-Jul-14	1.16	Ordinary	1,855,651
Series 21	12-Jul-14	1.04	Ordinary	607,137
Series 22	12-Jul-14	1.08	Ordinary	576,495
Series 23	12-Jul-14	0.67	Ordinary	766,714
Series 24	12-Oct-14	0.66	Ordinary	1,418,922
Series 25	12-Oct-14	0.58	Ordinary	425,811
Series 26	12-Jan-15	0.28	Ordinary	90,464
Series 27	12-Jan-15	0.27	Ordinary	243,605

1 Cancelled at 31 December 2010 due to non-fulfilment of vesting conditions.
2 2,500,000 options cancelled at 31 December 2011 due to non-fulfilment of vesting conditions

NOTE 30: SHARE BASED PAYMENTS (CONTINUED)

d) Summaries of options granted under Executive and employee share option plans and options issued in relation to interest bearing loans and borrowings (Continued)

Vesting conditions

In accordance with the terms of the share based payment arrangements for Series 1 to 6, Series 8 to 10, Series 13 to 15 and Series 17, options vest upon employees serving a minimum retention period of between 6 months and 2.5 years.

In accordance with the terms of the share based payment arrangement for Series 11 which relate to options issued to Non-Executive Director Rod Baxter during the prior financial year, the options have no vesting restrictions. The options were exercised during the financial year ended 30 June 2010.

In accordance with the terms of the share based payment arrangements for Series 7 and 12 which related to grants to Trevor Matthews and Paul Kopejtka, options were to vest upon achievement of performance conditions which are linked to milestones for the Group including approval of positive bankable feasibility studies in respect of Stage 2 of the Jack Hills iron ore project and the Oakajee Port and Rail infrastructure project by no later than 31 December 2010 and the achievement of financial close in respect of Stage 2 of the Jack Hills iron ore project and the Oakajee Port and Rail infrastructure project by 31 December 2011. Series 7 milestones were not achieved by the target date of 31 December 2010 and accordingly the options were cancelled during the financial year ended 30 June 2011.

In respect of Mr Matthews' Series 12 options, the requisite milestones were not met by 31 December 2011 and the options were cancelled.

The Series 12 options held by Paul Kopejtka automatically vested on 3 July 2011 when Mr Kopejtka stepped down as Executive Chairman. The options were not exercised and expired on 2 August 2011.

Series 16 options were issued to Resource Capital Fund V L.P. on 29 March 2011 in satisfaction of the establishment fee payable under the terms of the Bridging Facility Agreement entered into on 16 March 2011. Series 20 to 27 relate to the utilisation fee options issued under the Agreement. Refer to Note 17 for a discussion of the Facility terms and conditions.

Series 17 to 19 relates to options issued under the Employee Incentive Plan to Executives and staff.

Weighted average fair value

The weighted average fair value of options granted during the year was $0.33 (2011: $0.60).

e) Option pricing model

The fair value of the equity-settled share options granted to employees or suppliers is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the years ended 30 June 2012 and 30 June 2011:

	2012	2011
Risk-free interest rate (%)	5.0	5.01-5.65
Expected volatility (%)	80.0	80.00
Expected life of the option (years)	2.48-5.01	2.91-3.63
Option exercise price ($)	0.00-1.16	0.00-1.73
Weighted average share price at grant date ($)	0.27-1.16	1.07-1.46

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

f) Exercised during the financial year

There were 6,024,000 options granted under the Executive and Employee Incentive Plans that were exercised during the financial year. No options that were granted under the Facility Agreement were exercised during the financial year.

NOTE 30: SHARE BASED PAYMENTS (CONTINUED)

g) Weighted average remaining contractual life

The weighted average remaining contractual life for the options outstanding as at 30 June 2012 is 2.26 years (2011: 1.8 years).

h) Range of exercise prices

The range of exercise prices for options outstanding at the end of the year was $0.00-1.73 (2011: $0.00 – $3.96).

NOTE 31: COMPANY DETAILS

Murchison Metals Ltd is a public company listed on the Australian Stock Exchange, incorporated and operating in Australia.

Registered office and principal place of business:

Level 1
5 Ord Street
WEST PERTH WA 6005

Directors' Declaration

In accordance with a resolution of the Directors of Murchison Metals Ltd, I state that:

In the opinion of the Directors:

a) The attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Consolidated Entity;

b) The attached financial statements are in compliance with the International Financial Reporting Standards, as stated in Note 1 to the financial statements; and

c) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2012.

On behalf of the Board

G. Martin

Mr Greg Martin
Managing Director
17 August 2012

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Independent auditor's report to the members of Murchison Metals Limited

Report on the financial report

We have audited the accompanying financial report of Murchison Metals Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

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

   (i). giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 11 to 18 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Murchison Metals Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
17 August 2012

Additional Information

FOR LISTED PUBLIC COMPANIES

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 28 September 2012.

1. DISTRIBUTION OF EQUITY SECURITIES

(i) Ordinary share capital

450,427,346 fully paid ordinary shares are held by 9,059 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) Options

10,045,730 options are held by 3 individual option holders.

Options do not carry a right to vote.

The number of shareholders, by size of holding, in each class is as follows:

Holdings Ranges	Fully paid Ordinary Shares	Options
1 - 1,000	2,410	-
1,001 - 5,000	3,422	-
5,001 - 10,000	1,297	-
10,001 - 100,000	1,676	1
100,001 - and over	254	2
	9,059	3

Holdings less than a marketable parcel: 7,244

2. SUBSTANTIAL SHAREHOLDERS

Twenty largest holders of quoted equity securities

Ordinary Shareholders	Fully Paid No.	%
POSCO Australia Pty Ltd	60,567,000	13.45%
McNeil Nominees Pty Limited	56,540,922	12.55%
Ayersland Pty Ltd	48,604,886	10.79%
Colbern Fiduciary Nominees Pty Ltd	25,114,408	5.58%
UBS Wealth Management Australia Nominees Pty Ltd	17,346,083	3.85%
Pan Australian Nominees Pty Limited	17,121,887	3.80%
ABN AMRO Clearing Sydney Nominees Pty Ltd	10,055,534	2.23%
Buttonwood Nominees Pty Ltd	9,981,950	2.22%
HSBC Custody Nominees (Australia) Limited	8,677,981	1.93%
JP Morgan Nominees Australia Limited	7,518,437	1.67%
Merrill Lynch (Australia) Nominees Pty Limited	6,345,908	1.41%
Citicorp Nominees Pty Limited	6,217,059	1.38%
National Nominees Limited	5,012,711	1.11%
Bazhou City Hengji Strip Steel Co Ltd	4,965,000	1.10%
CS Fourth Nominees Pty Ltd	4,455,592	0.99%
Hebei Qianjin Steel Group (Australia) Pty Ltd	4,192,857	0.93%
RBC Investor Services Australia Nominees Pty Limited	3,933,799	0.87%
HSBC Custody Nominees (Australia) Limited-GSCO ECA	3,612,909	0.80%
J P Morgan Nominees Australia Limited	3,537,495	0.79%
Loong Phoong Pty Ltd	3,130,108	0.69%
	306,932,526	68.14%

3. INTEREST IN MINING TENEMENTS

Tenement	Project	Percentage interest
E31/733	Duck Hill	50%
E08/2146	Paulsens	100%
E45/4003	Ripon Hills	100%
E45/4004	Ripon Hills	100%
E45/4005	Ripon Hills	100%
E45/4006	Ripon Hills	100%

Corporate Governance Statement

CORPORATE GOVERNANCE

ASX Listing Rule 4.10.3 requires ASX listed companies to report on the extent to which they have followed the Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Principles") released by the ASX Corporate Governance Council. The ASX Principles require the Board to carefully consider the development and adoption of appropriate corporate governance policies and practices founded on the ASX Principles.

Details of the Company's compliance with the ASX Principles are set out below. A checklist, cross referencing the ASX Principles to the relevant section of this statement and the remuneration report, is provided on pages 90-92 of this report.

1. Board of Directors

a) Board Composition

Under the Constitution, the Board shall comprise not less than three and not more than ten Directors. The Board currently comprises the Managing Director, one independent Non-Executive Director and one Non-Executive Director who is not regarded as independent.

The Board has an expansive range of relevant industry experience, financial and other skills and expertise to meet its objectives.

To ensure it has the right mix of management skills and technical expertise to meet the challenges of its business, the Board regularly reviews its composition. A restructure of the Board took place following the successful completion of the Mitsubishi transaction. Non-Executive Directors, Mr James McClements, Ms Samantha Tough, Mr Peter Wasow, Mr Sun Moon (SM) Woo and Mr Rod Baxter stepped down from the Board and Mr Ian Burvill and Mr Soocheol (SC) Shin were appointed. The Board restructure reflected Murchison's circumstances following the sale of the Company's mid-west interests. As a consequence of the Board having determined to focus on distributing capital to shareholders, Mr Burvill who joined the Board primarily to assist with the assessment of investment opportunities, resigned as a Director on 17 April 2012.

Details of the skills, experience and expertise of each Director in office as at the date of the Annual Report are set out in the Directors Report.

b) Board Responsibilities

The roles and responsibilities of the Board are formalised in a Board Charter. The Board Charter distinguishes between the matters that are reserved for the Board and its committees, and those that the Board has delegated to management. The Board is ultimately responsible to shareholders for the strategy and performance of the Company. It is the role of the Board to govern the Company rather than manage it.

The principal functions and responsibilities of the Board include the following:

- guiding the development of an appropriate culture and values for the Company through the establishment and review of Codes of Conduct and rules and procedures to enforce ethical behaviour;
- overseeing the development and implementation of appropriate strategies including:
  (i) Working with the senior management team to ensure that an appropriate strategic direction and array of goals are in place;
  (ii) Ensuring that an appropriate set of internal controls are implemented and reviewed regularly;
  (iii) Overseeing planning activities including the development and approval of strategic plans, annual plans, annual corporate budgets and long-term budgets including operating budgets, capital expenditure budgets and cash flow budgets;
- ensuring corporate accountability to the shareholders primarily through adopting an effective shareholder communications strategy;
- ensuring robust and effective risk management, compliance and control systems (including legal compliance) are in place and operating effectively; and
- overseeing the Company's senior management and personnel including the terms of the appointment of any executive directors and ensuring appropriate succession plans are in place.

The Board Charter also contains a statement of the functions delegated to the Managing Director and the Company Secretary.

The Board Charter is available in the Corporate Governance section on the Company's website.

c) Director Independence

The independence of a Director is assessed by determining whether the Director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

The test of whether a relationship or business is material is based on the nature of the relationship or business and on the circumstances and activities of the Director. Materiality is considered from the perspective of Murchison, the persons or organisations with which the Director has an affiliation and from the perspective of the Director. Materiality thresholds are considered by the Board from time to time. The Board considers that:

- a material customer is a customer of Murchison which accounts for more than 5% of Murchison's consolidated gross revenue;
- a supplier is material if Murchison accounts for more than 5% of the supplier's consolidated gross revenue;
- a substantial shareholder of Murchison is a shareholder who holds greater than 5% of the voting capital of Murchison; and
- service on the Board for a period exceeding 10 years is a period which could, or could reasonably be perceived to materially interfere with a Director's ability to act in the best interests of the Company.

In the event that one of more of these thresholds is exceeded, the Board considers whether or not, in their view, the relevant circumstances materially impacts on the independent judgement of a Director.

Based on the criteria above, the Board considers that Mr Scott-Mackenzie qualifies as an independent Director.

d) Directors' Retirement and Re-election

The Constitution of the Company provides that:

- no Director except the Managing Director may hold office for a period in excess of 3 years, or beyond the third Annual General Meeting following the Director's election, whichever is the longer, without submitting himself or herself for re-election;
- at every Annual General Meeting one-third of the previously elected Directors, and if their number is not a multiple of three, then the number nearest to but not exceeding one third, must retire from office and are eligible for re-election; and
- a retiring Director is eligible for re-election without needing to give any prior notice of an intention to submit for re-election and holds office as a Director until the end of the meeting at which the Director retires.

e) Board Succession Planning

The Board reviews annually the size and composition of the Board and the mix of existing and desired competencies across members at least annually. The Board may engage an independent recruitment firm to undertake a search for suitable candidates.

f) Nominations and Appointment of New Directors

Recommendations for nomination of new Directors are made and considered by the Board as a whole after consideration of recommendations from the Remuneration and Nomination Committee. The Board considers Director appointments having regard to the skill base of current Directors, the requirements of the Board and the Company and the candidate's commercial experience, skills and other qualities. External consultants may be used from time to time to identify a wide base of potential Directors. Prior to the appointment of four new Non-Executive Directors in May 2011, Murchison had a Nomination Committee. Upon appointment of the new Directors, the Committee was reconstituted as the Remuneration and Nomination Committee. The Board as a whole considered the suitability of candidates in determining to recommend the appointment of additional Non-Executive Directors which occurred on 1 March 2012.

g) Board Performance Evaluation

The Board may conduct a performance evaluation of itself that:

(a) compares the performance of the Board with the requirements of its Charter;

(b) effects any improvements to the Board Charter and corporate governance principles and procedures deemed necessary or desirable; and

(c) includes a process for review of the performance of individual Directors and a review of the performance of the Chairman by the other members of the Board.

The general management and oversight of this process of performance evaluation, together with development of appropriate Board member performance assessment measures, is the responsibility of the Chairman. Primarily the evaluation will be carried out through consultation by the Chairman with individual Directors.

The Company has a formal performance appraisal system for all Executive employees.

h) Access to Professional Advice

Directors may, in carrying out their duties, seek external professional advice. Directors are required to inform the Chairman about the nature of the advice sought and the estimated cost of the advice. All Directors have the individual authority to commit the Company to up to $5,000 per annum in professional advice. If the cost of the advice is likely to exceed $5,000 the Director shall seek authority from the Chairman prior to obtaining the advice.

i) Conflicts of Interest

The Company has adopted Codes of Conduct for Directors and employees that deal with conflicts of interest.

Directors are required to disclose any actual or potential conflict or material personal interests that may or might be reasonably be thought to exist between the interests of the Director and the interests of the Company.

Directors are required to declare any conflict of interest when appointed or when a conflict subsequently arises. If a Director is unable or unwilling to remove a conflict of interest that Director must not be present when the matter is discussed or voted on by the Board.

The Code of Conduct for employees provides that:

- employees should not engage in activities or hold or trade assets that involve or could appear to involve a conflict between their personal interests and the interests of the Company;
- employees should not hold Directorships in publicly listed companies without the prior approval of the Company;
- employees should not hold positions in, or have relationships with, outside organisations that have business dealings with Murchison in the employee could influence these transactions; and
- employees must advise their manager of situations that could involve an actual or perceived conflict of interest.

j) Terms of Appointment, Induction Training and Continuing Education

Non-Executive Directors are provided with a Letter of Appointment setting out the key terms and conditions of the appointment, including duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding their involvement with committee work.

The Chairman and/or Managing Director, with assistance from the Company Secretary, will provide an induction for new Directors appointed to the Board. All Directors are expected to maintain the skills required to discharge their obligations to the Company. Directors are encouraged to undertake continuing professional education and where this involves industry seminars and approved education courses, this is paid for by the Company, where appropriate.

k) Board Meetings

The Board meets formally to conduct appropriate business. The Board usually meets monthly and at other times as considered necessary.

The Chairman sets the agenda for each meeting in conjunction with the Managing Director and Company Secretary. Any Director may request additional matters be added to the agenda. Members of senior management attend meetings of the Board by invitation. Non-Executive Directors may meet as required without the Managing Director or management being present. Board papers are circulated in advance of the meetings in either electronic or hard copy form. Directors are entitled to request additional information where they consider the information is necessary to support informed decision-making.

The Board uses circulating resolutions in writing signed by all Directors to deal with matters requiring decisions between meetings.

l) Directors and Senior Management Remuneration

The Board, on advice from the Remuneration and Nomination Committee, determines the fees and salaries for all Directors and senior management. Remuneration for the Managing Director includes a salary and other entitlements. Attendance at and participation in Board and Committee Meetings are considered among the duties of the Managing Director.

The actual remuneration paid to all Directors and key management personnel is detailed in the Directors' Report.

2. Board Committees

a) Board Committees and Membership

Prior to 29 February 2012, there were four standing Board committees to assist the Board in the discharge of its responsibilities. These were the:

- Audit and Risk Committee;
- Remuneration and Nomination Committee;
- Finance and Strategy Committee; and
- Health, Safety and Technical.

All Board committee charters are reviewed periodically.

Following the Board restructure on 1 March 2012, the functions of each committee were performed by the Board as a whole.

Prior to a Board restructure 29 February 2012, the membership of each Board committee comprised the following Non-Executive Directors:

Audit and Risk Committee	Remuneration and Nomination Committee	Finance and Strategy Committee
Mr Rodney Baxter (Chair)	Ms Samantha Tough (Chair)	Mr Peter Wasow (Chair)
Mr Peter Wasow	Mr Ken Scott-Mackenzie	Mr James McClements
Mr James McClements	Mr James McClements	Mr Greg Martin
	Mr Greg Martin	

Health, Safety and Technical Committee
Mr Ken Scott-Mackenzie (Chair)
Mr Rodney Baxter
Mr Greg Martin

Committee members were chosen for the skills, experience and other qualities they bring to the committees. Executive Directors and Executives may attend Board committee meetings by invitation.

All papers considered by the standing committees are available on request to Directors who were not on that committee.

Following each committee meeting, generally at the next Board meeting, the Board was given a verbal update by the Chair of each committee. Minutes of committee meetings were made available to all Directors.

The Company Secretary or another Executive acted as secretary for each of the committees.

Other committees can be convened to address major transactions or other matters calling for special attention.

b) Audit and Risk

The role of the Audit and Risk function is for the Board to meet its oversight responsibilities in relation to the Company's financial reporting, internal control structure, financial and operation risk management procedures and the internal and external audit function. In doing so, it is the Board's responsibility to maintain free and open communication between the Board and the external auditors and the management of Murchison.

Prior to 29 February 2012, the Audit and Risk Committee comprised a majority of independent Directors. Since the Board restructure on 29 February 2012, the Board is satisfied that whilst it is no longer comprised of a majority of independent directors, the Board is able to adequately discharge its responsibilities in relation to the Company's financial, operation risk management functions.

The external auditors, the Non-Executive Chairman, the Managing Director, the Company Secretary and the General Manager – Finance attend committee meetings by invitation. The Board meets at least twice a year to discharge its obligations under this function.

Murchison's independent external auditor is Ernst and Young. Ernst and Young were appointed by shareholders at the 2005 Annual General Meeting in accordance with the Corporations Act.

The Board is satisfied that the policies of the Auditors with regards to audit rotation, ensures auditors independence.

c) Remuneration and Nomination

The Remuneration and Nomination function considers matters with respect to:

- remuneration for the Managing Director and Executives; and
- employee incentive and equity based plans.

Prior to 29 February 2012, the Remuneration and Nomination Committee comprised three Non-Executive Directors.

The function includes responsibilities for:

- review of the Company's *Remuneration Policy* and framework;
- review and determine remuneration and incentives for the Managing Directors and Executives;
- review short term incentives strategy, performance targets and bonus payments;
- review and make recommendations concerning long-term incentive compensation plans, including the use of share options and other equity-based plans;
- ensure that incentive plans are designed around appropriate and realistic performance targets that measure relative performance and provide rewards when they are achieved;
- continually review and if necessary improve any existing benefit programs established for employees;
- review performance assessment processes for Executives;
- regularly review the size and composition of the Board;
- establish procedures for the selection and appointment of new Directors to the Board including identifying the skills required and represented on the Board and engaging a third party to conduct a search for candidates; and
- regularly review the succession plans in place for membership of the Board and Executives.

The Board has authority, as it deems necessary or appropriate, to obtain advice from external consultants or specialists in relation to remuneration related matters.

The Managing Director and Executives may attend Board meetings by invitation although no individual can be involved in deciding their own remuneration. The Board meets at least once a year in respect of remuneration matters.

d) Finance and Strategy Committee

The Finance and Strategy function of the Company was established to consider matters with respect to:

- matters of strategic significance to the future direction of the Company including, without limitation, potential corporate transactions and asset level transactions;
- the Company's funding requirements including specific funding proposals;
- monitoring borrowings from financiers and compliance with borrowing covenants; and
- reviewing and making recommendations to the Board on the strategic direction, objectives and effectiveness of the Company's financial risk management policies.

e) Health, Safety and Technical

The role of the Health, Safety and Technical Committee function of the Company was established to:

- periodically review the appropriateness of the Company's Health and Safety and Environmental Policies having regard to changing circumstances;
- monitor the effectiveness of the Company's Health and Safety and Environmental Policies and Management Systems for the purpose of monitoring the effectiveness of those systems;

- monitor and review all aspects of the health and safety and environmental risks which are relevant to the Company's operations and operations in which the Company has an interest;
- review major initiatives and development and long term strategies in health and safety and environmental areas;
- monitor and review the development of the Company's Sustainability Management Framework and any associated public reporting; and
- monitor the Company's management of Community and Indigenous Affairs.

3. Controlling and Managing Risk

a) Approach to Risk Management

The Board is responsible for overseeing the implementation of the Company's Risk Management Policy by Executives.

The Company has a defined set of processes to effectively manage risk in the business. They include processes to:

- identify risks relevant to the business to determine what can happen, when and how;
- assess identified risks to determine their potential severity and impact on the business;
- evaluate risks;
- treatment plans for risks deemed unacceptable to the business;
- communicate risk management activities and processes to employees; and
- monitor and review risks, risk mitigation strategies and actions as well as the risk management processes and system.

The Executive Management Team is responsible for the development and implementation of policies, processes and procedures to identify risks and mitigation strategies in Murchison's activities. A management reporting system is in place to ensure risks and risk issues are reported on a regular basis and are escalated where necessary. Risks with levels higher than that acceptable to the business are mitigated through the development of appropriate risk treatment actions and plans.

All risks and risk treatment plans are recorded on the Company's risk register. Responsibility for implementing risk treatment plans is allocated to specific individuals.

The Executive Management Team attends monthly risk meetings to review the risk register, risk rankings and to identify any new risks that may have arisen. The outcomes of these meetings are noted in monthly management reports and are communicated to the Board on a regular basis.

b) Managing Director and General Manager – Finance Assurance on Corporate Reporting

The Board receives regular reports about the financial condition and operational results of Murchison and its controlled entities.

The Managing Director and General Manager - Finance provide, at the end of each six monthly period, a formal statement to the Board confirming that the Company's financial reports present a true and fair view, in all material respects and the Group's financial condition and operational results have been prepared in accordance with the relevant accounting standards.

The statement also confirms the integrity of the Company's financial statements and notes to the financial statements, is founded on a sound system of risk management and internal compliance and control which implements the policies approved by the Board, and that Murchison's risk management and internal compliance and control systems, to the extent they relate to financial reporting, are operating efficiently and effectively in all material respects.

4. Promoting Ethical and Responsible Behaviour

a) Health and Safety

The Company is committed to providing a safe and healthy working environment for all staff. It considers that safety is a collective responsibility and ensures that regular training in safe working methods is undertaken and encourages participation and involvement in the development of workplace safety programs. Individual employees and employees of contractors are required to practice safe working habits, to take all reasonable care to prevent injury to themselves and their colleagues and to report all hazards and accidents.

New staff and contractors (where appropriate) are required to undergo an induction program to familiarise themselves with policies, procedures and work practices prior to commencing work. All staff are covered against injury under the various Workers Compensation Acts.

b) Codes of Conduct

The Company has adopted Codes of Conduct for Directors and Employees and a Diversity Policy.

Directors must ensure they perform their duties in accordance with legal requirements and agreed ethical standards. These include the requirement to:

- act honestly, in good faith and in the best interests of the Company;
- use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office;
- act with a level of skill expected from Directors and key Executives of a publicly listed company;
- use the powers of office for a proper purpose, in the best interests of the Company as a whole;
- not take improper advantage of the position of Director or use the position for personal gain or to compete with the Company; and
- not take advantage of Company property or use such property for personal gain or to compete with the Company.

A copy of the Directors Code of Conduct is available in the Corporate Governance section of the Company's website.

The Company also has a Code of Conduct for employees to ensure its employees (and consultants and contractors) observe high standards of honesty, integrity and ethical behaviour in dealing with other employees, shareholders, contractors and other third parties. The code requires employees to:

- not discriminate against any staff member or potential employee;
- carry out their duties lawfully at all times;
- use the Company's assets responsibly;
- respect the confidentiality of the Company's business dealings; and
- take responsibility for their own actions and for the consequences surrounding their own actions.

The Code of Conduct for employees is available to employees on the Company's intranet.

The Diversity Policy requires Directors and employees to be committed to promoting a culture of diversity in the workplace which includes embracing and promoting a range of diversity factors including place of origin, age, gender, cultural heritage, education, physical ability, appearance, language and family responsibilities. The Company's policy is to recruit and manage its employees on their basis of competence, performance and potential regardless of individual background or points of difference.

Given the Company's current situation, the Company does not have measurable objectives in place for measuring gender diversity.

c) Share Trading

Murchison's Share Trading Policy is binding on all Directors and Executives. The objectives of the policy are to:

- minimise the risk of Directors and Executives of the Company contravening the laws against insider trading;
- ensure the Company is able to meets its reporting obligations under the ASX Listing Rules; and
- increase transparency with respect to trading in securities of the Company by Directors and Executives.

The policy provides a brief summary of the law on insider trading and what constitutes "price sensitive information". The policy also prescribes "blackout periods" when Directors and Executives should not, in the absence of exceptional circumstances, trade in the Company's securities. Subsequent to year end, the Company amended the share trading policy prohibiting Directors and Executives from entering into a margin loan or similar arrangement in relation to the Company's securities.

A copy of the Company's Share Trading Policy is available in the Corporate Governance section of Murchison's website.

5. Continuous Disclosure

Murchison is committed to maintaining a level of disclosure that meets the highest standards and provides all investors with timely and equal access to information.

Murchison's Continuous Disclosure Policy reinforces Murchison's commitment to ASX continuous disclosure requirements and outlines management's accountabilities and the processes to be followed for ensuring compliance. The policy also describes Murchison's guiding principles for market communications.

A copy of the Continuous Disclosure Policy is available in the Corporate Governance section of Murchison's website.

6. Shareholder communications and participation

Murchison is committed (subject to commercial and confidentiality constraints) to maintaining direct, open and timely communications with all shareholders and encouraging their participation at general meetings. Similarly, prospective new investors are entitled to be able to make informed investment decisions when considering the purchase of shares in Murchison.

A wide range of communication approaches are employed including direct communications with shareholders and presentations to shareholders at the Company's Annual General Meeting. Publication of all relevant company information, including the Company's Annual Report is in the Investor Information section of Murchison's website at www.mml.net.au. Shareholders are also given the opportunity to receive information in print or electronic format.

Murchison's Shareholder Communication Policy provides that the Company will communicate effectively with its shareholders and give shareholders ready access to balanced and understandable information about Murchison. It does this by:

- ensuring that financial reports are prepared in accordance with applicable laws;
- ensuring the disclosure of full and timely information about Murchison's activities in accordance with the general and continuous disclosure principles of the ASX Listing Rules and the Corporations Act 2001. This includes reporting quarterly, half yearly and annually on the activities and prospects of the Company;
- the Non-Executive Chairman and Managing Director reporting to shareholders at the Company's Annual General Meeting;
- placing all ASX announcements (including quarterly reports and financial reports) on Murchison's website as soon as practicable following release; and
- ensuring that reports, notices of meeting and other shareholder communications are prepared in a clear and concise manner.

A copy of the Shareholder Communication Policy is available in the Corporate Governance section of Murchison's website.

Corporate Governance Review

30 June 2012

Unless otherwise noted, references to "sections" in the table below are references to sections of the Corporate Governance Report:

Principle	Details	Comments
1.	Lay solid foundations for management and oversight	
	Companies should establish and disclose the respective roles and responsibilities of board and management.	
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Comply – refer section 1b.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Comply – refer Remuneration Report in Directors Report.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Comply – the information is provided in sections 1a and 1b and the Remuneration Report.
Principle	Details	Comments
2.	Structure the Board to add value	
	Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.	
2.1	A majority of the board should be independent directors.	Post 29 February 2012, the Board structure does not comply due to the current circumstances of the Company. The Board is satisfied there is an appropriate mix of skills and experience in the current Board and the composition of the Board is adequate to enable it to discharge its responsibilities and duties.
2.2	The chair should be an independent director.	Comply – refer section 1c.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Comply – the Company has a separate Non-Executive Chair and Managing Director.
2.4	The board should establish a nomination committee.	Post 29 February 2012 does not comply. The function is currently performed by the Board as a whole given the current circumstances of the Company.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Comply – refer sections 1g and 2c.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Comply – refer to Directors' Report.

Principle	Details	Comments
3.	Promote ethical and responsible decision making	
	Companies should actively promote ethical and responsible decision-making.	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Comply – refer section 4b
3.2	Companies should establish a policy concerning trading in company securities by Directors, Executives and employees, and disclose the policy or a summary of that policy.	Comply – refer section 4c
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Comply – refer sections 4b and 4c
Principle	Details	Comments
4.	Safeguard integrity in financial reporting	
	Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.	
4.1	The Board should establish an audit committee.	Post 29 February 2012 does not comply. The function is currently performed by the Board as a whole given the current circumstances of the Company.
4.2	The audit committee should be structured so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not the chair of the board • has at least three members.	Post 29 February 2012 does not comply. The function is currently performed by the Board as a whole given the current circumstances of the Company.
4.3	The audit committee should have a formal charter.	Comply – refer section 2a
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Comply – refer Directors Report
Principle	Details	Comments
5.	Make timely and balance disclosure	
	Companies should promote timely and balanced disclosure of all material matters concerning the company.	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those polices or a summary of those policies.	Comply – refer section 5
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Comply – refer section 5

Principle	Details	Comments
6.	Respect the rights of shareholders	
	Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclosure their policy or a summary of that policy.	Comply – refer section 6
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Comply – refer section 6
Principle	Details	Comments
7.	Recognise and manage risk	
	Companies should establish a sound system of risk and oversight and management and internal control.	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Comply – refer sections 2b, 3a and 3b
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Comply – refer section 3a
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Comply – refer section 3b
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Comply – refer sections 3a and 3b
Principle	Details	Comments
8.	Remunerate fairly and responsibly	
	Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.	
8.1	The Board should establish a remuneration committee.	Post 29 February 2012 does not comply. The function is currently performed by the Board as a whole given the current circumstances of the Company.
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and executives.	Comply–refer Remuneration Report
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Comply–refer Remuneration Report

Corporate Directory

Directors

KEN SCOTT-MACKENZIE
Chairman

GREG MARTIN
Managing Director

SOOCHEOL (SC) SHIN
Non-Executive Director

Company Secretary

CHRIS FOLEY

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Share Registry

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Home Stock Exchange

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Exchange Plaza
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ASX Code

MMX

ACN

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Bankers

Commonwealth Bank of Australia

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