



ASX Code: MMX

17 March 2014

ASX & Media Release

Murchison Metals and Mercantile Investment Company agree terms of a proposed merger

The independent directors of Murchison Metals Limited (**Murchison**) announce that Murchison has entered into a Scheme Implementation Agreement (**SIA**) to merge the company with Mercantile Investment Company Limited (**Mercantile**).

Merger Summary

- Murchison and Mercantile have agreed to undertake a merger by means of a Scheme of Arrangement (**Scheme**).
- To effect the merger, Murchison will undertake a selective capital reduction under which all Murchison shares other than Murchison shares held by Mercantile (**Scheme Shares**) will be cancelled (**Capital Reduction**).
- Murchison shareholders, in consideration for the cancellation of their Scheme Shares, will have the choice of taking
 - 100% cash; or
 - 100% scrip in Mercantile; or
 - A 50/50 combination of cash and scrip in Mercantile.
- Murchison shareholders will have the opportunity to vote on the Capital Reduction and Scheme.

Cash Consideration

The Cash consideration received by Murchison shareholders will represent (on a per share basis) the pre-tax net tangible asset value (**NTA**) of Murchison less the costs associated with implementing the Scheme at the Calculation Date (**Cash Consideration**).

Murchison's pre-tax NTA at 31 December 2013 was \$0.0503 cents per share.



Mercantile Scrip Consideration

Using Murchison's pre-tax NTA as at 31 December 2013 and Mercantile's pre-tax NTA (as announced to the market in an ASX announcement dated 14 March 2014), shareholders who elect to receive Mercantile scrip as consideration will receive approximately 1 new Mercantile share (**New Mercantile Share**) for every 3 Murchison shares held (**Scrip Consideration**).

Mercantile's pre-tax NTA as at 28 February 2014 was \$0.1513 cents per share. (ASX Announcement, 14 March 2014)

The formula to determine the number of New Mercantile Shares to be issued per Murchison share will be calculated on the Calculation Date, being the Second Court Date (expected to be in late June 2014). The formula is outlined in Appendix A.

Key benefits to Murchison shareholders

- Murchison shareholders have the choice to receive the Cash Consideration or the Scrip Consideration (or a combination of the two in equal proportions) for 100% of their shares.
- The Cash and Scrip Considerations are calculated by reference to Murchison's pre-tax NTA less the costs associated with implementing the Scheme.

Murchison's pre-tax NTA (as at 31 December 2013) represents a 14.5% premium to the Murchison 1 year VWAP share price and a 19.7% premium to its closing share price (\$0.042) on 14 March 2014.

- Murchison shareholders are able to exit their investment without the need to pay brokerage otherwise associated with any on-market disposal of their shares.
- In respect of those Murchison shareholders who elect to receive Scrip Consideration, a reduced expense ratio as a result of a larger capital base and the removal of duplicated expenses.

Assuming that all Murchison shareholders elect to receive Scrip Consideration, the merged entity will have net assets of approximately \$51.9m and over 4,000 shareholders

Those shareholders that elect to receive Scrip Consideration may benefit from scrip-for-scrip rollover relief, subject to their own individual circumstances. Murchison recommends that shareholders seek their own independent financial advice with regard to this transaction.

Murchison has agreed to typical deal protection measures in the SIA including exclusivity undertakings and mutual break fee arrangements as between Murchison and Mercantile in certain circumstances where the Scheme does not proceed.



The independent directors believe the Scheme is in the best interests of Murchison shareholders.

Murchison will distribute a Scheme Booklet to all shareholders which will include details of the Scheme, including a report from an independent expert stating whether the Scheme is in the best interests of Murchison shareholders.

The approval of the Supreme Court of NSW will also be required to make the Scheme effective.

The Independent Directors recommend that Murchison shareholders take no action with respect to their Murchison shares until they have read the Scheme Booklet in full.

Scheme Implementation Agreement

The key terms of the SIA are outlined in Appendix B.

The independent directors of Murchison have retained Corrs Chambers Westgarth to assist with the Scheme.

Indicative Timetable

An indicative timetable for the Scheme is set out below.¹

| | |
|--|-----------------|
| Scheme Implementation Agreement signed | 17 March 2014 |
| First Court Hearing | Late April 2014 |
| Scheme Booklet sent to Murchison shareholders | Early May 2014 |
| General Meetings | Mid June 2014 |
| Scheme Meeting | Mid June 2014 |
| Second Court date, Effective date & Calculation date | Mid June 2014 |
| Implementation Date | Late June 2014 |

¹ The Murchison board reserves the right to change the timetable at any time, and will announce any changes on the ASX Announcements Platform.



Further Information:

For further information, please contact Link Market Services Limited on +61 1300 306 230 (within Australia) between the hours of 8:30am and 5:00pm (Sydney time) Monday to Friday.

Paul Jensen
Lead Independent Director
Murchison Metals Ltd

Appendix A:

Formula for the issue of new Mercantile shares to Murchison shareholders.

Calculation of New Mercantile Shares

The calculation of the number of New Mercantile Shares to be issued to Murchison shareholders who elect to receive Scrip Consideration is based on the relative pre-tax net tangible asset backing per share of each company at the Calculation Date:

| | | | | |
|-----------------------|---|--|---|--|
| New Mercantile Shares | = | Number of shares held by Murchison Shareholder | x | $\frac{\text{Murchison NTA}}{\text{Mercantile NTA}}$ |
|-----------------------|---|--|---|--|

Where:

- (a) **New Mercantile Shares** means the number of new Mercantile Shares to be issued to each Murchison Shareholder.
- (b) **Number of shares held by Murchison Shareholder** means the number of Murchison shares held by the eligible Murchison Shareholder as at the Scheme record date that are electing Scrip Consideration.
- (c) **Murchison NTA** means the pre-tax net tangible assets of Murchison per share less deferred tax assets and deferred tax liabilities carried on the balance sheet and transaction costs.
- (d) **Mercantile NTA** means the pre-tax net tangible assets of Mercantile per share less deferred tax assets and deferred tax liabilities carried on the balance sheet and transaction costs.
- (e) **Calculation Date** means the date on which Murchison and Mercantile calculate their pre-tax NTA.

Appendix B: Key terms of the Scheme Implementation Agreement

Transaction structure

- 1 Murchison will undertake a selective capital reduction under which all Murchison shares (other than shares held by Mercantile) will be cancelled.
- 2 As consideration for cancellation of Murchison shares, Murchison shareholders can elect to receive:
 - (a) (Cash Consideration): cash for up to 100% of their shares; or
 - (b) (Scrip Consideration): exchange up to 100% of their Murchison shares for shares in Mercantile. The number of New Mercantile Shares to be issued to each Murchison shareholder who elects to receive Scrip Consideration will be calculated as set out in Appendix A; or
 - (c) a combination of the above in equal proportions.
- 3 The SIA can be terminated by either party if the other party is in material breach of the SIA or a Court or Government Agency has taken action to restrain or prohibit the Scheme.

Conditions Precedent

- 4 Implementation of the Scheme is subject to the satisfaction or waiver of a number of conditions precedent including:
 - (a) **Scheme Meeting Approval:** Murchison shareholders agree to the Scheme at the Scheme Meeting by the requisite majorities under the Corporations Act;
 - (b) **General Meeting Approvals:** Murchison shareholders approve the resolutions in respect of the selective capital reduction, and those Murchison shareholders whose shares are to be cancelled also approve;
 - (c) **Murchison Material Adverse Change:** no Murchison Material Adverse Change occurs before the Second Court Date, including any event that would prevent or delay Murchison's ability to consummate the Scheme;
 - (d) **Mercantile Material Adverse Change:** no Mercantile Material Adverse Change occurs, before the Second Court Date, including any event that would prevent or delay Mercantile's ability to consummate the Scheme;
 - (e) **Murchison Prescribed Occurrence:** no Murchison Prescribed Occurrence occurs before the Second Court Date, including changes in the structure of Murchison's share capital, Murchison acquiring or disposing assets for more than \$100,000 or entering or terminating any contract involving revenue or expenditure of more than \$100,000 (without Mercantile's consent);

- (f) **Mercantile Prescribed Occurrence:** no Mercantile Prescribed Occurrence occurs before the Second Court Date including Mercantile ceasing to carry on its business as it is currently conducted;
- (g) **No breach of Murchison Warranty:** Mercantile is satisfied that none of the Murchison Warranties are incorrect before the Second Court Date; and
- (h) **No breach of Mercantile Warranty:** Murchison is satisfied that none of the Mercantile Warranties are incorrect before the Second Court Date.

Recommendation of Murchison's independent directors

- 5 The independent directors of Murchison must unanimously recommend that Murchison shareholders vote in favour of the Scheme unless they are required to do otherwise by law or because of their fiduciary duties.
- 6 The independent directors of Murchison must give Mercantile at least three business days notice before announcing any change of recommendation.

Break Fee

- 7 The break fee payable by Murchison is capped at \$100,000 and the break fee payable by Mercantile is capped at \$150,000.

Exclusivity

- 8 Under the SIA, Murchison has agreed to the following exclusivity arrangements until the earlier of termination of the SIA and the Effective Date:
 - (a) **(No shop restriction)** it will not solicit or invite competing transactions; and
 - (b) **(No talk restriction)** it will not participate in any discussions or negotiations with any third party in relation to a competing transaction.
- 9 The 'no talk' restrictions will not apply to a superior competing transaction that is not solicited in breach of the SIA if the fiduciary duties owed by the independent directors of Murchison require them to consider the superior proposal, or they are required to consider the superior proposal by law.

Representations and warranties

- 10 Each of Murchison and Mercantile has given representations and warranties which are normal for a transaction of this nature.