ASX ANNOUNCEMENT ASX Code: MMX

3 January 2012

NOTICE OF GENERAL MEETING TO APPROVE MITSUBISHI TRANSACTION

Murchison Metals Ltd ("Murchison") advises that a general meeting of Shareholders will be held at 10.00am (WST) on Monday 13 February 2012 at The Sutherland Room, City West Functions, 45 Plaistowe Mews, West Perth to consider the proposed sale of the Company's interests in Crosslands Resources Ltd ("Crosslands") and the Oakajee Port & Rail ("OPR") infrastructure projects to Mitsubishi Development Pty Ltd (the "Transaction").

A copy of the Notice of Meeting and Explanatory Memorandum, including the Independent Expert's Report, are attached and will be dispatched to Shareholders shortly.

Murchison's Board of Directors has unanimously recommended Shareholders vote in favour of the Transaction, in the absence of a superior proposal emerging.

The Independent Expert, KPMG Corporate Finance (Aust) Pty Ltd, has also concluded that the Transaction is, in the absence of a superior offer, in the best interests of Murchison Shareholders.

Approval by Murchison Shareholders is a condition precedent for the Transaction to proceed.

Murchison notes that settlement of the Chameleon litigation, and approval of the Transaction by the Foreign Investment Review Board, which were also key conditions of the Transaction, have recently been satisfied.

The Company is continuing to progress the satisfaction of the remaining conditions precedent.

Murchison will continue to update the market as appropriate.

For further information, please contact:

Greg Martin
Managing Director
Murchison Metals Ltd
+61 8 9492 2600

Shaun Duffy
Managing Director
FTI Consulting
+61 8 9386 1233
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NOTICE OF GENERAL MEETING
AND EXPLANATORY MEMORANDUM

A General Meeting of Shareholders of Murchison Metals Ltd

will be held at 10.00am (WST) on 13 February 2012

at The Sutherland Room, City West Functions, 45 Plaistowe Mews, West Perth WA 6005

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

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

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Important notices

Read this document

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

Role of ASX

A copy of this document has been lodged with ASX in accordance with the ASX Listing Rules. Neither the ASX nor any of its officers take any responsibility for the contents of this document.

Responsibility statement

This document has been prepared by Murchison Metals Ltd (**Murchison** or the **Company**), and includes an Independent Expert's Report issued by KPMG Corporate Finance (Aust) Pty Ltd (**KPMG**). KPMG, as Independent Expert, is liable for its report (including its Financial Services Guide), subject to any agreed disclaimer, waiver or indemnity. KPMG is remunerated for its services. Neither Murchison nor its Related Bodies Corporate assume responsibility for the accuracy and completeness of the Independent Expert's Report, except to the extent any inaccuracy or incompleteness in that document arises directly from the inaccuracy or incompleteness of information given to the Independent Expert by the Company.

Forward looking statements

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

Competent Persons' Statement

The information in this document that relates to the Mineral Resource estimate of the Rocklea Project is based on information compiled by Mr Sean Gregory, who is a member of The Australasian Institute of Mining and Metallurgy and a full time employee of Murchison Metals Limited.

The information in this document that relates to Exploration Results and geological and mineralogical interpretations of the Mineral Resource estimate of the Jack Hills and Brindal Deposits is based on information compiled by Mr Roland Bartsch. Mr Bartsch is a full time employee of Crosslands Resources Ltd and is a Member of the Australasian Institute of Mining & Metallurgy.

CONTENTS AND IMPORTANT NOTICES

The information in this document that relates to estimation of the Mineral Resources of the Jack Hills Deposit is based on information compiled by Mr Danny Kentwell in his capacity as an employee of SRK Consulting. Mr Kentwell is a Fellow of the Australasian Institute of Mining & Metallurgy.

Messrs Gregory, Bartsch and Kentwell have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources, and Ore Reserves. Messrs Gregory, Bartsch and Kentwell consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Rocklea Mineral Resources are listed on page 24 of the Independent Expert's Report. Jack Hills Mineral Resources and Exploration Results are listed on page 36 of the Independent Expert's Report and on pages 4-6 of AMC's Independent Technical Specialist's Report which is incorporated in the Independent Expert's Report. The Competent Persons were not involved in the independent valuations or other aspects of this report.

Disclaimer

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

Defined terms

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

CORPORATE DIRECTORY

Directors

Ken Scott-Mackenzie
Chairman

Greg Martin
Managing Director

Rodney Baxter
Non-Executive Director

James McClements
Non-Executive Director

Samantha Tough
Non-Executive Director

Peter Wasow
Non-Executive Director

Sun Moon Woo
Non-Executive Director

Company Secretary

Christopher Foley

Home Stock Exchange

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

Auditors

Ernst and Young
11 Mounts Bay Road
Perth WA 6000

Registered Office

Level 1
5 Ord Street
West Perth WA 6005

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

Postal Address

PO Box 904
West Perth WA 6872

Share Registry

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

23 December 2011

Dear Shareholder

Proposed sale of Murchison's 50% interests in Jack Hills and the Oakajee Port and Rail projects

On 24 November 2011, Murchison announced that it had entered into an agreement to sell its 50% interest in Crosslands Resources Ltd (**Crosslands**), the owner of the Jack Hills iron ore project, and its 50% economic interest in the Oakajee Port and Rail project, (together, the **Projects**) to Mitsubishi Development Pty Ltd (**Mitsubishi**) for cash consideration of $325 million[1] (the **Transaction**).

Shareholders will have the opportunity to consider and if thought fit approve the Transaction at a General Meeting to be held on 13 February 2012.

The Transaction has profound implications for all Shareholders and I would therefore like to provide some context for the Company's decision.

Murchison's agreement with Mitsubishi followed a comprehensive Strategic Review undertaken by the Company, which focused on assessing options for unlocking shareholder value in light of Murchison's very substantial funding obligations with respect to the Projects.

This Strategic Review has involved an extensive investigation of alternatives over several months to deliver value to Shareholders, including testing third party interest in Murchison and its assets. The Mitsubishi Transaction has been the only proposal capable of acceptance to have emerged to date.

Your Directors are unanimous in recommending the Transaction to Shareholders (in the absence of a Superior Proposal emerging) due to the number of significant benefits it provides for Shareholders.

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

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

To put this in perspective, Murchison's share of the Projects' estimated capital development costs alone exceeds $4.5 billion. Your Directors believe that securing the required level of funding in the current economic environment would be challenging, particularly given the size of the funding commitment relative to Murchison's current market capitalisation. As at the close of trading on ASX on 23 November 2011 (the day prior to the announcement of the Transaction), Murchison's market capitalisation was approximately $122 million.

Furthermore, as critical commercial arrangements that will be required to underpin the financing of the Projects are yet to be agreed with Oakajee Port and Rail's foundation customers, development schedules for the Projects remain uncertain.

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1 Note that this figure is before net cash calls to fund Murchison's interest in the Projects up to Completion of the Transaction.

2 The implied value per Share is an indicative estimate only. It reflects the projected cash balance at Completion comprising the sale proceeds of the Transaction less net debt and other estimated cash payments to an assumed Completion date of 31 March 2012 (see section 4). The implied value per Share estimate disclosed on the announcement of the Transaction of $0.51 specifically excluded corporate costs to Completion given the uncertainty associated with projecting corporate costs at that time. Corporate costs to Completion have now been able to be reasonably estimated and are included in the implied value per Share estimate. The implied value per Share assumes 452 million shares outstanding at Completion on a fully diluted basis. (This is comprised of 442 million Shares on issue as at 23 December 2011 (the last date practicable before finalising this document), 6 million current in-the-money options and an estimated 1.8 million Shares and 2.0 million options issued to Resource Capital Fund V L.P. (**RCF**) in January 2012 in lieu of interest and financing charges).

It is also important to note that Murchison's existing debt facility provided by RCF matures in April 2012. Part of the proceeds from the Transaction will be used to repay all amounts outstanding under that facility. In the absence of a Superior Proposal emerging, if the Transaction does not proceed and Murchison is unable to refinance that facility, the Company's ability to continue as a going concern is likely to depend on the ongoing support of RCF.

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

Importantly, the Directors have obtained an Independent Expert's Report from KPMG to assess the merits of the Transaction. KPMG has concluded that "*the Transaction is, in the absence of a superior offer, in the best interests of Murchison Shareholders*". A copy of the Independent Expert's Report is set out in Annexure A of this Explanatory Memorandum.

In the circumstances, your Directors believe that the Transaction is in the best interests of Murchison Shareholders, and unanimously recommend that you vote in favour of the Transaction, in the absence of a Superior Proposal emerging.

Your Directors intend to vote those Shares that they control in favour of the Transaction in the absence of a Superior Proposal emerging.

To assist with your consideration of the Transaction I urge you to take the time to read the attached Explanatory Memorandum in full, which sets out the important information in detail, including the reasons for the Directors' recommendation and a summary of the advantages, disadvantages and risks of the Transaction.

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

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

Yours sincerely

Ken Scott-Mackenzie
Chairman

ACTION REQUIRED BY SHAREHOLDERS

Step 1: Read the Notice and Explanatory Memorandum

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

Step 2: Vote on the Resolution

Your vote is important. The General Meeting is scheduled to be held at 10.00am (WST) on 13 February 2012 at The Sutherland Room, City West Functions, 45 Plaistowe Mews, West Perth, Western Australia.

If you cannot attend the General Meeting in person and wish to vote on the Resolution, you can vote by completing the proxy form that accompanies this document and return it by no later than 10.00am (WST) on 11 February 2012 by one of the following means of delivery:

(a) by hand to Link Market Services Ltd, Level 12 / 680 George Street, Sydney NSW 2000; or

(b) by post to Murchison Metals Ltd, c/- Link Market Services, Locked Bag A14, Sydney South, New South Wales 1235; or

(c) by facsimile on +61 2 9287 0309.

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

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

Questions

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

Indicative key dates

Date of this Notice of General Meeting	23 December 2012
Last date of acceptance of proxies	10.00am (WST) on 11 February 2012
Date for determining entitlement to vote at the General Meeting	10.00am (WST) on 11 February 2012
Date of General Meeting	10.00am (WST) on 13 February 2012

NOTICE OF GENERAL MEETING

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

Time:	10.00 am (WST)
Date:	13 February 2012
Place:	The Sutherland Room, City West Functions, 45 Plaistowe Mews, West Perth WA 6005

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

Special Business

Resolution – Sale of Main Undertaking

To consider and, if thought fit, to pass the following as an ordinary resolution:

> "*That, for the purposes of ASX Listing Rule 11.2 and for all other purposes, the Transaction involving the sale of all of the Company's shareholding in Crosslands Resources Ltd and all of the Company's interests in the Oakajee Port and Rail Joint Ventures to Mitsubishi Development Pty Ltd on the terms and conditions set out in the Explanatory Memorandum to this Notice, be approved.*"

Explanatory Memorandum and Independent Expert's Report

Shareholders are referred to the Explanatory Memorandum (including the Independent Expert's Report accompanying the Explanatory Memorandum) accompanying and forming part of this Notice of General Meeting.

Voting entitlement

Snapshot date

It has been determined that under Corporations Regulation 7.11.37, for the purposes of this General Meeting, Shares will be taken to be held by the persons who are the registered holders at 10.00am (WST) on 11 February 2012. Accordingly, Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the General Meeting.

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by a person who might obtain a benefit, except a benefit solely in the capacity as a holder of Shares, if the Resolution is passed or an associate of such a person. However, the Company need not disregard a vote if:

(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Proxies

Each Shareholder who is entitled to attend and vote has a right to appoint a proxy, and if a Shareholder is entitled to cast two or more votes that Shareholder may appoint two proxies. If a Shareholder appoints two proxies, the Shareholder may specify the proportion or number of votes each proxy is appointed to exercise. If a Shareholder appoints two proxies and the appointment does not specify the proportion or number of votes, each proxy may exercise one half of the Shareholder's votes. A proxy need not be a Shareholder of the Company.

In accordance with section 250BA of the Corporations Act, Shareholders are advised that the proxy forms must be received by no later than 10.00am (WST) on 11 February 2012 by one of the following means of delivery:

(a) by hand to Link Market Services, Level 12 / 680 George Street, Sydney NSW 2000; or

(b) by post to Murchison Metals Ltd, c/- Link Market Services, Locked Bag A14 Sydney South, New South Wales, 1235; or

(c) by facsimile on +61 2 9287 0309.

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

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

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

(a) if a proxy holder votes, they must cast all directed proxies as directed; and

(b) any directed proxies which are not voted will automatically default to the Chairperson who must note the proxies as directed.

Please consult your professional adviser for further details.

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

Corporate Representative

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

A Certificate of Appointment of Corporate Representative form is available from the Company.

By order of the Board

Dated: 23 December 2011

Chris Foley
Company Secretary

FREQUENTLY ASKED QUESTIONS

This section provides summary answers to basic questions that Shareholders may have in relation to the Transaction. This section should be read in conjunction of the whole of the Explanatory Memorandum.

What is the Transaction?	The Transaction involves the sale of all of the Company's interests in Crosslands, the owner of the Jack Hills iron ore mine in the mid-west region of Western Australia, and all of the Company's interests in the Oakajee Port and Rail project, to Mitsubishi for $325 million[3].
Why are Shareholders being asked to approve the Transaction?	Currently, Murchison's interests in the Projects represent the Company's main undertaking. The ASX Listing Rules require the Company to seek the approval of its Shareholders to dispose of its main undertaking. In any event, Murchison Shareholders approving the Transaction is a condition precedent to the Transaction completing.
What voting majority is required to approve the Transaction?	A simple majority (more than 50%) of the total votes cast on the Resolution must be in favour of the Resolution for the Transaction to be approved by Shareholders.
Is voting compulsory?	No. You do not have to vote. However, your Directors believe that the Transaction is important to all Shareholders and strongly encourage you to vote at the Meeting. Your Directors unanimously recommend that you vote in favour of the Resolution, in the absence of a Superior Proposal emerging.
Why should I support the Transaction?	Reasons to support the Transaction include: ▪ Your Directors unanimously recommend that you vote in favour of the Transaction, in the absence of a Superior Proposal emerging ▪ The Independent Expert has concluded that "*the Transaction is, in the absence of a superior offer, in the best interests of Murchison Shareholders*" ▪ The value per Share of $0.48[4] implied by the Transaction reflects a substantial premium to the trading prices of Murchison Shares prior to the announcement of the Transaction ▪ The Transaction provides value certainty for Murchison Shareholders ▪ As at the date of this document, no Superior Proposal has emerged ▪ Murchison's Share price is considered likely to fall if the Transaction is not approved Further information on the reasons why you should support the Transaction is set out in section 2.1 of the Explanatory Memorandum.

[3] Note that this figure is before net cash calls to fund Murchison's interest in the Projects up to Completion of the Transaction.

[4] The implied value per Share is an indicative estimate only. It reflects the projected cash balance at Completion comprising the sale proceeds of the Transaction less net debt and other estimated cash payments to an assumed Completion date of 31 March 2012 (see section 4). The implied value per Share estimate disclosed on the announcement of the Transaction of $0.51 specifically excluded corporate costs to Completion given the uncertainty associated with projecting corporate costs at that time. Corporate costs to Completion have now been able to be reasonably estimated and are included in the implied value per Share estimate. The implied value per Share assumes 452 million shares outstanding at Completion on a fully diluted basis. (This is comprised of 442 million Shares on issue as at 23 December 2011 (the last date practicable before finalising this document), 6 million current in-the-money options and an estimated 1.8 million Shares and 2.0 million options issued to RCF in January 2012 in lieu of interest and financing charges).

Are there any reasons why I shouldn't support the Transaction?	Reasons why you may consider not to support the Transaction include: ▪ Shareholders will no longer participate in any upside that may result from Murchison retaining an interest in the Projects ▪ Murchison may not be required to pay the balance of the settlement payment to Chameleon should the Transaction not proceed ▪ You may disagree with the Directors' recommendation and the conclusion of the Independent Expert ▪ You may believe a Superior Proposal could eventually emerge Further information on the reasons why you may not want to support the Transaction is set out in section 2.2 of the Explanatory Memorandum.
What will happen to Murchison if the Transaction proceeds?	The Transaction will result in the disposal by Murchison of all of its interests in the Projects. After the Company has met all its obligations, including debt repayments and transaction costs, Murchison expects to have cash assets of approximately $217 million at Completion. Murchison would also retain a number of smaller assets, including its 100% interest in the Rocklea iron ore project in the Pilbara region of Western Australia. The Board's current intention following Completion is to consider efficient mechanisms of distributing the majority of the Company's cash assets to Murchison Shareholders, against the alternative of investigating the merits of potential investment opportunities in the natural resources sector. Murchison also intends to undertake a review of its existing assets, including the Rocklea Project, in order to assess the most effective way to maximise their value for Shareholders.
What happens if I do not vote, or I vote against the Transaction?	If you do not vote, or vote against the Transaction, the Resolution may not be approved and the Transaction may not proceed. If this occurs, Murchison will retain its interest in the Projects, subject to any alternative proposal that may emerge. In these circumstances, Murchison will be subject to a high degree of financial risk and there would be significant uncertainty about whether the Company would be able to continue as a going concern. See section 2.3 for further information on the risks should the Transaction not proceed.
Are there any alternatives to the Transaction?	The Company has, with the assistance of its financial advisers, Rothschild and O'Sullivan Partners, been actively engaged in a Strategic Review to investigate its funding options for the Projects or alternatively unlock shareholder value. Through this process, a wide range of potential parties have been approached to test whether they would be interested in acquiring an interest in the Company or its assets. Whilst a number of parties expressed interest, to date, other than the Transaction, no binding proposals to acquire Murchison and/or its interest in the Projects have been received. Should a Superior Proposal emerge prior to the date of the General

	Meeting, Murchison can terminate the Transaction and pursue that Superior Proposal, subject to paying Mitsubishi a break fee of $3 million.
What happens if an alternative proposal emerges?	If an alternative proposal emerges prior to the General Meeting, Murchison's Directors will carefully consider whether that proposal is a Superior Proposal to the Transaction consistent with their legal and fiduciary obligations. Should Shareholders approve the Transaction, Murchison would not be able to terminate the Transaction if a Superior Proposal emerges after the date that such approval was obtained. However, your Directors consider that there will have been sufficient time for a Superior Proposal to emerge prior to the date of the General Meeting, such that the prospect of a Superior Proposal emerging after that date is low.
What do the Directors recommend?	**Your Directors unanimously recommend that Murchison Shareholders vote in favour of the Transaction, in the absence of a Superior Proposal emerging.** The reasons for this recommendation are set out in section 2 of this Explanatory Memorandum.
What is the role of the Independent Expert?	The ASX Listing Rules do not require an Independent Expert's Report to be provided to Shareholders in connection with the Transaction. However, the Directors of Murchison have determined that in order to provide Shareholders with sufficient information to make an informed decision on the Transaction, an Independent Expert should be appointed. KPMG has been asked to opine on whether the Transaction is in the best interests of Murchison Shareholders. Their report is designed to assist Shareholders in reaching their decision on how to vote on the Resolution. KPMG's opinion is that "*the Transaction is, in the absence of a superior offer, in the best interests of Murchison Shareholders*". Shareholders are encouraged to read the Independent Expert's Report in full, which is contained as Annexure A to the Explanatory Memorandum.
Is the Transaction subject to any other conditions?	As at the date of this document, and in addition to the requirement for Murchison Shareholders to approve the Transaction, the Transaction remains subject to a number of conditions precedent, including: • Mitsubishi receiving all necessary government approvals (including FIRB approval) to proceed with the Transaction; • no material adverse change occurring in relation to the Projects which is caused by the intentional or reckless act or omission by Murchison; and • novation of the State Development Agreement and two other Oakajee port related contracts to Mitsubishi. See section 3 of the Explanatory Memorandum for more information regarding the conditions precedent to the Transaction.

FREQUENTLY ASKED QUESTIONS

What will happen to my Shares if the Transaction is approved?	There is no change to your Shares. You will continue to hold Murchison Shares and they will continue to be listed on ASX. However, you should note the Board's intentions in regards to the use of proceeds from the Transaction, which are set out in section 5.
What will Murchison do with the proceeds from the Transaction?	The Board's current intention following Completion is to consider efficient mechanisms of distributing the majority of the Company's cash assets to Shareholders, against the alternative of investigating the merits of potential investment opportunities in the natural resources sector. If the Board forms the view that the Company is unlikely to identify a compelling acceptable investment opportunity in the short to medium term, it is intended that the majority of the Company's available cash reserves at that time will be distributed to Shareholders. Such a distribution is likely to require the approval of Murchison Shareholders.
Who is going to run the Company post Completion?	Post Completion, the Board believes that the current Board and management structure will need to be reduced to a relatively small team to manage the evaluation of opportunities (consisting of core finance, legal and office management roles) until such time as a firm decision is taken as to the use of proceeds from the Transaction.
How will Murchison decide whether to distribute the proceeds of the Transaction or re-invest them?	Your Directors believe that the current uncertain capital markets may present an investment opportunity for the Company to utilise its cash assets in a manner which delivers superior returns for Shareholders. To proceed with any such investment opportunity, the investment case would need to be compelling and, depending upon the nature of any potential investment, Shareholder approval may be required to approve a proposed investment. If the Board forms the view that the Company is unlikely to identify a compelling investment opportunity in the short to medium term, it is intended that the majority of the Company's available cash reserves at that time will be distributed to Shareholders.
What are the tax consequences for me?	There are no immediate tax consequences for you upon Completion of the Transaction occurring. However, there are tax consequences should the Company ultimately decide to distribute any of the proceeds of sale to its Shareholders. A general summary of the potential Australian tax consequences of the Company distributing the proceeds to Shareholders following the successful Completion of the Transaction is set out in Annexure B of this Explanatory Memorandum. You should, however, seek your own independent tax advice in relation to the taxation consequences of the Transaction.
When and where will the Meeting be held?	The Meeting will be held at 10.00 am (WST) on 13 February 2012 at The Sutherland Room, City West Functions, 45 Plaistowe Mews, West Perth, Western Australia. If you are unable to attend the Meeting, you may complete and return the

	proxy form which accompanies this document or vote online in accordance with the instructions provided in the Notice of Meeting.
Am I entitled to vote?	If you are registered as a Shareholder on the Murchison register as at 10.00am (WST) on 11 February 2012, you will be entitled to vote at the Meeting.
When will the result of the Meeting be known?	The result of the Meeting will be available shortly after the conclusion of the Meeting and will be announced to ASX once available.
What should I do next?	You should read the Notice of General Meeting and accompanying Explanatory Memorandum carefully. If you are in any doubt as to what you should do, you should consult your legal, financial or other professional adviser prior to voting. Your Directors believe that the Transaction is a matter of importance for all Shareholders and urge you to vote on the Resolution.

This Explanatory Memorandum forms part of the Notice of General Meeting and is intended to provide Shareholders with sufficient information to assess the merits of the Resolution contained in the accompanying Notice of General Meeting.

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

1 INTRODUCTION

Murchison's principal assets are its 50% interest in Crosslands, the owner of the Jack Hills iron ore project located in the mid-west region of Western Australia, and a 50% economic interest in the Oakajee Port and Rail project managed by Oakajee Port and Rail Pty Ltd (OPR). The remaining 50% interest in these projects is held by Mitsubishi.

Crosslands is progressing with feasibility studies into the potential expansion of annual production capacity at Jack Hills aimed at producing premium quality magnetite and hematite iron concentrates (being the Jack Hills Expansion Project). Further details in relation to Crosslands and its Jack Hills iron ore mine are set out in section 9.1 of the Independent Expert's Report attached as Annexure A to this Explanatory Memorandum.

In March 2009, OPR entered into a State Development Agreement entered into with the Western Australian (WA) Government to construct a new multi-user deepwater port at Oakajee, north of Geraldton, as well as associated open access rail infrastructure to service miners (including Crosslands) and other potential customers in the mid-west region of WA. Further details in relation to the Oakajee Port and Rail project are set out in section 9.2 of the Independent Expert's Report.

Based on the feasibility studies for these projects delivered to Murchison on 30 June 2011, the estimated capital costs of developing these projects is in excess of $9 billion, with Murchison's attributable share being half of this amount.

Murchison's primary focus following the delivery of these studies has been on progressing its Strategic Review focussing primarily on evaluating the Company's options for funding its share of capital costs for developing the Jack Hills Expansion Project and Oakajee Port and Rail project or otherwise unlocking Shareholder value, including the potential for transactions at the asset and/or corporate level.

On 24 November 2011, the Company announced that it had entered into a conditional sale agreement with Mitsubishi to sell all of the Company's interests in Crosslands and the Oakajee Port and Rail Joint Ventures for $325 million[5]. Further details regarding the Transaction, and its impact on the Company, are set out in sections 3 and 4 below.

Your Directors believe that the Transaction is in the best interest of Murchison Shareholders in the absence of a Superior Proposal emerging. The advantages and disadvantages of the Transaction, as well as the risks if the Transaction does not proceed, are set out in section 2 below.

The Transaction is conditional upon, amongst other things, approval by the Company's Shareholders. Shareholder approval is required under ASX Listing Rule 11.2, as the Company's interests in these Projects represent its main undertaking. The General Meeting to which this Explanatory Memorandum relates is being called to enable Shareholders to consider, and if thought fit approve, the Transaction.

If the Transaction is approved by Shareholders and the remaining conditions precedent set out in section 3 below are satisfied or waived, Completion is anticipated to occur by no later than 31 March 2012.

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[5] Note that this figure is before net cash calls to fund Murchison's interest in the Projects up to Completion of the Transaction.

The Board's current intention following Completion is to consider efficient mechanisms of distributing the majority of the Company's cash assets to Shareholders, against the alternative of investigating the merits of potential investment opportunities in the natural resources sector. Further details regarding the future activities of the Company, and its intentions in relation to the net proceeds from the Transaction, are set out in section 5 below.

2 ADVANTAGES, DISADVANTAGES AND RISKS OF THE TRANSACTION

The Transaction has a number of advantages, disadvantages and risks which may affect Shareholders in different ways depending on their individual circumstances.

If in any doubt, you should seek professional advice regarding your particular circumstances.

Reasons to vote in favour of the Transaction

- ✓ Your Directors unanimously recommend that you vote in favour of the Resolution in the absence of a Superior Proposal emerging
- ✓ The Independent Expert has concluded that "*the Transaction is, in the absence of a superior offer, in the best interests of Shareholders*"
- ✓ Implied value per Share of $0.48[6] post Completion reflects a substantial premium to the trading prices of Murchison Shares prior to the announcement of the Transaction
- ✓ The Transaction provides value certainty for Murchison Shareholders
- ✓ As at the date of this document, no Superior Proposal has emerged
- ✓ Murchison's Share price is likely to fall if the Transaction is not approved

Reasons to vote against the Transaction

- × You will no longer participate in any upside that may result from Murchison retaining an interest in the Projects
- × Murchison may not be required to pay the balance of the settlement payment to Chameleon should the Transaction not proceed
- × You may disagree with the Directors' recommendation and the conclusion of the Independent Expert
- × You may believe a Superior Proposal could eventually emerge

Risks if the Transaction does not proceed (in the absence of a Superior Proposal)

- Murchison will be subject to a high degree of financial risk
- Your Directors believe that there would be significant uncertainty as to whether the Company could continue to trade as a going concern

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[6] The implied value per share is an indicative estimate only. It reflects the projected cash balance at Completion comprising the sale proceeds of the Transaction less net debt and other estimated cash payments to an assumed Completion date of 31 March 2012 (see section 4). The implied value per Share estimate disclosed on the announcement of the Transaction of $0.51 specifically excluded corporate costs to Completion given the uncertainty associated with projecting corporate costs at that time. Corporate costs to Completion have now been able to be reasonably estimated and are included in the implied value per Share estimate. The implied value per Share assumes 452 million shares outstanding at Completion on a fully diluted basis. (This is comprised of 442 million Shares on issue as at 23 December 2011 (the last date practicable before finalising this document), 6 million current in-the-money options and an estimated 1.8 million Shares and 2.0 million options issued to RCF in January 2012 in lieu of interest and financing charges).

2.1 Reasons to vote in favour of the Transaction

(a) *Your Directors unanimously recommend that you vote in favour of the Resolution in the absence of a Superior Proposal*

Your Directors have carefully considered the Transaction and after assessing all of the facts, including the Independent Expert's conclusions, believe that the Transaction is in the best interests of Shareholders and unanimously recommend that you vote in favour of the Resolution, in the absence of a Superior Proposal emerging.

In the absence of a Superior Proposal emerging, the Directors intend to vote their Shares in favour of the Resolution, and will direct any proxies placed at their discretion in favour of the Resolution.

(b) *The Independent Expert has concluded that "the Transaction is, in the absence of a superior offer, in the best interests of Shareholders"*

KPMG, the Independent Expert engaged by Murchison, has concluded that "*the Transaction is, in the absence of a superior offer, in the best interests of Shareholders*".

In reaching this conclusion, the Independent Expert has considered (amongst other things) the following:

- The consideration of $325 million[7] payable by Mitsubishi under the Transaction for the Project Interests is considered fair, having regard to the fact that the Independent Expert's assessment of the value of these Project Interests is between $264.1 million to $423.1 million.
- Completion of the Transaction will allow Murchison to repay debt and restore the Company's financial position.
- The Transaction results in Shareholders no longer retaining any ongoing exposure to risks associated with the future development of the Projects.

The Independent Expert's Report is set out in Annexure A of this Explanatory Memorandum. Your Directors recommend that you read this report in its entirety.

(c) *The implied value per Share on Completion of the Transaction reflects a substantial premium to the pre-Transaction announcement trading prices of Murchison Shares*

The Transaction implies a value per Murchison Share of $0.48[8], after taking into account the Company's estimated costs to fund ongoing operations up until an assumed Completion date of 31 March 2012.

This is significantly above the level at which Murchison's Shares were trading on ASX immediately prior to the announcement of the Transaction, representing a premium of 75% to Murchison's last closing Share price prior to announcement of the Transaction on 24 November 2011.

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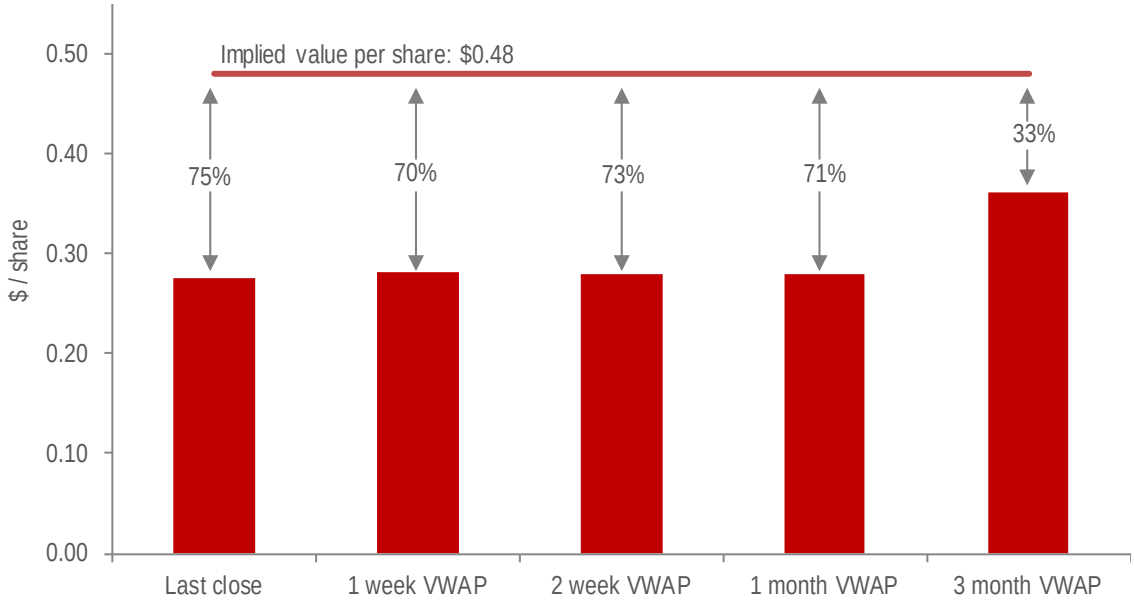
7 Note that this figure is before net cash calls to fund Murchison's interest in the Projects up to Completion of the Transaction.

8 The implied value per Share is an indicative estimate only. It reflects the projected cash balance at Completion comprising the sale proceeds of the Transaction less net debt and other estimated cash payments to an assumed Completion date of 31 March 2012 (see section 4). The implied value per Share estimate disclosed on the announcement of the Transaction of $0.51 specifically excluded corporate costs to Completion given the uncertainty associated with projecting corporate costs at that time. Corporate costs to Completion have now been able to be reasonably estimated and are now included in the implied value per Share estimate. The implied value per Share assumes 452 million Shares outstanding at Completion on a fully diluted basis. (This is comprised of 442 million Shares on issue as at 23 December 2011 (the last date practicable before finalizing this document), 6 million current in-the-money options and an estimated 1.8 million Shares and 2.0 million options issued to RCF in January 2012 in lieu of interest and financing charges).

As shown in Figure 1 below, the implied value per Murchison Share of $0.48 also represents a significant premium to the volume weighted average price of Murchison Shares traded on ASX in the 3 month period up to announcement of the Transaction.

Figure 1: Implied value per share versus Murchison trading price prior to the Transaction announcement



Source: IRESS

(d) *The Transaction provides value certainty for Murchison Shareholders*

(i) The Transaction allows Murchison to realise value for its interest in the Projects with certainty and avoid an uncertain future given the considerable future funding requirements

As indicated earlier, the estimated capital costs of developing the Projects is in excess of $9 billion, with Murchison's share of the capital cost being half of this amount.

Your Directors believe that securing Murchison's share of the required funding in the current economic environment would be extremely challenging, particularly given the size of the funding commitment relative to Murchison's current market capitalisation. As at the close of trading on ASX on 23 November 2011 (the day prior to the announcement of the Transaction), Murchison's market capitalisation was approximately $122 million, equivalent to less than 3% of Murchison's attributable share of the capital cost of developing the Projects.

The Transaction allows Murchison to realise value from the Projects now without having to incur this ongoing funding risk.

(ii) The Transaction allows Murchison to realise value for its interest in the Projects with certainty whilst avoiding the significant project development risks

Given the scale of the Projects and the level of economic activity in the resources industry of Western Australia, cost overruns and construction delays could result in a large financial exposure for the Company. There have been numerous recent examples of such delays and cost overruns in the West Australian market, particularly for large developments, and the Directors believe that Murchison has limited balance sheet capacity to absorb or protect the Company from this exposure.

There has also been continuing uncertainty with respect to the development timetable for the Projects, particularly given the lack of progress in reaching agreement with OPR's proposed foundation customers regarding the terms on which those customers can access the proposed new Oakajee Port and Rail infrastructure.

(iii) The Transaction allows Murchison to realise value for its interest in the Projects with certainty while avoiding the potential risks associated with Murchison's near term liquidity requirements

Murchison's existing debt facility with RCF matures in April 2012. Murchison intends to use part of the proceeds from the Transaction to repay all amounts outstanding under this facility.

Whilst the Company has held ongoing discussions with a number of parties in relation to re-financing this facility as part of its Strategic Review, these discussions remain incomplete and the Company's ability to conclude a re-financing transaction on acceptable terms remains uncertain. There is therefore significant uncertainty surrounding the Company's ability to repay or refinance the RCF Facility in the absence of the Transaction successfully completing or a Superior Proposal emerging.

There is also uncertainty around the Company's ability to raise working capital and to continue to fund its share of expenditure on the Projects through to a project go-ahead decision.

(e) *No Superior Proposals have emerged*

Murchison has, with the assistance of its financial advisers, Rothschild and O'Sullivan Partners, conducted a comprehensive Strategic Review which has actively evaluated a wide array of options to deliver value to Shareholders. As part of this process, the Company has extensively tested third party interest in Murchison and its assets.

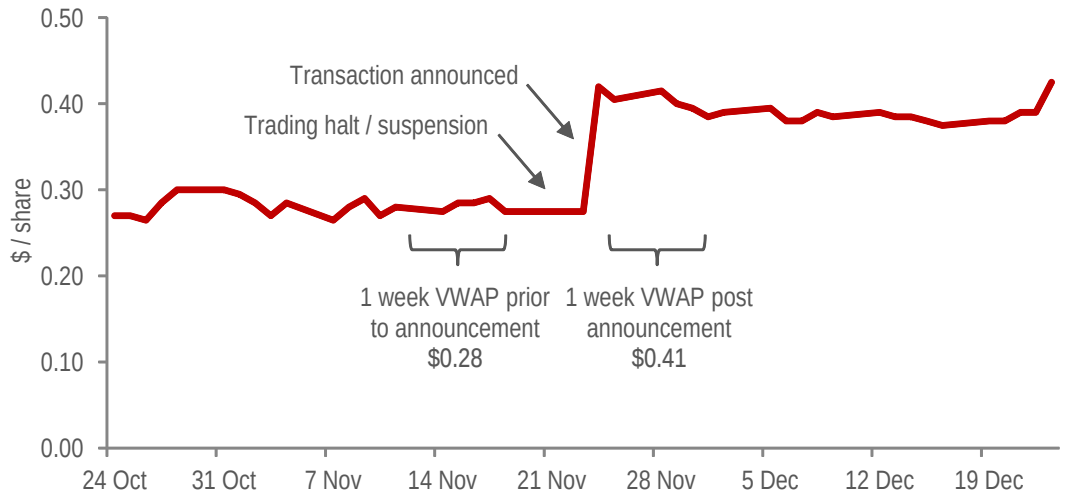
The terms of the Transaction allows Murchison to continue to solicit and negotiate alternative proposals up to the date of the General Meeting. Accordingly, subsequent to the announcement of the Transaction, Murchison has continued to progress existing discussions with third parties in order to investigate the potential for a Superior Proposal to emerge. However, to date no such alternative proposal capable of acceptance has emerged.

If a Superior Proposal emerges prior to the date of the General Meeting, Murchison has the ability to terminate the Transaction and proceed with the Superior Proposal subject to paying Mitsubishi a $3 million break fee.

(f) *Murchison's Share price is likely to fall if the Transaction is not approved*

As shown in Figure 2 below, the Murchison Share price rose significantly upon the announcement of the Transaction.

Figure 2: Murchison share price immediately prior to and following the Transaction announcement



Source: IRESS

The Directors believe that if the Resolution is not approved and no Superior Proposal is forthcoming, Murchison's Share price is likely to trade at levels well below those observed since the announcement of the Transaction on 24 November 2011, although these levels cannot be predicted with any degree of certainty.

This is supported by the Independent Expert, who notes that it would appear reasonable to expect that, in the absence of the Transaction or a superior offer, Murchison's share price is likely to fall from current levels.

2.2 Reasons to vote against the Transaction

(a) *No longer being able to participate in any upside that may result from Murchison retaining an interest in the Projects*

Following Completion, Murchison will no longer retain any economic exposure to the Projects, which if developed have the potential to underpin the future development of a new iron ore province in the mid-west region of Western Australia.

Further, Murchison will not benefit from any further payments which Mitsubishi may otherwise be required to make in relation to the Projects, in particular the residual contribution which Mitsubishi may be required to pay to Crosslands. It should be noted that given the current uncertainty associated with the development of the Projects, the likely timing and quantum of that residual contribution cannot be predicted at this time. However, Murchison considers that any residual contribution payable by Mitsubishi will not, on its own, be sufficient to cover Murchison's anticipated equity required for project development.

Whilst the Directors believe that Murchison is currently unable to finance its share of the development cost of the Projects, it is possible that circumstances may change in future, depending on prevailing iron ore prices, the state of capital markets and the results of further optimisation work on the Projects.

(b) *Murchison may not be required to pay the balance of the settlement payment to Chameleon should the Transaction not proceed*

As a condition precedent to the Transaction proceeding, Murchison was required to settle the legal claim by Chameleon against Murchison and others. As a result of this condition precedent, Murchison has had to adopt a commercially pragmatic view in negotiations to settle this legal claim at this point in time.

Murchison announced on 23 December 2011 that it has reached agreement with Chameleon to settle these proceedings in return for paying Chameleon a total of $25 million in cash, of which a non-refundable amount of $5 million has already been paid with the balance of $20 million payable subject to and conditional on Completion of the Transaction. Under the terms agreed with Chameleon, settlement of this litigation will only occur if the Transaction successfully completes.

In the absence of the settlement of the Chameleon litigation being a condition precedent to the Transaction proceeding, the Directors believe that Murchison's liability associated with the Chameleon claim may be lower than the $25 million amount that has been agreed to be paid to Chameleon to settle this litigation. In its 30 June 2011 financial statements, Murchison made a provision for $546,000 for equitable compensation to Chameleon arising out of this claim.

Accordingly, whilst the outcome of this litigation cannot be guaranteed, the Directors believe that Murchison's exposure to the Chameleon claim may be lower than $25 million should the Transaction not proceed to Completion.

(c) *You disagree with the Director's recommendation and conclusion of the Independent Expert*

You may disagree with the Directors and / or the Independent Expert who have concluded that the Transaction is in the best interests of Murchison Shareholders, in the absence of a Superior Proposal emerging.

(d) *You believe a Superior Proposal may emerge*

You may believe there is a possibility that a Superior Proposal could eventually emerge that offers greater value to yourself and other Murchison Shareholders. In reaching this conclusion, you should be aware that since the Company commenced its Strategic Review, no alternative proposal capable of acceptance has emerged which in the Board's view is superior to the Transaction.

2.3 Risks if the Transaction does not proceed (in the absence of a Superior Proposal)

In assessing the Transaction, you should also consider the implications should the Transaction not proceed, in the absence of a Superior Proposal emerging.

In these circumstances, Murchison will be subject to a high degree of financial risk.

In particular, you should be aware that:

- Murchison's existing debt facility provided by RCF matures in April 2012. As at 30 September 2011, US$48.8 million had been drawn down under the RCF Facility. It is intended that proceeds from the Transaction will be used to repay all amounts outstanding under that facility. In the absence of receiving the proceeds from the Transaction or a Superior Proposal emerging, Murchison is likely to be reliant on RCF's ongoing support to continue trading as a going concern.
- Murchison will need to repay Mitsubishi for any amounts paid by Mitsubishi on Murchison's behalf under the interim Project budgets agreed between the parties in connection with the Transaction.

These amounts would need to be paid within 90 days of the date of termination of the Transaction, failing which Murchison would be in default of its obligations in relation to the Projects.

- Murchison's ability to access the capital markets to refinance the RCF Facility, to repay any amounts owing to Mitsubishi and to fund its share of ongoing expenditure on the Projects and working capital would be very challenging, primarily due to the financial status of the Company and the uncertainty surrounding the development of the Projects.
- A comprehensive Strategic Review has been undertaken considering potential transactions involving Murchison and its assets. No Superior Proposal capable of acceptance has emerged to date as a result of that Strategic Review. Your Directors believe that the prospects of such a Superior Proposal emerging now to be low.

For these reasons, the Board considers there would be significant uncertainty about whether the Company would be able to continue as a going concern if the Transaction does not successfully complete.

3 KEY TERMS OF THE TRANSACTION

As set out above, Murchison has entered into a conditional sale agreement with Mitsubishi to sell all of Murchison's interest in Crosslands and the Oakajee Port and Rail Joint Ventures for a purchase price of $325 million[9]. Upon Completion, Mitsubishi will hold a 100% interest in the Projects.

The Transaction is subject to a number of conditions precedent, including Murchison Shareholder approval which is being sought at the General Meeting to which this Explanatory Memorandum relates. The other key outstanding conditions precedent are:

- Mitsubishi receiving FIRB approval to proceed with the Transaction;
- no material adverse change occurring (being an event or combination of events that could reasonably be expected to result in the value of the Project Interests as a whole being reduced by any amount equal to or exceeding $50 million, where those events arise as a result of an act or omission by Murchison or its related parties which is intended to have an adverse effect, or which is performed or not performed with knowledge or reckless indifference to a reasonably foreseeable adverse effect, on the Jack Hills Expansion Project or any of the Oakajee Port and Rail Joint Ventures);
- novation to Mitsubishi of the State Development Agreement and two other contracts related to the Oakajee Port and Rail Joint Ventures;
- release of all encumbrances over the Project Interests (except for those that relate to the existing joint venture granted in favour of Mitsubishi, Crosslands and/ or OPR); and
- receipt of all other necessary government approvals to give effect to the Transaction. As at the time of finalising this document, Murchison is not aware of any such additional government approvals being required.

As indicated in section 2.2(b) above, the condition precedent relating to the settlement of the litigation with Chameleon has now been satisfied, subject always to Completion occurring. Completion of the Transaction will occur within 5 business days of the outstanding conditions precedent being satisfied or waived.

[9] Note that this figure is before net cash calls to fund Murchison's interest in the Projects up to Completion of the Transaction.

Mitsubishi has a right to terminate the Transaction if Shareholders do not approve the Transaction by 15 February 2012. Either party may terminate the Transaction if the remaining conditions precedent are not satisfied by 23 March 2012.

Following Completion, Murchison will have no ongoing exposure to the risks associated with development of the Projects, or the requirement to continue funding the ongoing development of the Projects. Further, Murchison will not be entitled to the benefit of any further payments from Mitsubishi in relation to the Projects, such as the residual contribution which may have been payable to Crosslands.

However, Murchison has agreed to continue funding its share of expenditure to Crosslands and the Oakajee Port and Rail Joint Ventures through to Completion, and has agreed to support interim budgets for the period between 1 January 2012 and 31 March 2012, with its net exposure to the interim budgets capped at $11.244 million, subject to a pro rata scale back should Completion occur before 31 March 2012.

Mitsubishi may terminate the Transaction if Murchison does not contribute its share of expenditure to Crosslands and the Oakajee Port and Rail Joint Ventures up to a maximum cap of $11.244 million, or alternatively elect to complete the Transaction and deduct any shortfall from the purchase price otherwise payable by Mitsubishi at Completion. If operating cash flows are lower than expected, Mitsubishi must pay Murchison's share of any budgeted expenditure above $11.244 million. Murchison must reimburse such payments within 90 days if the Transaction does not complete.

Murchison remains free to solicit and negotiate alternative proposals up to the date that Shareholders consider the Transaction at the General Meeting. Murchison may terminate the Transaction if a Superior Proposal emerges prior to that time, subject to the payment of a $3 million break fee to Mitsubishi.

The warranties given by Murchison in favour of Mitsubishi under the Transaction are limited to warranties relating to Murchison's title to its interests in the Projects, and Murchison's power and authority to complete the Transaction. No warranties have been provided in regards to the status of the Projects.

Murchison has also provided indemnities in favour of Mitsubishi and Crosslands in relation to any potential tax claim against Crosslands that relates to events that pre-date Mitsubishi's investment in Crosslands, as well as in relation to any litigation relating to certain contracts, arrangements or understandings entered into by Murchison between 2004 and 2007.

As the Company intends to use part of the proceeds from the Transaction to repay amounts outstanding under the RCF Facility, the full sale proceeds will not be available to meet any claims made by Mitsubishi in relation to the Transaction, should they arise.

Given the limited nature of the warranties and indemnities provided to Mitsubishi, and Murchison's obligations post Completion, your Directors consider that there is a low likelihood of any material claim being made against the Company. However, there can be no guarantee that no claims will be made against the Company, or if made, that such claims will be successfully defended by the Company.

Under the terms of the Transaction, Murchison has undertaken in favour of Mitsubishi not to be engaged or involved in any business which is the same or similar to the Oakajee Port and Rail project in the mid-west region of Western Australia for the period ending 3 years after the date of Completion.

4 IMPACT OF THE TRANSACTION ON THE FINANCIAL POSITION OF MURCHISON

The key financial impacts of the Transaction on Murchison are as follows:

- The Transaction, if completed, will provide Murchison with gross consideration of $325 million[10] for its interest in the Projects. This is expected to result in a profit on sale of approximately $26.4 million after costs. The taxable profit on sale is expected to be fully offset by available tax losses.
- As at 30 September 2011, Murchison had interest bearing debt outstanding of approximately $51.2 million. Following Completion, all interest bearing debt will be repaid.
- Following Completion, Murchison is projected to have a cash position of approximately $217 million after repayment of debt, payment of all joint venture cash calls up to Completion, payment of the Chameleon settlement, and payment of all Transaction and other corporate costs.

Set out below is an abridged pro-forma statement of financial position of Murchison which has been prepared to enable an assessment of the likely effect of the Transaction on the financial position of the Company at Completion.

It has been prepared based on the unaudited statement of financial position as at 30 September 2011, with adjustments applied reflecting the estimated movements in the Company's cash position up to Completion (assumed to occur on 31 March 2012) as well as the impact of the Transaction. It assumes that Murchison's contribution to its share of expenditure to Crosslands and the Oakajee Port and Rail Joint Ventures to fund activities from 1 January 2012 to 31 March 2012 is $11.244 million, being the maximum amount which Murchison is required to contribute under the interim budgets agreed with Mitsubishi.

It has been prepared on an abbreviated basis and does not contain all of the disclosures usually provided in an audited statement of financial position.

You should be aware that the expected cash position of the Company on Completion is provided as a guide only. The actual cash position of the Company on Completion is dependent upon a range of factors, and is subject to various operational and economic uncertainties and contingencies, many of which are outside the Company's control. In addition, the estimated cash position of the Company is based upon estimates and assumptions with respect to the Company's future business decisions, which are subject to change.

As such, the actual cash position of the Company upon Completion may vary from the expected cash position set out in the abridged pro-forma statement of financial position below, and any such variation may be material. Neither Murchison nor its Directors can give any assurance of the actual cash position of the Company on Completion.

[10] Note that this figure is before net cash calls to fund Murchison's interest in the Projects up to Completion of the Transaction.

Murchison Metals Ltd Balance Sheet (Group) millions	Unaudited 30 September 2011	Transactions in the Ordinary Course of Business	Sale Transaction	Total Pro-forma Adjustment	Pro-forma Post Transaction	Notes
Current Assets						
Cash and cash equivalents	6.3	3.3	207.3	210.5	216.8	1
Trade and other receivables	1.5	-	(1.1)	(1.1)	0.4	2
Other Financial Assets	1.1	-	(1.1)	(1.1)	-	3
Total Current Assets	**8.9**	**3.3**	**205.1**	**208.4**	**217.3**	
Non-Current Assets						
Exploration & Evaluation Expenditure	72.8	2.5	(63.2)	(60.7)	12.1	4
Property, plant and equipment	0.8	-	(0.2)	(0.2)	0.7	2
Investments accounted for using the equity method	185.3	10.5	(195.8)	(185.3)	(0.0)	5
Trade and other receivables	-	-		-	-	
Available for sale financial assets	2.0	-		-	2.0	
Deferred tax asset	-	-		-	-	
Total Non-Current Assets	**261.0**	**12.9**	**(259.2)**	**(246.2)**	**14.8**	
TOTAL ASSETS	**269.9**	**16.2**	**(54.1)**	**(37.9)**	**232.0**	
LIABILITIES						
Current Liabilities						
Trade and Other Payables	3.4	(2.6)	(0.6)	(3.3)	0.1	2
Interest bearing loans and borrowings	51.2	27.5	(78.8)	(51.2)	-	6
Provisions	0.8	-	(0.5)	(0.5)	0.3	7
Total Current Liabilities	**55.4**	**24.9**	**(79.9)**	**(55.0)**	**0.4**	
Non-Current Liabilities						
Deferred Tax Liabilities	-	-	-	-	-	
Total Non-Current Liabilities	**-**	**-**	**-**	**-**	**-**	
TOTAL LIABILITIES	**55.4**	**24.9**	**(79.9)**	**(55.0)**	**0.4**	
TOTAL NET ASSETS	**214.5**	**(8.7)**	**25.8**	**17.1**	**231.6**	
EQUITY						
Equity						
Capital	243.9	2.0	-	2.0	246.0	8
Retained Earnings/(Accumulated loss)	(51.1)	(11.2)	25.8	14.6	(36.5)	9
Reserves	21.7	0.5	-	0.5	22.2	10
TOTAL EQUITY	**214.5**	**(8.7)**	**25.8**	**17.1**	**231.6**	

Notes

1. The increase in cash assets is due to receipt of the sale proceeds under the Transaction ($325 million) less estimated net debt drawdowns and repayments made in cash ($48.7 million), settlement costs associated with the Chameleon litigation ($25 million), estimated transaction costs ($14 million), estimated Murchison corporate expenditure ($13.8 million) and cash calls associated with the Projects ($12.9 million). An exchange rate as at 31 March 2012 of USD/AUD 1.00 has been assumed from December 2011.
2. Decrease due to the disposal of Murchison's 25% direct interest in the Oakajee Port and Rail Joint Ventures.
3. Establishment fee options issued under the RCF Facility becoming fully amortised upon repayment.
4. The decrease in capitalised exploration and evaluation balances is due to the disposal by Murchison of its 25% direct interest in the Oakajee Port and Rail Joint Ventures. The remaining balance is predominantly related to the Company's 100% interest in the Rocklea iron ore project.
5. Elimination of Murchison's interest in Crosslands following Completion.
6. Drawdowns and repayments of borrowings.
7. Decrease in provisions due to settlement of Chameleon litigation.
8. Issue of Shares to RCF under the RCF Facility in satisfaction of interest and commitment fees.
9. Movement in retained earnings due to operating activities and the net gain on the disposal of the Project Interests.
10. Issue of options to RCF under the RCF Facility in satisfaction of utilisation fees.

5 INTENTIONS POST COMPLETION OF THE TRANSACTION

5.1 Impact of the Transaction on operations

As set out in section 4 above, post Completion, and after paying down outstanding debts and meeting Transaction costs and other obligations, Murchison expects to retain net cash proceeds of approximately $217 million.

In addition to these cash assets, Murchison will continue to hold a 100% interest in the Rocklea Iron Ore Project in the Pilbara region of Western Australia as well as certain other exploration tenements in Western Australia. Murchison intends to undertake a review of its existing assets, including the Rocklea Iron Ore Project, in order to assess the most effective way to maximise their value for Shareholders.

The Board's current intention following Completion is to consider efficient mechanisms of distributing the majority of the Company's cash assets to Shareholders, against the alternative of investigating the merits of potential investment opportunities in the natural resources sector.

Your Directors believe that the current uncertain capital markets may present an investment opportunity for the Company to utilise its cash assets in a manner which delivers superior returns for Shareholders. To proceed with any such investment opportunity, the investment case would need to be compelling and, depending upon the nature of any potential investment, Shareholder approval may be required to approve a proposed investment.

If the Board forms the view that the Company is unlikely to identify a compelling investment opportunity in the short to medium term, it is intended that the majority of the Company's available cash reserves at that time will be distributed to Shareholders. Such a distribution is likely to require the approval of Murchison Shareholders.

5.2 Impact of the Transaction on the Board and management

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

Accordingly, the Board believes that the Company's current Board and management structure will need to be reduced to a relatively small team to manage the evaluation of opportunities (consisting of core finance, legal and office management roles) until such time as a firm decision is taken as to the use of proceeds from the Transaction. The remuneration of the restructured Board and core management team would also need to be restructured to reflect the nature of the Company's ongoing business activities. As the Transaction remains subject to a number of conditions precedent (including the approval of Murchison Shareholders to which this document relates), any restructure would only occur if the Transaction successfully completes.

In the event that the Company decides to pursue an alternative investment opportunity, the appropriate Board and management team structure would need to be re-evaluated at that stage in light of the particular proposed investment opportunity.

5.3 Impact of the Transaction on Murchison's capital structure

As indicated in section 5.1 above, post Completion, the Board intends to consider (amongst other things) efficient mechanisms of distributing the majority of the Company's cash assets to Shareholders.

One mechanism by which surplus cash assets may be returned to Shareholders is by way of a capital return. A general overview of the tax consequences to Shareholder should the Company decide to return the majority of its available cash reserves in this manner is set out in Annexure B.

You should be aware that no decision has been made at this stage to return any of the net proceeds of the Transaction to Shareholders.

6 ADDITIONAL INFORMATION

6.1 Impact of the Transaction on the RCF Facility

Murchison entered into a secured bridge finance facility with RCF in March 2011. As at 30 September 2011, Murchison has drawn down approximately US$48.8 million under this facility.

Under the terms of the RCF Facility, Murchison requires the consent of RCF to sell or otherwise dispose of all or part of its interests in the Projects (being the effect of the Transaction). Whilst RCF has provided its consent to the Transaction, RCF's consent was provided on the basis that:

- the total amount available under the RCF Facility be reduced to US$95 million (from the US$100 million that was originally available under that facility);
- new draw downs under the RCF Facility must be applied for the purpose of satisfying the Company's obligations under the Transaction and otherwise for working capital purposes;
- the proceeds received by the Company on Completion of the Transaction are immediately applied to repay all of the amounts outstanding under the RCF Facility; and
- Completion occurs no later than 12 April 2012, being the final repayment date under the RCF Facility.

RCF has agreed that no further utilisation fees (payable in options over Murchison Shares) are payable to RCF in respect of further amounts drawn down under the RCF Facility post announcement of the Transaction.

Murchison has agreed to these changes to the RCF Facility.

Murchison has agreed to pay RCF a fee of US$1 million to obtain RCF's consent to the Transaction and to restructure the RCF Facility in the manner outlined above. An additional fee of US$1.25 million will become payable if Murchison draws down in excess of an aggregate amount of US$26 million under the RCF Facility post announcement of the Transaction.

6.2 Information about Mitsubishi

Mitsubishi is a wholly owned subsidiary of Mitsubishi Corporation, Japan's largest general trading and investment company. Mitsubishi is the holding company of Mitsubishi Corporation's mineral resources investments in Australia which include a 50% share of BMA. Mitsubishi also specialises in developing coking coal for use in making steel and thermal coal for use in generating electrical power.

Mitsubishi has indicated that, when appropriate and in due course, it intends to introduce a suitably capitalised partner(s) or investor(s) to take up the Project Interests acquired from Murchison through the Transaction.

6.3 Directors interests

Other than as set out below, no Director will receive any payment or benefit of any kind as a consequence of the Transaction, other than as a Shareholder of the Company.

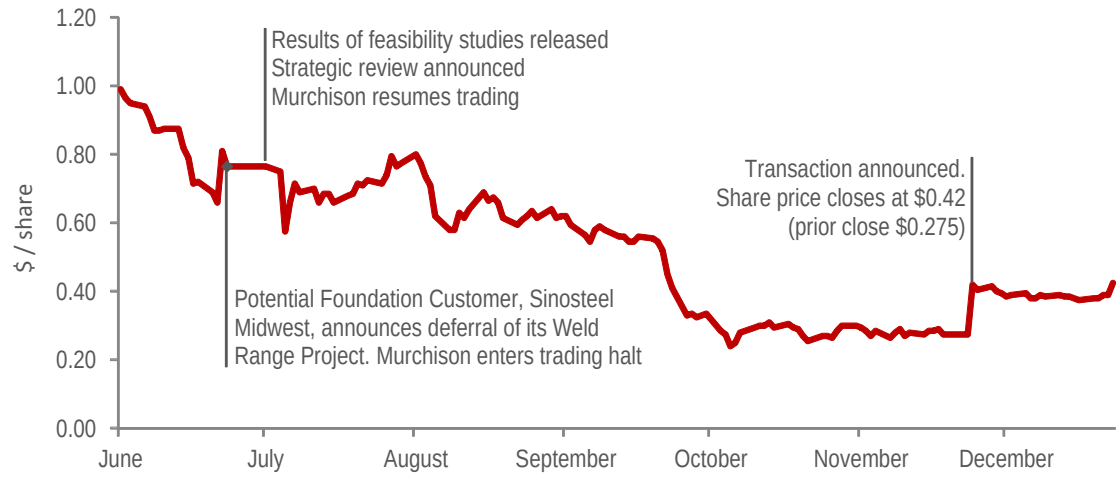
Pursuant to the terms of his employment contract, the Company's Managing Director Mr Greg Martin will receive an incentive payment of $787,500 if the Transaction completes.

Further, if the Transaction completes, part of the sale proceeds will be used to repay all amounts outstanding under the RCF Facility. Mr James McClements, a non-executive Director of the Company, is the Managing Partner of RCF.

6.4 Murchison share price

Murchison's Share price on ASX for the 6 month period ending on 23 December 2011 (the last practicable date before finalising this Explanatory Memorandum) is set out in Figure 3 below.

Figure 3: Murchison share price chart



Source: IRESS

Your Directors believe that Murchison Share price immediately prior to the announcement of the Transaction reflected the uncertainty relating to the development of the Projects and the Company's ability to fund its share of the Project development costs.

Post announcement of the Transaction, Murchison's Share price has benefited from the anticipated cash backing of Murchison Shares if Completion occurs, recognising that the Transaction remains subject to the satisfaction of various conditions precedent.

6.5 ASX

The ASX has confirmed that based on the information provided to it, the sale of Murchison's interest in Crosslands and the Oakajee Port and Rail Joint Ventures will result in a sale of the Company's main undertaking, such that Murchison Shareholder approval is required under ASX Listing Rule 11.2.

Murchison is required to consult with ASX regarding the use of the net proceeds from the Transaction so as to enable ASX to consider the potential application of Chapter 11 of the ASX Listing Rules to any potential future transaction or acquisition (including any requirement for Shareholders to approve that

potential future transaction or acquisition and/or a requirement that the Company re-comply with the requirements of Chapters 1 and 2 of the Listing Rules).

6.6 Other material information

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

Since 1 July 2011, the Company has made the following announcements:

Date	Announcement
23/12/2011	Chameleon Litigation Update
05/12/2011	Ceasing to be a substantial holder - J.P. Morgan
02/12/2011	SandP Indices Announces December Quarterly Rebalance
30/11/2011	Jack Hills Stage 1 Operations - Cessation of Mining
24/11/2011	Results of Annual General Meeting of Shareholders
24/11/2011	CHM: Murchison Metals Litigation Update
24/11/2011	Chairman`s Address - 2011 Annual General Meeting
24/11/2011	MMX Investor Presentation - Sale of JV Interests
24/11/2011	A$325 Million Sale Of Crosslands and OPR Interests
24/11/2011	Reinstatement to Official Quotation
23/11/2011	Suspension from Official Quotation
21/11/2011	Trading Halt
17/11/2011	Response to Media Report
27/10/2011	Final Director`s Interest Notice
27/10/2011	Quarterly Activities Report and Cash Flow Statement
26/10/2011	Director Resignation
24/10/2011	Becoming a substantial holder
21/10/2011	Appendix 3B and Section 708A Notice
21/10/2011	Notice of AGM//Proxy Form and Letter to Shareholders
21/10/2011	Murchison 2011 Annual Report
20/10/2011	Market Update
05/10/2011	Response to ASX Appendix 3Y Query
05/10/2011	Appendix 3Y
30/09/2011	Appendix 3B
30/09/2011	Appendix 3Y
29/09/2011	Ceasing to be a substantial holder in MMX by DB Group -Sch 2
29/09/2011	Ceasing to be a substantial holder in MMX by DB Group
21/09/2011	Murchison Metals 2011 Full Year Results
16/09/2011	Appendix 3B

Date	Announcement
31/08/2011	Media Correction
30/08/2011	Release of Full Year Accounts
18/08/2011	Chameleon Mining Litigation Update
16/08/2011	EPA Recommends Approval for Jack Hills Expansion Project
12/08/2011	Appendix 3B
28/07/2011	Quarterly Activities Report and Appendix 5B
15/07/2011	Appendix 3B and Section 708A Notice
14/07/2011	Chairman`s Letter to Shareholders
04/07/2011	Investor Presentation - Feasibility Studies / Market Update
04/07/2011	Board and Management Changes
04/07/2011	Reinstatement to Official Quotation
04/07/2011	Feasibility Studies and Market Update

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

7 OTHER

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

GLOSSARY

$ means Australian dollars, unless otherwise stated.

AEDT means Australian Eastern Daylight Time.

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

BMA means the 50/50 joint venture between BHP Billiton and Mitsubishi.

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

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

Chameleon means Chameleon Mining NL (ABN 17 098 773 785).

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

Completion means completion of the Transaction.

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

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

Crosslands means Crosslands Resources Ltd ABN 66 061 262 397.

Director means a director of Murchison from time to time.

Explanatory Memorandum means this explanatory memorandum (including the Independent Expert's Report).

FIRB means the Foreign Investment Review Board.

Independent Expert or KPMG means KPMG Corporate Finance (Aust) Pty Ltd.

Independent Expert's Report means the report prepared by the Independent Expert and attached as Annexure A to this Explanatory Memorandum.

Listing Rules means the Official Listing Rules of ASX.

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

Mitsubishi means Mitsubishi Development Pty Ltd ABN 17 009 779 873.

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

Oakajee Port and Rail Joint Ventures means:

(a) the unincorporated joint venture between Murchison, MMX Rail Holdings Pty Ltd, Mitsubishi, OPR and Crosslands in respect of the construction and operation of the proposed railway from the Jack Hills iron ore project to the proposed port at Oakajee entered into on or about 19 September 2007;

(b) the unincorporated joint venture between Murchison, MMX Rail Holdings Pty Ltd, Mitsubishi, OPR and Crosslands in respect of the marketing of rail capacity in respect to the proposed railway from the Jack Hills iron ore project to the proposed port at Oakajee entered into on or about 16 March 2010;

(c) the unincorporated joint venture between Murchison, MMX Port Holdings Pty Ltd, Mitsubishi, OPR and Crosslands in respect of the construction and operation of the proposed port at Oakajee entered into on or about 19 September 2007;

(d) the unincorporated joint venture between Murchison, MMX Port Holdings Pty Ltd, Mitsubishi, OPR and Crosslands in respect of the marketing of port capacity in respect to the proposed port at Oakajee entered into on or about 16 March 2010,

and includes all of the issued shares that MMX Rail Holdings Pty Ltd holds in OPR (being the manager of the above joint ventures).

OPR means Oakajee Port and Rail Pty Ltd (ABN 25 117 240 007).

O'Sullivan Partners means O'Sullivan Partners (Advisory) Pty Limited (ABN 85 111 843 737).

Project Interests means all of Murchison's interests in Crosslands and the Oakajee Port and Rail Joint Ventures.

Projects means the Jack Hills iron ore project owned by Crosslands, and the Oakajee Port and Rail infrastructure project managed by OPR.

RCF means Resource Capital Fund V L.P.

RCF Facility means the secured bridge facility agreement entered into by the Company with RCF in March 2011.

Related Bodies Corporate has the meaning it has in the Corporations Act.

Resolution means the resolution set out in the Notice.

Rothschild means Rothschild Australia Limited (ABN 61 008 591 768).

Shareholder means a holder of one or more Shares.

Share means a fully paid ordinary share in Murchison.

State Development Agreement means the State Development Agreement – Oakajee Port and Rail project entered into between the State of Western Australia, OPR, Mitsubishi, Murchison and certain of Murchison's Related Bodies Corporate dated 20 March 2009.

Strategic Review means the strategic review conducted by the Company, with the assistance of its financial advisers, Rothschild and O'Sullivan Partners, to investigate the Company's funding options for the Projects or alternatively unlock shareholder value, and referred to in its ASX announcement dated 4 July 2011.

Superior Proposal means any third party expression of interest, offer or proposal by, or arrangement with, any third party to directly or indirectly acquire, or become the holder (whether by purchase of assets, share purchase, takeover, scheme of arrangement, tender, offer, amalgamation, share issue or otherwise) of:

(a) the whole or part of the Project Interests; or

(b) any legal or beneficial interest in shares of, options or other rights to acquire, or to be issued, shares of (or voting rights in respect of) of Murchison or any of its Related Bodies Corporate,

that is actually proposed or offered and which, in the determination of the Board (acting in good faith and after having taken advice from their financial and legal advisers) would, if completed substantially in accordance with its terms and taking into account the terms and conditions of the third party expression of interest, offer or proposal, result in a transaction more favourable to Shareholders than the Transaction.

Transaction means the proposed sale to Mitsubishi (a wholly owned subsidiary of Mitsubishi Corporation) of all of the Company's interests in Crosslands, the owner of the Jack Hills expansion project, and the Oakajee Port and Rail project, through a conditional sale of the Project Interests.

WST means Western Standard Time, Australia.

Annexure A - Independent Expert's Report

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The Directors
Murchison Metals Ltd
Level 1, 5 Ord Street
West Perth WA 6005

23 December 2011

Dear Sirs

Independent Expert Report and Financial Services Guide

1 Introduction

Murchison Metals Ltd (Murchison or the Company) is an Australian public company listed on the Official List of ASX Limited (ASX). As at 21 December 2011, the Company had a closing market capitalisation of approximately $172.6 million[1].

Murchison's principal assets comprise:

- its 50% shareholding in Crosslands Resources Ltd (Crosslands), the owner of the Jack Hills iron ore project (Jack Hills) located in the mid-west region of Western Australia (the Mid West). Mitsubishi Development Pty Ltd (MDPL), a wholly owned subsidiary of Mitsubishi Corporation, holds the remaining 50% interest in Crosslands.

- a 50% economic interest in Oakajee Port and Rail Pty Ltd (OPR). OPR has the right to construct new port and rail infrastructure to service miners (including Crosslands) and other potential customers in the Mid West (the OPR Project). The remaining 50% economic interest in OPR is held by MDPL.

  OPR has identified three potential foundation customers:

  - Crosslands

  - the Gindalbie Metals Ltd/Ansteel Karara Mining Joint Venture (Karara JV)

  - Sinosteel Midwest Corporation (Sinosteel), a wholly owned subsidiary of Beijing based Sinosteel Corporation, developer of the Weld Range Iron Ore project (Weld Range Project) (collectively the Foundation Customers).

[1] All amounts set out in this report are stated in Australian dollars unless specifically noted otherwise

In addition to its investments in Crosslands and OPR, Murchison also holds a 100% interest in the Rocklea iron ore project (Rocklea) in the Pilbara region of Western Australia (WA).

On 23 August 2010, Murchison announced that OPR had entered into a Memorandum of Understanding with the Foundation Customers, establishing a framework for the negotiation of capacity allocation and tariff charges under Supply Chain Agreements (SCAs) as well as confirmatory due diligence by each of the parties.

On 16 March 2011, Murchison advised the market that it had entered into a United States Dollar (US$)100 million Bridge Finance Facility (Bridge Facility) with Resource Capital Fund V L.R. (RCF), principally to fund the Company's share of expenditure to progress the separate feasibility studies for the expansion project contemplated for Jack Hills (the JHEP) and the OPR Project.

On 27 June 2011, Murchison announced that OPR had been unable to reach common ground with the Foundation Customers on the proposed SCAs and that agreement of the commercial terms of the SCAs remained a significant hurdle to the development of the OPR Project. Murchison also noted the announcement by Sinosteel the previous week that, due to uncertainty around final port and rail infrastructure access arrangements, Sinosteel had decided to defer development of its Weld Range Project. However, Sinosteel also confirmed to OPR that it remained willing to engage in on-going discussions in relation to the SCAs, with the view to agreeing revised commercial terms, including tariff structure, and further certainty on scheduling.

On 4 July 2011, Murchison announced the results of separate feasibility studies for the JHEP and the OPR Project. These studies indicated, notwithstanding the previously flagged significant increase in expected aggregate capital costs and subject to OPR reaching agreement with the Foundation Customers with respect to the SCAs, the commercial, technical and operational viability of the projects. Murchison also advised that against the background of ongoing uncertainty in relation to the final terms of any SCA, including tariff structure, for the OPR Project, it had commenced a strategic review, including reviewing its funding options, in order to realise the inherent value of the JHEP and OPR Project.

In a letter to Murchison shareholders dated 14 July 2011, Mr Scott-McKenzie, Independent Non-Executive Chairman of Murchison, advised that notwithstanding the existing obligation of MDPL under Joint Venture Agreements (JVAs) to make a future payment into Crosslands to be used as the first tranche of equity funding for project development (the Residual Contribution), the required funding for the JHEP and OPR Project is of a size that it is well beyond the capacity of Murchison to finance.

On 24 November 2011, Murchison announced it had entered into a conditional Share and Asset Purchase Agreement (SAPA) for the sale to MDPL of all of the Company's interests in Crosslands and the OPR Project (the Sale Assets) in consideration for the payment by MDPL to Murchison of $325 million in cash (the Transaction).

Under the terms of the Transaction, Murchison is free to continue to seek superior proposals to that put forward by MDPL. A break fee of $3 million applies in the event the Murchison Board chooses to change

its recommendation supporting the Transaction, recommends a third party proposal or terminates the SAPA due to a superior proposal.

Following completion of the Transaction, Murchison will have no ongoing interest in or exposure to the risks associated with the development of the JHEP or the OPR Project, nor any requirement to continue funding their ongoing development, other than having agreed to continue to fund Crosslands and OPR through to completion of the Transaction, subject to its net exposure between 1 January and 31 March 2012 not exceeding $11.244 million, and a pro rata scale back should completion occur before 31 March 2012.

Assuming the Transaction is successfully completed, Murchison has indicated that it intends to use the funds received to pay down all outstanding debts, costs of the transaction and other obligations, following which the Company estimates it will have a residual pool of funds available to it in the order of $217 million. The Board has advised that it currently plans to consider efficient mechanisms of distributing the majority of the Company's cash assets to shareholders, against the alternative of investigating the merits of potential investment opportunities in the natural resources sector.

The Transaction is subject to a limited number of conditions precedent, including approval of the Transaction by Murchison shareholders at a meeting scheduled in February 2012.

The Directors of Murchison have requested KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to prepare an Independent Expert Report (IER) to the shareholders of Murchison setting out our opinion as to whether the Transaction is in the best interests of the current shareholders of Murchison.

This report should be considered in conjunction with and not independently of the information set out in the Explanatory Memorandum to which this report is attached.

2 Summary of the Transaction

Set out below is a summary of the key terms of the Transaction.

Table 1: Summary of key terms of Transaction

Term	Description
Sale Assets	All of Murchison's interest in: • Crosslands • OPR, the manager of the Oakajee port and rail joint ventures • the Oakajee port and rail infrastructure and marketing joint ventures.
Purchase price	$325 million
Conditions precedent	• Foreign Investment Review Board approval • Murchison shareholder approval • No material adverse change (as defined in the SAPA) occurring • Novation of key contracts relating to the OPR Project (including State Development Agreement (SDA) entered into with the WA State Government) • Release of all encumbrances over the Sale Assets (except for those that relate to the existing joint venture granted in favour of MDPL, Crosslands and /or OPR) • All other necessary government approvals to give effect to the Transaction • Settlement of a claim by Chameleon Mining NL (Chameleon) against Murchison and others, but excluding the cross claim made by Mr Phillip Grimaldi against Murchison (the Chameleon Claim)[1].
Completion	Completion to occur 5 business days after the conditions precedent are satisfied or waived. On completion the JVAs, including MDPL's obligation to pay the Residual Contribution to Crosslands, will terminate.
Budgets and cash calls	MDPL may terminate the SAPA if Murchison does not contribute its share of cash calls in the three months from 1 January up to a maximum cap of $11.244 million. Alternatively, MDPL may elect to complete the Transaction and deduct any shortfall from the purchase price otherwise payable. If operating cash flows are lower than expected, then MDPL must pay Murchison's share of any budgeted expenditures above $11.244 million. Murchison must reimburse such payments within 90 days if the Transaction does not complete.
Termination rights	Murchison has a right to terminate the SAPA: • in the event that it is not able to settle the Chameleon Claim for no more than $25 million by 23 December 2011 (unless the condition is otherwise waived by MDPL). • if a superior proposal emerges prior to the date that Murchison shareholders vote on the Transaction.

Term	Description
	• if Murchison receives an IER which concludes that the Transaction is not in the best interests of Murchison shareholders MDPL has the right to terminate the Transaction if Murchison shareholder approval is not obtained by 15 February 2012. Either party has the right to terminate the Transaction if the conditions precedent are not satisfied by 23 March 2012.
Deal protection	Murchison may solicit and negotiate alternative proposals up to the date that its shareholders meet to consider the Transaction. A break fee of $3 million is payable to MDPL where: • a majority of the Murchison Board publicly recommends any offer or proposal in relation to Murchison or its assets by a party other than MDPL • a majority of the Murchison Board fails to publicly recommend the Transaction, other than as a result of the Board receiving an IER opining that the Transaction is not in the best interests of Murchison shareholders.
Note 1: Murchison announced on [22] December 2011 that it had reached an agreement with Chameleon to settle the Chameleon Claim out of Court, subject to the Transaction completing	

Source: Murchison ASX announcement dated 24 November 2011

Further discussion in relation to the terms of the Transaction is set out in Section 3 of the Explanatory Memorandum to which this report is attached.

3 Scope of the Report

This report has been prepared for inclusion in the Explanatory Memorandum to accompany the Notice of Meeting to Murchison shareholders. The purpose of the meeting will be to seek approval of the Transaction.

The sole purpose of this report is an expression of KPMG's opinion of as to whether the Transaction is in the best interests of Murchison shareholders.

3.1 Technical Requirements

Whilst there is no statutory requirement for Murchison to commission an IER:

- completion of the Transaction is subject to approval by Murchison shareholders
- the SAPA provides that Murchison has the right to terminate the Transaction if Murchison receives an IER which concludes that the Transaction is not in the best interests of Murchison shareholders,

as such, the Directors of Murchison retained KPMG to prepare an IER as to whether the Transaction is considered to be "in the best interests" of Murchison shareholders.

"In the best interests"

As there is no statutory or legal definition as to what constitutes "in the best interests" in the context of the Transaction, we have had principal regard to the guidance provided in Regulatory Guide 111 "Content of expert reports" (RG 111), issued by the Australian Securities and Investment Commission (ASIC), which sets out at paragraphs 111.17 to 111.19 in the context of a Scheme of Arrangement:

"If an expert would conclude that a proposal was 'fair and reasonable' if it was in the form of a takeover bid, it will also be able to conclude that the scheme is in the best interests of the members of the company.

If an expert would conclude that the proposal was 'not fair but reasonable' if it was in the form of a takeover bid …….. it is still open to the expert to also conclude that the scheme is 'in the best interests of the members of the company'……..

If an expert concludes that a scheme proposal is 'not fair and not reasonable', then the expert would conclude that the scheme is not in the best interests of the members of the company".

Accordingly, one of the principal issues we have considered is whether the consideration offered by MDPL of $325 million in cash for the Sale Assets is fair to Murchison shareholders.

Technically, in the event the Transaction is assessed as being "fair" it is also, pursuant to the operation of RG111, also deemed to be "reasonable". However, in our opinion any assessment of whether the Transaction is in the best interests of Murchison shareholders requires consideration of both value and the other advantages and disadvantages likely to accrue to Murchison shareholders if the Transaction proceeds. As such, in the context of our report the Transaction will be in the best interests of Murchison shareholders, if Murchison shareholders are assessed, in the absence of a superior offer, as being better off if the Transaction proceeds than if it does not.

In considering whether the Transaction is reasonable, we have therefore also considered the following factors:

- the extent of any implied premium, if any, being received by shareholders for the Sale Assets
- the consequences of not approving the Transaction
- the implications of the Transaction upon the Company including financial, tax and liquidity issues
- the level of any special value available to MDPL
- the likelihood of an alternative transaction emerging in the timeframe required by the Company
- other implications of the Transaction.

4 Opinion

In our opinion the Transaction is, in the absence of a superior offer, in the best interests of Murchison shareholders

Murchison is currently in an extremely vulnerable position, both operationally and financially. In particular, against a background of:

- the current scheduled cessation of operations at Jack Hills in early 2012, following which the mine will be placed on care and maintenance pending completion of planning for the JHEP
- the significant increase in aggregate capital costs of the JHEP and OPR Project from that originally anticipated to approximately $9.4 billion, in relation to which the Company has publicly acknowledged its 50% funding obligation is beyond its capacity
- the current lack of any agreement with the Foundation Customers in relation to the ownership, commercial terms and operating model for the OPR Project
- the publicly reported intention of the WA State Government to withdraw OPR's exclusivity for the development of the Oakajee Port and Rail infrastructure with effect from 31 December 2011 in the absence of an executed Implementation Agreement[2]
- Murchison's net current asset deficiency as at 30 September 2011 of $46.5 million
- the impact of continuing difficult global economic conditions, fluctuating commodity prices as well as uncertainty around future tax imposts and Australian sovereign risk on the risk appetite of both investors and financiers,

the Company is required to either repay or refinance the Bridge Facility with RCF by no later than April 2012, in respect of which approximately $49.8 million was outstanding at as at 30 September 2011.

Recognising the urgency of the Company's position, Murchison commenced a number of months ago a strategic review of the options available to unlock shareholder value. This included investigation of alternative ownership and operating structures for the OPR Project and commencement of discussions with various parties in relation to the potential for corporate and/or asset transactions.

Whilst these investigations are on-going and the SAPA allows Murchison to continue to seek out superior offers to the Transaction, given the current stage of discussions with stakeholders, in particular the Foundation Customers, and the approval process that may be required in order to effect any alternative restructuring proposal, there is, in our opinion, a significant risk that the prospects for the successful

[2] "No to Oakajee extension" The West Australian 23 September 2011

implementation of an alternative transaction/restructuring, if any, would not be known with any certainty prior to the April 2012 due date for repayment of the Bridge Facility.

Furthermore, we note Murchison has already engaged in extensive discussions with a diverse range of potential investors globally and, indeed, various parties have conducted due diligence in relation to both Murchison and its assets.

The offer put forward by MDPL is the only one capable of acceptance to have emerged to date.

In considering this, readers should also note that the practical reality is that should Murchison shareholders be required to vote on the merits of the Transaction at the meeting to be held on or about 15 February 2012, this will mean that an offer both capable of acceptance and considered by the Directors to be superior to that put forward by MDPL will not have emerged to that date.

As such, in assessing the merits of the Transaction, key matters for shareholders to consider include both issues of value and risk, including:

- does the consideration represent fair value for the Sale Assets to be divested
- in the event the Transaction does not proceed, what are the alternatives available to the Company
- does the removal of Murchison's financial risk and the development risk associated with the JHEP and OPR Project that comes with acceptance of the Transaction adequately compensate for foregoing any potential, albeit uncertain, upside from continued exposure to these projects

Conclusions regarding these issues are not straightforward.

In particular, we note that application of the discounted cash flow methodology (DCF) to determine the range of assessed fair values for the JHEP, indicates that as at the date of this report this option has a negative net present value (NPV). Notwithstanding this outcome, we consider it reasonable to expect, having regard to the sheer size of the mineral resource already identified, that Jack Hills does have inherent value. KPMG and AMC Consultants Pty Ltd (AMC), the independent mineral specialist retained by us to assist in relation to the valuation of Crosslands' mineral assets, have valued Murchison's 50% interest in Crosslands' mineral assets as lying in the range of $174.4 million to $311.7 million based on a combination of forecast cash flows for Stage 1 of the Jack Hills project through to February 2012 and the industry accepted "yardstick", past exploration and expected value methods.

Similarly, it is clear that the ownership, operational and pricing structure previously contemplated by Murchison and MDPL for the OPR Project in its feasibility study is unlikely to garner support from the Foundation Customers. As such, in the absence of any clarity in relation to these matters, we consider the fair value of Murchison's effective 50% interest in OPR at the date of this report largely represented by its intellectual property, which has been valued in the range of $93.3 million to $113.1 million in respect of Murchison's 50% effective interest.

We would highlight to readers that conclusions as to the value of both Crosslands and OPR at their current stage of development and in the current market conditions need to be treated with some caution due to the level of uncertainty surrounding various key assumptions, in particular:

Crosslands

- Crosslands is currently undertaking further studies (Revision 1) which may lead to changes in the economics of the JHEP over those that formed the basis of the feasibility study previously announced to the market in July 2011.

  Murchison has advised, and AMC confirmed, that all of the studies necessary to form a definitive view in relation to the overall impact, if any, of Revision 1 on the original JHEP feasibility study are yet to be completed. Accordingly, in forming our view as to the range of values for the JHEP, it has been necessary for AMC and KPMG to exercise a greater degree of professional judgement in a number of areas, in particular in relation to infrastructure tariffs that may apply, than would be the case had the JHEP already been in production or had an optimised feasibility study been completed.

  Our range of assessed values for the JHEP is particularly sensitive to iron ore commodity price and exchange rate assumptions.

  Iron ore and exchange rate markets have exhibited a significant degree of volatility in recent times and there is a wide range of views on the part of commodity and market analysts as to future commodity prices and exchange rates. KPMG's forecast benchmark spot commodity price and exchange rate assumptions are broadly consistent with the consensus forecasts of those market analysts considered by us.

  A wide range of assumptions in respect of commodity prices and exchange rates could credibly be adopted, which could impact assessed fair values either positively or negatively. In this regard we note that a 10% favourable movement in either commodity prices or exchange rates from those assumed by us, results in a positive NPV for the JHEP.

- Our range of values includes the impact of:

  - the recently legislated carbon emissions taxation regime. The value impact of this legislation has been calculated based on Crosslands' own emissions forecasts and the latest forecast price per tonne of carbon emissions published by the Australian Treasury. We note that the pricing assumed by Australian Treasury following introduction of an Emissions Trading Scheme lies above that at which permits are currently being traded in Europe and represents a significant impost to the project

  - the proposed Mineral Resource Rent Tax (MRRT), which has been based on information publicly available at the date of this report. The MRRT legislation is yet to be passed in both Houses of Parliament and therefore may differ from the structure assumed by us

- Crosslands has indicated that following the scheduled placement of Jack Hills on care and maintenance in February 2012, there may be the potential for the company to lease out its logistics chain to third parties, including trailers, the enclosed shed and allocated capacity at the Port of Geraldton. Given no agreements currently exist in relation to this scenario; we do not consider there to be a reasonable basis at this time to estimate the value, if any, of any such potential and have not reflected this in our valuation. This represents an upside risk to our range of values.

OPR

- Given:

  - OPR has no visibility in terms of the SCA that may be acceptable to Crosslands, Sinosteel and/or the Karara JV participants, other than that those put forward to date by OPR have not been supported by these parties

  - Murchison's public acknowledgement that it believes restructuring the ownership of OPR represents the best means of achieving a commercial outcome that meets the needs of all parties,

  there is currently no certainty, in the absence of the Transaction, as to the final ownership and operating model of OPR or the extent of Murchison's participation. As such, we do not consider there to be a reasonable basis at the date of this report to adopt an income-based approach in the assessment of the fair value of Murchison's interest in OPR.

Whilst we believe the assumptions adopted by us are reasonable having regard to information to hand and prevailing economic conditions, they are by their nature uncertain and subject to a significant amount of professional judgement. Shareholders may wish to take each of the abovementioned uncertainties into account in deciding whether or not to support the Transaction. However, it is important for Murchison shareholders to note that the outcome of each of these matters is unlikely to be definitively resolved in the short term.

Moreover, as mentioned previously, having regard to the current financial circumstances of the Company, the decision of shareholders whether or not to support the Transaction requires consideration of matters other than just value.

Should shareholders resolve at the meeting to be held on or about 15 February 2012 not to approve the Transaction, Murchison will be required to urgently seek RCF's agreement to an extension of the Bridge Facility, to renegotiate the terms of the Bridge Facility or secure an alternative source of debt funding. Whilst we understand that certain financiers have indicated that they are willing to discuss the on-going financing requirements of Murchison in this circumstance, commercial terms have not been agreed and therefore there is no certainty such an agreement would be able to be reached. Furthermore, given the risks attaching to the provision of debt funding to Murchison have arguably increased since the time of the entering into the Bridge Facility, we would expect that any financing arrangements, should these be agreed, would be on less attractive terms to the Company than those currently in place.

As noted by the Directors in Murchison's 2011 Annual Report, in the event the Company is unable to raise additional funding and/or in the absence of a corporate transaction, Murchison may not be able to continue as a going concern and may have to dispose of assets other than in the normal course of business. We note this has been reaffirmed by the Directors in the Explanatory Statement. In our view, such an outcome will likely result in some form of insolvency administration and significant destruction of any remaining shareholder value.

Having regard to the foregoing, we consider that, on balance, shareholders are likely, in the absence of a superior offer, to be better off if the Transaction proceeds than if it does not and therefore, the Transaction is in the best interests of Murchison shareholders.

4.1 Assessment of the fairness of the Transaction

We have assessed the underlying value of the Sale Assets to lie in the range of $264.1 million to $423.1 million, as summarised in the table below. This compares to the consideration under the Transaction of $325 million. Accordingly, the Offer is fair.

Table 2: Summary of assessed fair market value of the Sale Assets

	Assessed values	
	Low $ M	High $ M
50% direct interest in Crosslands	170.8	310.0
50% effective interest in OPR and the OPR Project	93.3	113.1
Total Sale Assets	**264.1**	**423.1**

Source: KPMG analysis, AMC report and Mott McDonald report

Our range of assessed values has been prepared on the basis of fair market value, that is, the value that would be negotiated between a willing but not anxious buyer and a willing but not anxious seller, having regard to current market conditions and that both parties are fully informed and represents the full underlying value of the Sale Assets, inclusive of premium for control and an estimate of direct synergies that would be available to a pool of purchasers, but does not include any strategic or operational benefits unique to MDPL.

Consistent with the guidance provided by ASIC's Regulatory Guides we have valued the Sale Assets without regard to the pre-existing effective 50% equity interest of MDPL in each of Crosslands and OPR and also without regard to the current difficult financial circumstances of Murchison. Had these factors been taken into account we believe it is likely that any third-party purchaser would apply a discount to each of the end points of our range of assessed values in determining an appropriate price to pay for Murchison's interest in the Sale Assets.

Furthermore, in the event that Murchison is required to realise its interest in the Sale Assets on a forced sale basis, we would expect that the final values realised for the Sale Assets would be significantly adversely impacted.

In arriving at our range of assessed fair values for the Sale Assets, we have placed reliance upon the report prepared by:

- AMC. A copy of AMC's report is attached as Appendix 8
- Mott McDonald Group Limited (Mott McDonald), the independent engineering specialist engaged by us to assist in relation to the valuation of OPR's engineering related intellectual property. A copy of Mott McDonald's report is attached as Appendix 9.

4.2 Assessment of the reasonableness of the Transaction

Advantages

Completion of the Transaction will allow Murchison to repay debt and restore the Company's financial position

Murchison currently is faced with significant liquidity and solvency related issues and has been under financial pressure for some time. As at 30 September 2011, Murchison had $6.3 million of cash and cash equivalents available to it but a net current asset deficiency of $46.5 million, with an obligation to repay or refinance $49.8 million under the Bridge Facility in April 2012.

Under the Transaction, Murchison will receive certain cash consideration of $325 million for the Sale Assets. Murchison has advised that after satisfaction of the estimated costs of completing the Transaction, repayment of the Bridge Facility and other obligations, the Company expects to have net assets in the order of $232 million, including a residual pool of funds of approximately $217 million and a current asset surplus in the order of $217 million, with no ongoing funding obligations or exposure to the risks associated with the future development of either the JHEP or the OPR Project.

We have been advised that current intentions of the Company in relation to the application of the residual pool of funds is to consider efficient mechanisms of distributing the majority of the Company's cash assets to shareholders, against the alternative of investigating the merits of potential investment opportunities in the natural resources sector.

We understand that if the Board forms the view that the Company is unlikely to identify a compelling investment opportunity in the short to medium term, it is intended that the majority of the Company's available cash reserves at that time will be distributed to shareholders. Such a distribution is likely to require the approval of Murchison shareholders.

Approval of the Transaction will eliminate Murchison's insolvency risk

Shareholders could resolve to reject the Transaction in the hope of securing a better deal from MDPL; a superior offer emerging from an alternative third party or a successful restructuring of Murchison's affairs. However, Murchison's funding position means that the pursuit of such a course of action would involve considerable risk.

In the absence of the Transaction, Murchison is unlikely to be able to repay the Bridge Facility by the April 2012 due date in the absence of a significant refinancing or an alternative offer. Whilst certain financiers commenced discussions with Murchison in relation to the potential refinancing of the Bridge Facility, no commercial terms have been agreed. Accordingly, at the date of this report, there can be no certainty that, in absence of the Transaction, funding would be able to be secured in the time frame required for the repayment of the Bridge Facility, if at all; particularly should there be any further deterioration in current economic conditions and lending environment.

As acknowledged by the Company in its 2011 Annual Report in the absence of a refinancing or some form of corporate/asset transaction, there is a significant risk that the Company would be unable to continue as a going concern and would be required to realise assets on a forced sale basis, potentially from within some form of insolvency administration, which, in turn, could be expected to result in a significant reduction in the values that otherwise may have been realised in respect of the Sale Assets under the Transaction. We consider there to be a real prospect of such an outcome in the absence of the Transaction or a superior offer.

Disadvantages

Reduced asset portfolio

Immediately following completion of the Transaction, Murchison's principal assets will comprise cash and its 100% interest in the early stage Rocklea exploration project. Shareholders will no longer retain any ongoing exposure to risks and rewards, albeit uncertain, associated with the potential future development of Jack Hills and the OPR Project.

As such, the risk profile of holding a share in Murchison will be significantly reduced and the potential for future capital growth in Murchison's share price will be dependent upon the Company's ability to successfully develop its remaining assets, in particular, the Rocklea project and/or successfully complete value accretive asset acquisitions. The ability of Murchison to complete a significant asset acquisition will be diminished to the extent that it elects to return a substantial portion any of the residual pool of funds to shareholders.

The Transaction is subject to outstanding conditions precedent

The Transaction is subject to a number of conditions precedent, which at the date of this report have not been satisfied.

In the event any of the conditions precedent remain outstanding at the date Murchison shareholders meet to vote on the Transaction, acceptance of the Transaction will not guarantee the Transaction will be completed.

Other considerations

Murchison's share price is likely to fall in the absence of the Transaction

Murchison's projected net asset position of $232 million immediately following completion of the Transaction, representing a premium of approximately 90% to its closing market capitalisation on the last trading day prior entering into a trading halt ahead of the announcement of the Transaction of approximately $122 million. The Company's market capitalisation increased significantly on the day of the announcement of the Transaction, closing at approximately $186 million.

Whilst Murchison's share price over the interim period prior to shareholders meeting to vote on the Transaction will be impacted by factors other than just the Transaction, it would appear reasonable to expect that, in the absence of the Transaction or a superior offer, Murchison's share price is likely to fall from current levels.

The Company is not aware of any alternate offer capable of acceptance and the prospect of a superior offer emerging prior to shareholders meeting to consider the Transaction is considered doubtful

The Company has over time held discussions with a diverse range of parties, both locally and globally, in relation to both potential restructuring and divestment options in the lead up to the Transaction. Murchison has advised that it is not aware of any alternate offers capable of acceptance either for the Company as a whole or for individual assets to that put forward by MDPL.

We note however that the terms of the SAPA allow the Directors to seek alternative offers to that put forward by MDPL in the period prior to shareholders meeting to vote in relation to the Transaction.

A number of potential impediments exist which may dampen the prospects of an over-bid by a third party emerging, including:

- the reported position of the WA State Government in relation to the potential for OPR to lose exclusivity unless an Implementation Agreement is entered into by 31 December 2011
- the lack of certainty that agreement with the Foundation Customers will be able to be reached in relation to OPR's ownership, operating and tariff model
- the terms of the current JVAs do not provide either Murchison or MDPL with a clear mechanism for the resolution of any dispute in relation to the future development of OPR and/or Crosslands and would likely need to be re-negotiated by any alternative acquirer of the Sale Assets.

However, in our view having regard to:

- the significant pre-existing investment in the Mid West region by Chinese entities
- the stated desire by a number countries to secure an alternative source of iron ore supply to that from the Pilbara region of WA, which is currently dominated by Rio Tinto plc and BHP Billiton plc
- the generally declining grade of Pilbara iron ore resources,

although unlikely, an alternative offer cannot be completely discounted.

We would however caution shareholders that whilst they could reject the Transaction in the hope of a superior alternative transaction emerging or that MDPL will increase its offer beyond that currently put forward, there can be no guarantee as to either outcome eventuating and may place the Company's ability to continue as a going concern in danger.

The value of the Sale Assets to MDPL is likely to exceed our range of assessed fair values slightly

In accordance with the terms of the JVAs, MDPL is responsible for providing additional funding support, including the requirement to make the Residual Contribution to Crosslands. Following which, additional equity funding for both projects is to be met by contributions from Murchison and Mitsubishi on a 50:50 basis. Completion of the Transaction will release MDPL from any obligation in respect of the Residual Contribution and as such Murchison will not share in any benefit had this payment been made prior to completion of the Transaction.

However, whilst the final quantum of any Residual Contribution would ultimately be a matter of negotiation between Murchison and MDPL, Murchison has advised that given the uncertainty attaching to the outcome of:

- various milestones that are required to be satisfied prior to the Residual Contribution becoming payable
- the outcome of any negotiations

the final quantum of any Residual Contribution is unable to be quantified at this time but is not expected to be sufficient to satisfy Murchison's funding obligations in relation to the projects.

Furthermore, having regard to our assessment that the JHEP currently has a negative NPV, there is some uncertainty whether the requirement for the payment of a Residual Contribution would be crystallised in any event.

5 Other matters

In forming our opinion, we have considered the interests of Murchison shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual shareholders. It is not practical or possible to assess the implications of the Transaction on individual shareholders as we do not know their specific financial circumstances.

The decision of shareholders as to whether or not to accept the Transaction is a matter for individual shareholders based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to accept or reject the Transaction may be influenced by his or her particular circumstances, we recommend that individual shareholders, including residents of foreign jurisdictions, seek their own independent professional advice.

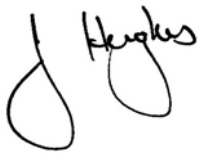
Our opinion is based solely on prevailing market, economic and other conditions and information available as at the date of this report as set out in Appendix 2. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in Appendices 1 and 2 of our report. In particular, it is not the role of the Independent Expert to undertake the commercial and legal due diligence that an interested party and its advisers may undertake. KPMG provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and beyond the scope of this report. We have assumed that the due diligence process was conducted in an adequate and appropriate manner.

Our report has also, where applicable, been prepared in accordance with the relevant provisions of the Corporations Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting Murchison shareholders in considering the Transaction. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose. Our opinion should not be taken to represent a recommendation by KPMG as to whether or not Murchison shareholders should approve the Transaction.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the meeting document/s to be sent to Murchison shareholders in relation to the Transaction, without the prior written consent of KPMG as to the form and context in which it appears. KPMG consents to the inclusion of this report in the form and context in which it appears in the Explanatory Memorandum attached to the Notice of Meeting in relation to the meeting of shareholders to be held on or around 15 February 2012 .

The above opinion should be considered in conjunction with and not independently of the information set out in the balance of our report and appendices as attached.

Yours faithfully



Jason Hughes
Authorised Representative

Ian Jedlin
Authorised Representative

Contents

KPMG

Financial Services Guide

Dated 23 December 2011

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215, Australian Financial Services Licence Number 246901 (KPMG Corporate Finance) and Jason Hughes and Ian Jedlin as authorised representatives of KPMG Corporate Finance (Authorised Representatives), authorised representative number 484183 and 404177 respectively.

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representatives and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representatives are authorised to provide
- how KPMG Corporate Finance and its Authorised Representatives are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representatives
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representatives has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products: deposit and non-cash payment products; derivatives; foreign exchange contracts; government debentures, stocks or bonds; interests in managed investment schemes excluding investor directed portfolio services; securities and superannuation, to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representatives are authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representatives' responsibility to you

KPMG Corporate Finance has been engaged by Murchison Metals Limited (Murchison or the Client) to provide general financial product advice in the form of a Report to be included in the Explanatory Memorandum (Document) prepared by Murchison in relation to the proposed acquisition by Mitsubishi Development Pty Ltd (MDPL) of Murchison's interests in Crosslands Resources Limited (Crosslands) and Oakajee Port and Rail Pty Ltd (OPR) (Transaction).

You have not engaged KPMG Corporate Finance or the Authorised Representatives directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representatives are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representatives are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance in the order of

$255,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Corporate Finance officers and representatives (including the Authorised Representatives) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representatives) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report. Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representatives pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representatives are partners in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representatives and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided a range of advisory services to entities associated with the Client for which professional fees are received. Over the past two years professional fees of approximately $2.0 million has been received from Oakajee Port and Rail Pty Ltd, approximately $0.1 million has been received from Crosslands Resources Ltd and approximately $0.4 million has been received from MDPL. Of the fees received from MDPL, $41,000 related to tax advice provided by the KPMG Partnership in relation to the tax consequences of the Transaction. Those services were provided by KPMG Partnership personnel based in the Sydney office of KPMG, a different office to that of the principal KPMG personnel involved in the preparation of this report. None of the services provided to any of the parties have related to setting the terms of the transaction or alternatives to the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representatives know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint. Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representatives cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representatives using the contact details:

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Sydney NSW 2000
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Facsimile: (02) 9335 7200

Jason Hughes/Ian Jedlin

C/O KPMG
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

6 Scope of the report

6.1 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. Nothing in this report should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the books of account or other records of Murchison, Crosslands or OPR for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with Murchison's management in relation to the nature of each of the Company's, Crosslands' and OPR's business operations, their specific risks and opportunities, historical results and their prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation. It is our view that all material information that we have relied on in forming our opinion is reasonable.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG and AMC included forecasts/projections prepared by the management of Murchison and/or Crosslands and amended by KPMG and/or AMC where considered appropriate. Whilst KPMG has relied upon this forward-looking financial information in preparing this report, each of Murchison and Crosslands, as applicable, remain responsible for all aspects of that forward-looking financial information provided by that individual entity. Achievement of forecast/projected results is not warranted or guaranteed by KPMG. Forward-looking financial information is by its nature uncertain and is dependent on a number of future events that cannot be guaranteed. Actual results may vary significantly from the forecasts/projections relied on by KPMG. Any variations from forecasts/projections may affect our valuation and opinion.

On 2 May 2010, the Australian Government, in response to the Henry Review, announced the possibility of a reduction in the corporate tax rate. This was followed by an announcement in July 2010 stating that the corporate tax rate would be reduced to 29%, generally effective from 1 July 2013 for large businesses. It is intended that this reduction is to be funded largely by the implementation of resource taxation reforms. At the time of preparing this report the relevant legislation has not been passed through both houses of Parliament. We have included an adjustment in Crosslands' cash flow projections to provide an allowance for the impact of a future MRRT and a reduction to the corporate tax rate.

On 10 July 2011, the Australian Government announced the release of its Climate Change Plan introducing its proposed carbon price mechanism (carbon tax), which was subsequently passed into legislation. We have included an adjustment to Crosslands' cash flow projections to reflect Crosslands' own estimate as to the level of future carbon emissions and the latest estimates by the Australian Treasury as to the pricing per tonne of Carbon Emissions over the life of the relevant operational assets.

6.2 Disclosure of information

In preparing this report, KPMG has had access to all financial information considered necessary in order to provide the required opinion. Due to commercial sensitivity we have limited the level of disclosure in relation to certain key business arrangements however, we have disclosed a summary of material information which we relied on in forming our opinion.

6.3 Reliance on technical specialist

ASIC Regulatory Guides envisage the use by an independent expert of specialists when valuing specific assets. AMC was engaged to prepare an independent technical report providing a valuation of Crosslands' production and exploration assets. Mott MacDonald was engaged to prepare an independent technical report providing a valuation of OPR's engineering related intellectual property assets.

ASIC Regulatory Guides recommend the fees payable to the technical specialists be paid in the first instance by the independent expert and claimed back from the party commissioning the independent expert. KPMG's preferred basis for appointment of independent technical specialists is that, whilst KPMG engages the technical specialist, the client pays the fees directly to the technical specialist. We do not consider that the independence of the technical specialist is impaired by this arrangement.

We have satisfied ourselves as to AMC's and Mott MacDonald's qualifications and independence from Murchison and MDPL and have placed reliance on their reports.

AMC

AMC's report was prepared in accordance with the requirements of the Australasian Institute of Mining and Metallurgy (AusIMM) Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports (the ValMin Code).

Mott MacDonald

The valuation methodology adopted by Mott MacDonald in relation to the intellectual property of OPR comprised the depreciated optimised replacement cost methodology which is discussed later in this report and also in Mott McDonald's report.

Due to the various uncertainties inherent in the valuation process, both AMC and Mott McDonald have determined a range of values within which they consider the value of the relevant Sale Assets to lie. We have considered the commercial, operational and financial assumptions adopted by AMC and Mott McDonald. KPMG was responsible for the determination of certain macroeconomic assumptions advised to AMC such as exchange rates, discount rates, inflation, tariff and taxation assumptions. The valuations ascribed by AMC to the mineral assets of Crosslands and ascribed by Mott McDonald to OPR's engineering related intellectual property have been adopted in this report.

7 Industry overview

The Sale Assets include Murchison's 50% interest in Crosslands, which in turn holds the Jack Hills iron ore project, and its 50% economic interest in OPR and the OPR Project, which is seeking to establish an infrastructure solution for various parties engaged in iron ore mining in the Mid West. In order to provide a context for assessing the prospects of the Sale Assets, we have included at Appendix 3 an overview of recent trends in the global iron ore market, along with an overview of the Mid West at Appendix 4.

8 Profile of Murchison

8.1 Company overview

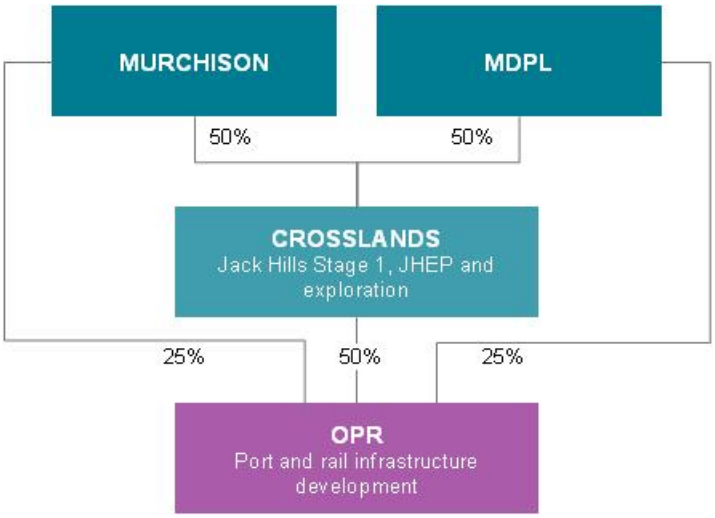
Murchison is an Australian public company listed on the Official List of ASX. At the close of trade on 21 December 2011, the Company had a market capitalisation of approximately $172.6 million.

Murchison's primary assets comprise:

- its 50% interest in Crosslands which is the owner of Jack Hills, located in the Mid West. The remaining 50% of Crosslands is held by MDPL
- its aggregate 50% direct and indirect interest in OPR and the OPR Project. OPR was established to construct new port and rail infrastructure to provide logistics services to miners (including Crosslands) and other potential customers in the Mid West. The remaining 50% economic interest in OPR is held by MDPL.

Murchison and MDPL's ownership interest in Crosslands and OPR is set out diagrammatically below.

Figure 1: Murchison and MDPL Joint Venture structure



Source: Murchison's management.

In addition to its investments in Crosslands and OPR, Murchison also has a 100% interest in the Rocklea iron ore project located 50km northwest of Paraburdoo and 30km west of Tom Price, in close proximity to both existing and planned rail infrastructure. A scoping study has been completed on the project which indicates that an economic development at Rocklea is possible, provided that access to infrastructure can be negotiated. The mineral resource for Rocklea is currently estimated as 89 million tonnes (Mt) at 53.2% iron (Fe) and 60% calcined iron (CaFe)[3].

8.2 Historical financial performance

Murchison's historical financial performance for each of the years ended 30 June 2009, 30 June 2010 and 30 June 2011 are summarised in the table below.

Table 3: Murchison's historical consolidated financial performance

	Audited Year ended 30 Jun 09 $000	Audited Year ended 30 Jun 10 $000	Audited Year ended 30 Jun 11 $000
Revenue from operations	185	49	77
Other income	25,919	-	1,432
Administration expenses	(4,735)	(8,180)	(5,311)
Employee and Director expenses	(5,308)	(8,331)	(4,565)
Hired services expenses	(2,073)	(2,026)	(5,551)
Other expenses	(6,471)	(21)	(9)
Impairment write-down	-	-	(1,271)
Travel expenses	(382)	(612)	(557)
Share of expenses from jointly controlled assets[1]	(746)	(2,095)	(2,140)
Share of profit/(loss) from a jointly controlled entity[2]	(3,250)	(4,292)	1,282
EBITDA[3]	**3,139**	**(25,508)**	**(16,613)**
Depreciation and Amortisation	(134)	(238)	(257)
EBIT[4]	**3,005**	**(25,746)**	**(16,870)**
Finance income	5,882	4,149	1,990
Finance expense	(2)	-	(1,674)
Profit/(loss) before income tax	**8,885**	**(21,597)**	**(16,554)**
Income tax (expense)	(8,153)	-	-
Profit/(loss) after tax	**732**	**(21,597)**	**(16,554)**
Basic weighted average ordinary shares on issue - 000s	*412,623*	*427,187*	*435,739*
Basic earnings/(loss) per share – cents[5]	*0.18*	*(5.06)*	*(3.80)*

Notes:
1 Expenses relate to Murchison's 25% interest in the OPR Port and OPR Rail unincorporated

[3] Refer to ASX announcement dated 30 September 2009 for further details of the Rocklea Mineral Resource. The Rocklea Mineral Resource comprises 15Mt of Indicated Resource at 53.2% Fe and 74Mt of Inferred Resource at 53.2% Fe. Tonnes are wet metric tonnes. Refer to page 2 of the explanatory memorandum for the Competent Persons Statement

	Audited Year ended 30 Jun 09 $000	Audited Year ended 30 Jun 10 $000	Audited Year ended 30 Jun 11 $000
joint ventures through MMX Port Holdings Pty Ltd and MMX Rail Holdings Pty Ltd			
2 Relates to Murchison's equity accounted investment in Crosslands			
3 EBITDA is earnings before interest, tax, depreciation and amortisation			
4 EBIT is earnings before interest and tax			
5 Basic earnings per share is calculated by dividing net earnings for the year attributable to members of the parent entity by the weighted average number of ordinary shares outstanding during the year			

Source: Murchison's 2010 and 2011 Annual Report

We make the following observations in relation to Murchison's financial performance for the year ended 30 June 2011:

- other income of $1.4 million primarily relates to the profit on sale of tenements and related assets
- the impairment write-down expense of $1.3 million primarily relates to the write down of the carrying amount in relation to Murchison's 50% interest in the Duck Hill Nickel Laterite project located 35km from Murrin Murrin. Murchison no longer considers exploration of the Duck Hill tenement to be part of its long-term business objectives and therefore has no further plans to incur further significant exploration expenditure in exploring the tenement. The closing written-down value of the Duck Hill tenement was $nil as at 30 June 2011.
- Murchison's 50% interest in Crosslands delivered a net profit after tax of $1.3 million compared to a net loss after tax of $4.3 million in 2010, as a result of increased sales revenue from Jack Hills. The increased revenue was driven by an increase in iron ore prices offset by a reduction in sales volumes during the year due to adverse weather conditions in the March Quarter 2011.

8.3 Historical financial position

Murchison's historical financial position as at each of 30 June 2009, 30 June 2010 and 30 June 2011 is summarised in the table below.

Table 4: Murchison's historical consolidated financial position

	Audited 30 Jun 09 $000	Audited 30 Jun 10 $000	Audited 30 Jun 11 $000
Cash and cash equivalents	125,539	73,410	12,400
Trade and other receivables	1,487	782	1,162
Prepayments	193	214	306
Other financial asset	-	-	1,099
Total current assets	**127,219**	**74,406**	**14,967**
Exploration and evaluation expenditure	29,326	45,667	68,861
Property, plant and equipment	599	1,140	837
Investments accounted for using the equity method[1]	88,853	125,960	171,043
Available for sale financial assets	2,000	2,000	2,000

	Audited 30 Jun 09 $000	Audited 30 Jun 10 $000	Audited 30 Jun 11 $000
Total non-current assets	**120,778**	**174,767**	**242,741**
Total assets	**247,997**	**249,173**	**257,708**
Trade and other payables	11,330	8,819	5,933
Provisions	120	201	2,316
Interest bearing loans and borrowings	-	-	23,792
Total current liabilities	**11,450**	**9,020**	**32,041**
Total liabilities	**11,450**	**9,020**	**32,041**
Net assets	**236,547**	**240,153**	**225,667**
Shares on issue - 000s	*412,623*	*427,187*	*435,739*
Net asset backing per share - $	*0.57*	*0.56*	*0.52*
Gearing - %[2]	-	-	*10.5*
Current ratio – times[3]	*11.11*	*8.25*	*0.47*

Notes:
1 Represents Murchison's interest in Crosslands
2 Gearing represents total loans and borrowings divided by net assets
3 Current ratio represents current assets divided by current liabilities

Source: Murchison's 2010 and 2011 Annual Reports, KPMG analysis

We note that Murchison had a significant net asset current deficiency of approximately $17.1 million as at 30 June 2011, principally as a result of the obligation to repay or refinance the Bridge Facility by 12 April 2012. As at 30 June 2011, Murchison had drawn down US$24.75 million, which was restated to Australian dollars at the exchange rate applicable at 30 June 2011.

RCF Bridge Facility

On the 16 March 2011, Murchison entered into the Bridge Facility to provide the Company with financing flexibility in the lead up to the completion of the JHEP and OPR Project feasibility studies.

The Bridge Facility is supported by a combination of security positions. These include a charge over Murchison's present and future assets and shares in its assets, deeds of charge over the holding companies within the group and a mining mortgage over the Company's tenements.

Under the terms of the agreement, the Company paid a facility establishment fee comprised of 4.2 million options with an exercise price of $1.73, expiring 29 March 2014. A commitment fee of 2% of the undrawn balance is payable quarterly in arrears. Prior to a recent restructure of the Bridge Facility to facilitate the Transaction, which is discussed in section 6.1 of the Explanatory Memorandum, Murchison had the ability to elect to settle interest obligations and the commitment fees by way of issue of share capital. In addition, an utilisation fee of one quarter of a share option per annum per Australian dollar equivalent drawn on the facility applies quarterly in arrears.

Going Concern

The Directors noted in the Company's 2011 Annual Report that the 2011 financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and realisation of assets and the settlement of liabilities in the normal course of business.

The Directors highlight that the ability of the Company to continue its project evaluation and development activities is dependent upon raising additional funding when required, including the extension of the Bridge Facility. The Directors advised that they have formed the view that the Company was a going concern on the basis that it was at the time exploring a refinancing of the Bridge Facility, along with the potential for other corporate transactions as part of a broader strategic review.

The Directors indicated it was their view that, if executed, a corporate transaction would provide sufficient funds to enable the Company to continue on a going concern basis. The Directors noted that should these matters not be achieved, the Company may not be able to continue as a going concern or may have to dispose of assets other than in the normal course of business. The abovementioned asset and liability values do not include any adjustment to the recoverability and classification. Whilst issuing an unqualified opinion the Company's statutory auditor, Ernst & Young, highlighted the inherent uncertainty in relation to Murchison's ability to continue as a going concern.

We make the following additional observations in relation to Murchison's financial position for the year ended 30 June 2011:

- the decrease of $61.0 million in cash and cash equivalents from 30 June 2010 relates to corporate expenditure and cash calls paid to the joint ventures
- additions to exploration and evaluation expenditure for the year related to the feasibility study costs for the OPR Project and exploration activities at the Rocklea tenements
- available for sale financial assets relate to investments in ordinary unlisted shares and therefore have no fixed maturity date or coupon date. These shares are carried at cost as their fair value cannot be measured reliably
- provisions relate primarily to a provision of $1.5 million for the settlement of a dispute with VTech Investments Limited and a provision of $0.5 million in respect of the Chameleon Claim.

8.4 Statement of cash flows

Murchison's historical cash flows for each of the years ended 30 June 2009, 30 June 2010 and 30 June 2011 are summarised in the table below.

Table 5: Murchison's historical cash flows

	Audited Year ended 30 Jun 09 $000	Audited Year ended 30 Jun 10 $000	Audited Year ended 30 Jun 11 $000
Payments to suppliers and employees	(13,919)	(13,074)	(14,413)
Interest received	5,430	4,181	2,164
Finance costs	(2)	-	1
GST (paid)/received	914	236	(452)
Net cash outflow from operating activities	**(7,577)**	**(8,657)**	**(12,700)**
Purchase of plant and equipment	(275)	(945)	(95)
Additions to exploration and evaluation	(19,019)	(16,341)	(26,465)
Repayment of loan to jointly controlled entity	-	-	123
Proceeds on sale of plant and equipment	4	-	100
Proceeds on sale of tenements and related assets	135,684	-	1,000
Increase in investment in joint venture	(25,450)	(41,399)	(43,800)
Net cash (outflow)/inflow from investing activities	**90,944**	**(58,685)**	**(69,137)**
Proceeds from issue of shares	109	15,213	-
Interest bearing loans	-	-	23,435
Repayment of loan - jointly controlled entity	-	-	(2,608)
Net cash inflow from financing activities	**109**	**15,213**	**20,827**
Net (decrease)/increase in cash and cash equivalents	**83,476**	**(52,129)**	**(61,010)**
Cash and cash equivalents at the beginning of the year	42,063	125,539	73,410
Cash and cash equivalent at the end of the year	**125,539**	**73,410**	**12,400**
Note: Whilst the Bridge Facility was drawn down prior to 30 June 2011 the first interest payment was made in July 2011			

Source: Murchison's 2010 and 2011 Annual Reports

8.5 Taxation

Murchison and its 100% owned Australian subsidiaries have formed a tax-consolidated group. As at 30 June 2011, Murchison had carried forward revenue tax losses for which no deferred tax asset has been recognised of $77.3 million, which are available for offset against future taxable income subject to continuing to meet relevant statutory tests.

8.6 Contingent liabilities

Chameleon

On 29 November 2007, Chameleon commenced legal proceedings in the Federal Court against Murchison, Crosslands and other respondents, claiming an interest in the Jack Hills and Weld Range projects and/or Murchison's shares in Crosslands.

On 20 October 2010, the Court dismissed Chameleon's claim and made orders to the effect that Murchison may be liable to pay compensation of $0.3 million plus interest, and Crosslands may be liable to pay $0.2 million plus interest.

On 4 February 2011, Chameleon was granted leave to appeal against the decision and Murchison and Crosslands were granted leave to cross appeal in respect of certain findings and orders. The Federal Court hearing of the appeals concluded on 17 August 2011 in which the Court reserved its decision.

Murchison raised a provision in its financial statements as at 30 June 2011 of $0.5 million being equitable compensation of $0.3 million plus interest at commercial rates on a compounding basis from 24 July 2004 to 20 October 2010. We note that Murchison and Chameleon have agreed, subject to the Transaction completing, to settle the Chameleon Claim out of Court.

Equitable Investments

In November 2010, Equitable Investments Ltd (EIL) commenced proceedings against Murchison asserting that it is entitled to the issue of 3.9 million shares and 1.9 million options in Murchison. The proceedings relate to an agreement made in November 2003 for the sale and purchase of EIL's shares in ATL Exploration Ltd (ATL).

Murchison denies the claim and considers it has good prospects of defending the proceedings and of succeeding in its recovery cross-claim. No provision has been made in the financial statements as Murchison is unable to determine if it is probable that an outflow of economic resources will occur.

Royalty dispute

In April 2011, Crosslands reached an agreement with the vendors of the Jack Hills tenements to settle a dispute over the calculation of a royalty which formed part of the purchase consideration for the tenements.

In accordance with the terms of the agreement, Crosslands paid to the vendors $10 million in cash for accrued outstanding royalties, interest and legal costs and the parties agreed that for the future, the royalty will be paid at the rate of 2.2% on revenue from beneficiated ores and 2.7% for direct shipping ore (DSO) lump and fines.

8.7 Share capital and ownership

As at 14 December 2011, Murchison had 442,437,524 ordinary shares on issue. Set out in the table below in a summary of the company's top ten shareholders as at 14 December 2011.

Table 6: Murchison's top ten shareholders

Shareholder	Number of shares held 000s	% of issued capital
POSCO Australia Pty Ltd	60,567	13.7%
JP Morgan Nominees Australia Limited	33,416	7.6%
HSBC Custody Nominees (Australia) Limited	29,813	6.7%
Colbern Fiduciary Nominees Pty Ltd	25,114	5.7%
National Nominees Limited	14,187	3.2%
Resource Capital Fund 111 LP	12,450	2.8%
UBS Wealth Management Australia Nominees Pty Ltd	11,891	2.7%
Citicorp Nominees Pty Ltd	9,333	2.1%
Mr Paul John Kopejtka & Mrs Karen Louise Kopejtka	7,240	1.6%
Resource Capital Fund V L.P	6,508	1.5%
Total number of shares held by the top 10 shareholders	**210,519**	**47.6**
Other Shareholders	231,919	52.4
Total number of shares on issue	**442,438**	**100.0**

Source: Murchison's management and KPMG analysis

Substantial shareholder notices received by Murchison and the ASX in the last twelve months are set out below.

Table 7: Substantial shareholders

Shareholder	Date of notice	Number of shares held 000s
Resource Capital Fund L.P	21 October 11	6,508
Resource Capital Fund III L.P	21 October 11	18,450
JP Morgan Chase & Co.	5 April 2011	24,678
Note 1: Current shareholdings may differ from percentage holdings disclosed in substantial shareholder notices as a result of share issues subsequent to the date of the relevant notice.		

Source: ASX announcements

JP Morgan Chase & Co. lodged a notice of ceasing to be a substantial shareholder on 5 December 2011.

8.8 Unlisted Options

Murchison currently has 18.3 million unlisted options on issue to Directors, employees, ex-employees and RCF, which have various vesting dates, expiry dates and exercise prices as summarised in the table below.

Table 8: Summary of unlisted options

Expiry date	Vesting date	Exercise price $	Number of options
29-Jun-12	30-Jun-10	1.56	781,000
29-Jun-12	30-Jun-11	1.56	773,200
30-Jun-12	1-Jul-09	0.68	50,000
30-Jun-12	1-Jul-10	0.68	50,000

Expiry date	Vesting date	Exercise price $	Number of options
18-Nov-12	31-Dec-11	2.00	2,250,000
24-Dec-13	1-Jan-12	-	333,500
24-Dec-13	1-Jan-13	-	333,500
31-Dec-13	1-Jan-11	1.26	62,500
31-Dec-13	1-Jan-12	1.26	62,500
31-Dec-13	31-Jan-12	-	45,000
29-Mar-14	29-Mar-11	1.73	4,200,000
12-Jul-14	15-Jul-11	1.16	752,291
12-Jul-14	15-Jul-11	1.04	196,152
12-Jul-14	15-Jul-11	1.08	180,155
12-Jul-14	15-Jul-11	0.67	5,765
27-Sep-14	1-Jul-12	-	690,000
31-Dec-14	15-May-12	-	30,000
31-Dec-14	15-May-13	-	30,000
12-Jul-14	21-Oct-11	1.16	752,291
12-Jul-14	21-Oct-11	1.04	280,217
12-Jul-14	21-Oct-11	1.08	270,232
12-Jul-14	21-Oct-11	0.67	518,829
12-Oct-14	21-Oct-11	0.66	851,353
12-Oct-14	21-Oct-11	0.58	187,357
12-Sep-16	31-Mar-12	-	2,293,500
12-Sep-16	-	-	2,293,500[1]
			18,272,842

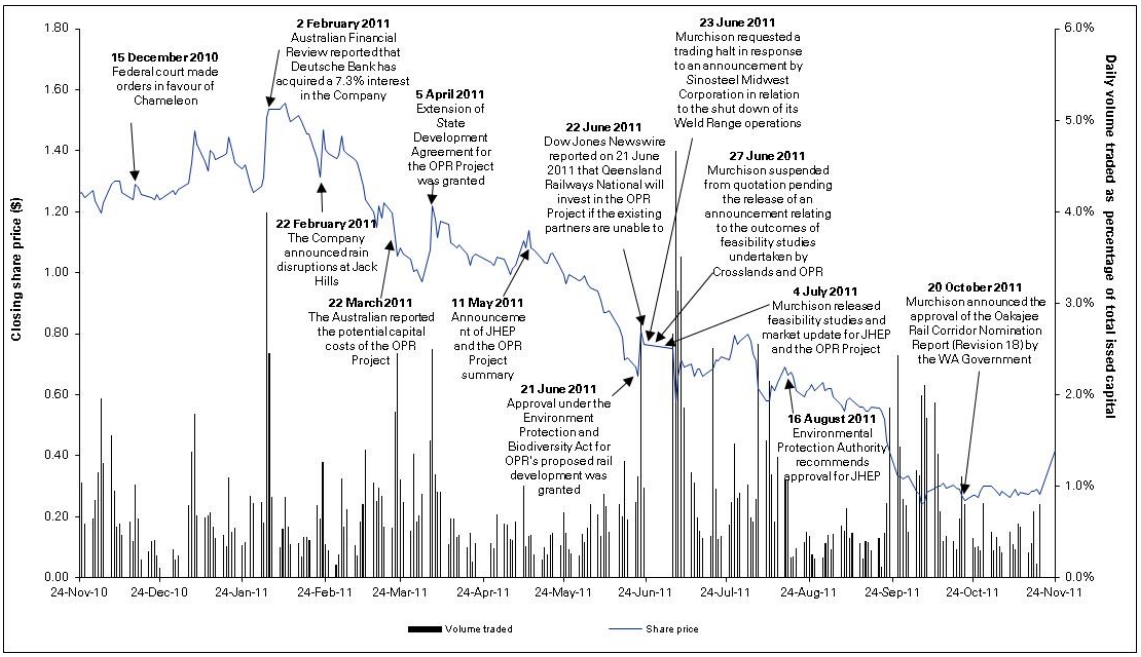
Note 1: Murchison has advised that the vesting date for these options is yet to be determined by the Board.

Source: Murchison's management

8.9 Share price and volume trading history

The chart below depicts Murchison's daily closing share price on ASX in the 12-month period to 18 November 2011 (inclusive), being the last trading day prior to Murchison entering a trading halt ahead of the announcement of the Transaction, along with the daily volume of shares traded on the securities exchange of ASX as a percentage of total issued capital over that period.

Figure 2: Murchison daily closing price and volume of shares traded on ASX



Source: Capital IQ, KPMG's analysis and ASX announcements

As illustrated in the chart above, Murchison's closing share price has trended downwards over the period falling from a closing price of $1.26 on 24 November 2010 to $0.275 on the day prior to the announcement of the Transaction, as OPR announced delays, cost increases, and continuing uncertainty around the final terms of any SCAs, including tariff structures, and funding.

Other than normal annual and quarterly activities reporting, announcements by Murchison in the six months to 18 November 2011 that may have had an impact on its share price include:

- 20 October 2011 – Murchison announced the approval of the Oakajee Rail Corridor Nomination Report (Revision 18) by the WA State Government
- 16 August 2011 – the Environmental Protection Authority of WA recommended approval of the proposed JHEP
- 4 July 2011 – the Company announced feasibility studies and market update in relation to the JHEP and the OPR Project and was reinstated to official quotation
- 27 June 2011 – Murchison suspended from quotation pending the release of an announcement relating to the outcomes of feasibility studies undertaken by Crosslands and OPR
- 23 June 2011 – Murchison requested a trading halt in response to an announcement by Sinosteel in relation to the shutdown of its Weld Range Project

- 22 June 2011 – Murchison responds to an ASX price query and notes that Dow Jones Newswires released a report on 21 June 2011 in which the Chief Executive of Queensland Rail National (QR) was reported to have said that QR would seek to invest in the OPR Project if the existing partners are unable to follow through on their plans

- 21 June 2011 – the Commonwealth Department of Sustainability, Environment, Water, Population and Communities granted approval under the Environment Protection and Biodiversity Act for OPR's proposed rail development

Further details in relation to all announcements made by Murchison to ASX can be obtained from either Murchison's website or ASX's website www.asx.com.au.

As illustrated in the figure below, Murchison's share price significantly underperformed against both the Metals and Mining index and the All Ordinaries Index over the one-year period to 18 November 2011.

Figure 3: Murchison's relative performance to the Mining and Metals Index and All Ordinaries Index

Source: Capital IQ

Trading liquidity on ASX

An analysis of the volume of trading in Murchison's shares on the Securities Exchange of ASX in the 12-month period to the last trading day prior to the Company entering into a trading halt ahead of the announcement of the Transaction on 24 November 2011 is set out below.

Table 9: Trading liquidity in Murchison's shares on ASX pre-announcement

Period up to and including 18 November 2011	Share price (low) $	Share price (high) $	VWAP[1] $	Cumulative volume (m)	As a % of total issued capital
1 day	0.27	0.28	0.28	3.6	0.8
1 week	0.27	0.30	0.28	10.4	2.3
1 month	0.26	0.31	0.28	50.2	11.4
3 months	0.24	0.66	0.36	189.9	43.3
6 months	0.24	1.09	0.58	461.4	105.5
12 months	0.24	1.63	0.90	862.6	197.6
Note 1 – VWAP means volume weighted average price					

Source: Capital IQ and KPMG analysis

Murchison's shares on ASX have exhibited high liquidity in recent times, with approximately 198% of total shares on issue traded on ASX over the 12 months period, at an average daily traded volume of approximately 3.5 million shares. Murchison's shares were traded on 125 days out of 129 trading days over the six-month period prior to the trading halt ahead of the announcement of the Transaction.

An analysis of the volume of trading in Murchison's shares on ASX in the period from 24 November 2011 to 19 December 2011 (inclusive) is set out below.

Table 10: Trading liquidity in Murchison's shares on ASX post-announcement

Period from 24 November 2011 to 19 December 2011	Share price (low) $	Share price (high) $	VWAP $	Cumulative volume 000s	As a % of total issued capital
26 days	0.37	0.45	0.39	51.5	29.7

Source: Capital IQ and KPMG analysis

9 Profile of the Sale Assets

On 19 September 2007, Murchison announced the signing of a series of binding agreements with MDPL in relation to Crosslands and OPR.

A Share Subscription Agreement was entered into whereby MDPL agreed to acquire a 50% interest in Crosslands in consideration for an initial payment of $150 million and a second payment (the Residual Contribution) payable on the satisfaction of certain conditions. The Residual Contribution is discussed later in this section.

On the same date, OPR was established as a Joint Venture between Murchison, MDPL and Crosslands to develop a deepwater port at Oakajee, 25 kilometres north of Geraldton (the Oakajee Port Joint Venture)

and an associated 570 kilometres heavy haulage northern rail infrastructure (the Oakajee Rail Joint Venture)[4].

Under the JVAs, the Joint Venture participants' rights, obligations and duties are in proportion to their participating interests (being effectively 50% Murchison and 50% MDPL). Any operating decision requires agreement by both JV partners to proceed with no specified mechanism within the JVAs to break a deadlock.

9.1 Crosslands (Murchison 50%)

Crosslands' principal asset comprises its Jack Hills iron ore project located 380 kilometres northeast of the port city of Geraldton.

Current Production

Mining operations at Jack Hills commenced in November 2006, with the first shipment of DSO in February 2007. Ore is crushed and screened at Jack Hills to produce lump and fines, before being trucked 640 kilometres by triple road train to a storage and transfer facility at the Port of Geraldton. The lump and fines are then loaded and shipped to customers primarily in China and Korea.

Murchison confirmed to the market on 30 November 2011 that current mining operations are scheduled to cease in December 2011, with final shipment of DSO lump and fines from Jack Hills scheduled to occur in February 2012, following which the mine will be placed on care and maintenance while Crosslands progresses planning for the JHEP.

A summary of production from Jack Hills over the five years to 30 June 2011 is set out in the table below.

Table 11: Summary of production at Jack Hills (100%)

	Year ended 30 Jun 07	Year ended 30 Jun 08	Year ended 30 Jun 09	Year ended 30 Jun 10	Year ended 30 Jun 11
Jack Hills production (Mt)					
- Ore mined	0.71	1.61	1.66	1.72	0.89
- Ore shipped[1]	0.30	1.35	1.47	1.75	1.57
Note 1: Ore shipped include fines and lump. Murchison's interest in this ore is 50%					

Source: Murchison's 30 June 2011 quarterly report, 2009, 2010 and 2011 Annual Reports and KPMG analysis

A comparative quarterly summary of operational statistics at Jack Hills for the year ended 30 September 2011 is set out in the table below.

[4] Collectively, the Share Subscription Agreement, the Port Infrastructure Project Joint Venture Agreement, the Rail Infrastructure Project Joint Venture Agreement and other associated agreements are referred to as the Joint Venture Agreements (JVAs).

Table 12: Quarterly production summary at Jack Hills (100%)

		Dec 10 Qtr	Mar 11 Qtr	Jun 11 Qtr	Sep 11 Qtr
Volume waste	BCM[1]	714,453	611,291	722,222	627,802
Volume ore	BCM[1]	57,644	6,676	62,498	91,500
Ore mined	Tonnes	254,232	28,841	269,992	395,279
Ore crushed	Tonnes	288,605	72,968	285,016	408,425
Ore hauled to port	Tonnes	396,636	270,615	413,648	401,673
Ore shipped – lump	Tonnes	120,479	177,822	242,014	236,887
Ore shipped – fines	Tonnes	247,562	121,956	187,342	120,944
Grade – lump	%Fe	62.4%	62.2%	62.2%	62.0%
Grade - fines	%Fe	61.1%	62.1%	61.8%	63.6%
Average cash cost	$/tonne	110	124	127	135

Notes:
1 *Bulk Cubic Meters*
2 *Average cash cost represents the average total operating cash cost, including haulage, shipping and royalties.*

Source: Murchison's 30 September 2011, 30 June 2011, 31 March 2011 quarterly report and 31 December 2010 quarterly report

The latest reported total Jack Hills in situ mineral resource as at 23 September 2010 was as follows:

Table 13: Jack Hills' mineral resource

	Tonnes (Mt)	Fe (%)	DTR[1] (wt %)
Mineral resources			
Measured	906	32.4	24.6
Indicated	1,267	32.2	28.1
Inferred	1,061	32.3	27.4
Total resources	**3,234**	**32.3**	**26.9**

Note 1: DTR means Davis Tube Recovery. DTR analysis is a form of magnetic separation using a Davis Tube. Separation that gives a percent mass recovery of magnetic material.

Note 2: Refer to ASX announcement dated 4 July 2011 for further details of the Brindal Mineral Resource and 23 September 2010 for the Jack Hills Mineral Resource. Cut-off grades are: MIM-DSO = 50% Fe, MIM-JIG = 0%-50% Fe, DID-BFO = 22% Fe, BIF-BFO 22% Fe. Tonnes are dry metric tonnes. DID tonnes (118mt @ 32.6% Fe, 3.6% DTR) may not be available for future economic extraction due to position of integrated waste landform. Refer to page 2 of the explanatory memorandum for the Competent Persons Statement

Source: Murchison's 30 June 2011 quarterly report

Jack Hills currently ranks as the largest iron ore resource in the Mid West. We have been advised that notwithstanding a general expectation by Crosslands' management that an infrastructure solution will ultimately be implemented, given optimisation work in relation to the recently completed JHEP feasibility study is ongoing and commercial terms of any SCA, including tariff arrangements, are yet to be agreed with OPR, the level of uncertainty as to the ultimate economic recovery of the resources is such that Crosslands does not consider it appropriate to upgrade these resources to reserve category at this time.

Jack Hills Expansion Project

Crosslands is currently completing optimisation work around the feasibility study for the JHEP, which was delivered to Murchison and MDPL in June 2011. The feasibility study envisages an expansion of production from approximately 1.8 million wet tonnes per annum (Mwtpa) to approximately 23.4 Mwtpa for the first ten years, comprising of 22Mwtpa of high purity iron concentrate products, and a total 13 million wet tonnes (Mwt) of DSO in that time, through the mining and processing of beneficiated feed ore with an estimated mine life of 39 years. The expected long-term mining rate is 120Mt (dry) per annum of material, to provide an average of 55 million dry tonnes (Mdt) of material for processing each year.

Under the JHEP, Crosslands plans to produce two primary products, being a sinter feed averaging 64.4% iron Fe (on a dry tonne basis), and a pellet feed averaging 68.5% Fe (on a dry tonne basis). Both products feature low impurities, especially alumina and phosphorous.

Mining is expected to be performed using conventional open cut mining methods. Ore will be processed on site with the current planned facility including a two-module concentration circuit. Processing will include a crush/grind/magnetic separation phase as well as gravity separation and flotation processes to increase grade in the blended concentrate.

The on-site ore processing facility will require considerable power and water supply. Crosslands is currently considering construction of a dedicated gas power plant (with a gas pipeline connection to the Dampier to Bunbury gas pipeline) or connection to the South West Interconnected System as power solutions and is also investigating sourcing water from the nearby Byro Basin and Murchison Paleochannel.

The JHEP relies upon using the port and rail infrastructure proposed for development by OPR. At the date of this report the commercial and operational terms for access to OPR's infrastructure had not been agreed.

Favourable environmental assessments have been secured from both Federal and State Environmental agencies and Letters of Intent for a total of 57.5 Mt per annum of product, primarily with Chinese customers as well as customers from Japan and Korea, have been received.

To date more than $211 million has been expended by Crosslands on the JHEP mine exploration and mine feasibility activities. The total estimated development cost for the JHEP is estimated in the feasibility study at approximately $3.9 billion, inclusive of owner's costs and contingency (base date 31 March 2011).

Work streams currently being or expected to be undertaken by Crosslands in the short to medium term include:

- completion of optimisation, including value improvement studies
- negotiations with OPR with the view to concluding mutually acceptable commercial terms for the SCA

- technical discussions with customers on drum test results with a view to finalising Bankable Offtake Agreements.

Whilst Crosslands' exploration activities are currently fully focused on the resource in and around the Jack Hills deposit, Crosslands also holds an interest in various other prospective exploration projects.

Further information in relation to Jack Hills, Brindal and other exploration prospects is set out in AMC's report attached to this report.

Financial position

Crosslands' unaudited historical financial position as at 31 October 2011 is summarised in the table below.

Table 14: Crosslands' unaudited 31 October 2011 financial position

	Unaudited 31 Oct 11 $000
Cash and cash equivalents	8,683
Trade and other receivables	25,643
Inventory	11,083
Other financial asset	25
Total current assets	**45,434**
Interest in Jointly Controlled Operations	122,441
Exploration and evaluation expenditure - Stage 2	211,449
Exploration and evaluation expenditure - Stage 1	141
PP&E	26,651
Total non-current assets	**360,682**
Total assets	**406,117**
Trade and other payables	33,068
Other current liabilities	1,231
Provisions	2,937
Total current liabilities	**37,236**
Total liabilities	**37,236**
Net assets	**368,880**

Source: Crosslands' 31 October 2011 unaudited management accounts

9.2 OPR (Murchison 50%)

Production of iron ore in the Mid West is currently constrained due to the limitations of current infrastructure, in particular transport solutions and the capacity of the Port of Geraldton. It is widely accepted that the development of a separate deepwater port is needed for larger projects including the JHEP.

OPR history

Key events in the progress of the OPR Project to date are summarised in the table below:

Table 15: OPR's chronology of key events

Date	Event
July 2008	The WA State Government appoints OPR as the preferred proponent for the development of the Oakajee port project
October 2008	The WA State Government announces that it will contribute $339 million towards the development of the common user infrastructure (CUI) at the OPR Port
March 2009	SDA is signed between the WA State Government, OPR, Murchison and MDPL. The key terms of the SDA include: • the appointment of OPR on an exclusive basis for the period to 31 March 2011, as the infrastructure provider to design and construct an open access port and railway linking the port with mining tenements at Weld Range and Jack Hills in the Mid West • the provision of State and/or Federal Government funding for CUI at the Oakajee port including the channel and breakwater • agreement by OPR to use reasonable endeavours to secure the involvement of private or state-owned Chinese companies in the project through the provision of rail cars, fabricated structural steel, engineering and construction services and debt financing
May 2009	The Federal Government confirms a commitment of $339 million towards the OPR Project, matching the WA State Government's funding ($678 million in total)
March 2010	A draft feasibility study is delivered to the WA State Government demonstrating the operational and technical feasibility of the Oakajee infrastructure and indicating initial port capacity increased to 45 Mt per annum
August 2010	Memoranda of Understanding entered into with Crosslands, Sinosteel and Karara Mining Limited
December 2010	OPR provides details of proposed SCA to the Foundation Customers
January 2011	Sinosteel and the Karara JV each provided OPR with a letter containing key issues/matters for resolution in relation to the initial draft of the SCA
February 2011	Crosslands provided OPR with its response to the initial draft of the SCA
March 2011	The WA State Government agrees to extend the deadline for completion of Implementation Agreements for the OPR Project from 31 March 2011 to 31 December 2011
June 2011	Sinosteel announces it has placed its Weld Range Project on hold until revised commercial terms, including tariff structure/model, can be agreed and further certainty around the port and rail infrastructure scheduling is achieved
June 2011	Updated feasibility study for the OPR Project submitted to Murchison and MDPL

Date	Event
September 2011	WA Premier Colin Barnett signs a Memorandum of Understanding between the WA State Government and China's National Development and Reform Commission (NDRC) covering bilateral trade and investment cooperation. Mr Barnett announces that he wants to bring Chinese involvement more formally into the OPR Project
October 2011	The WA State Government announces that it has approved the Oakajee Rail Corridor Nomination Report (Revision 18), which confirms the rail corridor for the OPR Project
October 2011	Murchison announces that achieving the 31 December 2011 deadline remains uncertain but notes that not meeting this deadline does not in itself result in a breach of the SDA but may result in the lapse of OPR's exclusive rights

To date, more than $260 million has been invested by the Joint Venture parties to develop the OPR Project. Significant work has already been undertaken in relation to technical engineering studies, environmental management planning, land access, heritage and native title negotiations and progressing of the Implementation Agreement with the WA State Government, which details the specific responsibilities of the parties in relation to the OPR Project

The total capital cost to complete the OPR Project is expected to be approximately $5.9 billion, inclusive of owner's costs (base date January 2010). Murchison considers that restructuring the ownership of OPR represents the best means of achieving a commercial outcome that meets the needs of all parties and would enable the OPR Project to proceed. To date, agreement of the commercial arrangements with the Foundation Customers has not been achieved and remains a fundamental hurdle to the successful completion of the OPR Project.

Key steps to progress the OPR Project include:

- completing commercial structure negotiations and agency SCAs with the Foundation Customers
- finalising Implementation Agreement with the WA State Government
- finalising a significant number of construction and operating agreements
- securing remaining environmental and indigenous approvals, along with the granting of the rail enabling legislation
- obtaining funding to commence construction

Whilst Murchison remains hopeful in the absence of the Transaction of securing all necessary agreements, approvals and implementing any restructure necessary to enable the development of the OPR Project, it is extremely unlikely that this will be achieved prior to Murchison's shareholders meeting to consider the Transaction.

First shipment through Oakajee is targeted in the feasibility study to commence in 2015. The initial throughput capacity of the port is expected to be approximately 45Mwtpa. The initial contracted capacity

is expected to be 42Mwtpa which will be allocated between the Foundation Customers. Other parties in the Mid West have expressed interest in securing capacity at the Oakajee port and with this in mind the port design includes the ability to add incremental capacity to meet demand up to approximately 75Mwtpa in the future, although we note that engineering design for the potential expansion is at an earlier stage than that undertaken for the initial capacity, with other potential customers including Asia Iron Holdings Limited, GoldenWest Resources Limited and Atlas Iron Limited.

Financial position

Murchison's unaudited historical financial position in respect of its 25% direct interest in OPR as at 31 October 2011 is shown below. Murchison's accounting policies have been applied in determining the accounting value of its direct interest in OPR in accordance with AASB 131 Interests in Joint Ventures. Murchison's accounting policy is to capitalise exploration and evaluation expenditure in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources. For further details on Murchison's accounting policies please refer to the Financial Report for the Year Ended 30 June 2011.

Table 16: Murchison consolidated position in respect of 25% direct interest in OPR unincorporated joint ventures

Consolidated position	Unaudited 31 Oct 11 $000
Current assets	607.6
Non-current assets	61,380.7
Current liabilities	(495.2)
Non-current liabilities	-
Net assets	**61,493.1**

Source: MMX Rail Holdings Pty Ltd and MMX Port Pty Ltd trial balances

9.3 JHEP and OPR funding

Under the current JVAs, notably the Umbrella Financing Agreement (UFA), MDPL is responsible for managing the arrangement of debt financing as part of the development funding plan with target gearing ratios of 60% for OPR and 50% for JHEP.

Residual Contribution

MDPL is also responsible for providing additional funding support, including the requirement for MDPL to make a future payment to Crosslands, known as the Residual Contribution, which would be used as the first tranche of equity funding for project development. Following which, additional equity funding for both the JHEP and OPR Project is to be met by contributions from Murchison and MDPL on a 50:50 basis.

The timing of the Residual Contribution is contingent on satisfaction of certain conditions including:

- OPR securing the right to develop the Oakajee port and rail infrastructure from the WA State Government

- delivery of separate Bankable Feasibility Studies to the shareholders of Crosslands, and the participants in the OPR Project

- obtaining all material Government and third party approvals for the development of the JHEP and the OPR Project (or if not obtained, conditional only on financial close)

- receipt of written offers (incorporating a detailed credit approved term sheet) from project financiers, providing funding for at least 60% of the forecast development costs of OPR and 50% of the forecast development costs of the JHEP

- securing of agreements to execute iron ore off-take agreements, and infrastructure agreements acceptable to the project financiers (as part of a security package);

- selection of Engineering, Procurement Construction Management contractors for the development of both the JHEP and the OPR project

- in circumstances where Crosslands must have access to third party infrastructure, commitment by the relevant third party to the development of the necessary infrastructure, and an agreement with that third party regarding the terms of which Crosslands may use such infrastructure.

We have been advised by Murchison that whilst in simple terms the starting point benchmark for quantification of the Residual Contribution can be summarised as being:

- the NPV of the Jack Hill project, *less*

- the NPV of OPR costs (Crosslands' share), *less*

- the $75 million,

the final quantum of any Residual Contribution is a matter of negotiation between Murchison and MDPL or, if agreement between the parties is unable to be reached, will be determined by an Independent Expert. Murchison has advised that given the uncertainty attaching to the outcome of:

- various milestones that are required to be satisfied prior to the Residual Contribution becoming payable

- the outcome of any negotiations

the final quantum of any Residual Contribution cannot be quantified at this time but is not expected to be sufficient to satisfy Murchison's funding obligations in relation to the projects.

Accordingly, prior to announcement of the Transaction Murchison commenced discussions with various parties with the view to securing a refinancing of the Bridge Facility, completing a restructuring of the ownership of OPR, entering into a corporate/asset transaction or any combination thereof, in order to

enable both the JHEP and the OPR Project to proceed. Under the terms of the SAPA, Murchison remains free to pursue a superior offer to the Transaction.

10 Valuation of Murchison's 50% interest in Crosslands

10.1 Valuation methodology

Crosslands' principal asset comprises its interest in Jack Hills and the nearby Brindal deposit. Such assets have limited lives and future profitability and asset life depend upon factors that are inherently unpredictable. In our experience, the most appropriate method for determining the value of companies similar to Crosslands is on the basis of the fair value of the underlying net assets.

We have used the unaudited net assets of Crosslands as at 31 October 2011 as set out in section 9.1 of this report as the basis for our valuation.

ASIC Regulatory Guides envisage the use by an independent expert of specialists when valuing specific assets. To assist KPMG in the valuation of Crosslands' mineral assets, AMC was engaged to prepare an independent technical report providing a valuation of Crosslands' production, development and exploration assets. A copy of AMC's report is attached to this report as Appendix 8.

The valuation methodologies adopted by AMC in forming its view as to the range of values in respect of Crosslands' mineral assets are outlined in the AMC report and included a combination of the implied value per unit of iron in respect of Jack Hills having regard to recent early stage project comparable transactions and expected value based on target or likely economic parameters for a potential DSO only operation at Brindal (Expected Value).

AMC also developed a separate DCF model in respect of the JHEP assuming that the JHEP and OPR Project are able to be successfully developed. However as this analysis indicated a negative NPV based on the technical, operational and macro-economic assumptions adopted by us and AMC, this was not, having regard to the sheer size of the Jack Hills deposit, considered appropriate as a measure of market value for Jack Hills.

Whilst we have not adopted DCF as the principal valuation methodology for Jack Hills, we have included a discussion as to the outcome of this valuation methodology and the assumptions underpinning the analysis below solely for information purposes.

AMC's report was prepared in accordance with the requirements of ValMin. We have satisfied ourselves as to AMC's independence and qualifications and have placed reliance on AMC's report.

We have considered the commercial, operational and financial assumptions used in each of AMC's valuation models in respect of Crosslands' mineral assets. KPMG was responsible for the determination of certain macroeconomic and other assumptions applied by AMC such as iron price forecasts, exchange rates, discount rates, inflation rates and the taxation aspects of the models, as well as the tariff rates (which were drawn from Crosslands' feasibility study) adopted in the JHEP DCF model.

Due to the significant uncertainties inherent in the valuation, AMC has determined a range of values within which it considers the value of Crosslands' mineral assets to lie. The valuations ascribed by AMC to the mineral assets of Crosslands have been adopted in our report. We note that the range of values determined by AMC is wider than we would normally expect, however, given the current development uncertainty attaching to the resources underpinning Jack Hills, we do not consider this unreasonable and consider that any attempt to narrow the range further would effectively understate the uncertainty attaching to the final value that might be realised for these assets.

Other assets and liabilities of Crosslands have been incorporated in our valuation at book values unless discussed otherwise later in this section.

10.2 Valuation summary

We have assessed the full underlying value of Murchison's 50% equity in Crosslands to lie in the range of $170.8 million to $310.0 million.

We have assessed the value of Crosslands by aggregating the estimated market value of Crosslands' interest in its mineral assets, adding the assessed value of other assets and, if appropriate, deducting any external borrowings and non-trading liabilities. The value of Crosslands has been assessed on the basis of fair market value, that is, the value that would be negotiated between a knowledgeable and willing, but not anxious buyer, and a knowledgeable and willing, but not anxious seller, acting in an arm's length transaction, where both buyer and seller are fully informed.

In forming our view as to value we have relied upon the valuation of Crosslands' mineral asset portfolio prepared by AMC.

Set out below is a summary of the range of fair market values at which Murchison's 50% equity interest in Crosslands has been assessed.

Table 17: Summary of assessed fair market value of Murchison's 50% interest in Crosslands

	Assessed values	
	Low $M	**High $M**
Jack Hills	307.0	531.0
Brindal – DSO only	40.0	90.0
Other mineral assets	1.7	2.4
Total mineral assets	**348.7**	**623.4**
Add: Cash and cash equivalents	8.7	8.7
Less: Other net liabilities	(5.1)	(2.5)
Less: Corporate Overheads	(10.8)	(9.7)

	Assessed values	
	Low $M	**High $M**
100% equity value before Residual Contribution	**341.5**	**619.9**
Residual Contribution	-	-
100% equity value	**341.5**	**619.9**
Murchison equity interest	50%	50%
Value of Murchison's equity interest	**170.8**	**310.0**
Note: Figures may not add exactly due to rounding		

Source: KPMG analysis and AMC report

Our range of assessed values represents the full underlying value of Crosslands, inclusive of premium for control and an estimate of direct synergies that would be available to a pool of purchasers, but does not include any strategic or operational benefits unique to MDPL.

Consistent with the guidance provided by ASIC's Regulatory Guides we have valued Murchison's interest in Crosslands without regard to the pre-existing 50% equity interest of MDPL and also without regard to the current difficult financial circumstances of Murchison. Had we taken these factors into account we believe it is likely that any third-party purchaser would apply a discount to each of the end points of our range of assessed values in determining an appropriate price to pay for Murchison's interest in the company.

Furthermore, in the event that Murchison was required to realise its interest in Crosslands on a distressed sale basis, we would expect that the final values realised for the Crosslands' assets would be significantly adversely impacted.

Valuation of Jack Hills

A DCF model for Jack Hills assuming that the JHEP and the OPR Project are able to be developed was prepared by AMC, however, our analysis indicates that as at the date of this report this option has a negative NPV. Notwithstanding this outcome, we consider it reasonable to expect, having regard to the sheer size of the mineral resource already identified at Jack Hills, that a purchaser would conclude that Jack Hills does have inherent value and have valued Jack Hills on a 100% basis as lying in the range of $307 million to $531 million, representing the aggregate value of:

- actual ungeared post tax cash flows for November 2011 and forecast ungeared post tax cash flows over the period December 2011 to February 2012, being the date that the current Jack Hills operations are expected to be placed in care and maintenance

- the value of the residual resources at Jacks Hills based on application of the exploration yardstick method.

The range of fair values for Jack Hills under each valuation basis is summarised in the table below.

Table 18: Valuation summary – Jack Hills (100% basis)

	Assessed values	
	Low $M	High $M
Jack Hills		
Current Stage 1 operations	10.0	10.0
Residual resources		
Exploration – Jack Hills DSO	37.0	98.0
Exploration – Jack Hills BFO	260.0	423.0
	297.0	521.0
Total resource valuation	**307.0**	**531.0**
JHEP DCF[1]	-211.0	-494.0

Note 1: The JHEP DCF result represents a project valuation and does not include the impact of corporate costs that would be incurred over the life of the JHEP, further reducing the value to Crosslands

Source: KPMG analysis and AMC report

Jack Hills exploration values

DCF analysis by AMC indicated a negative NPV for the JHEP leaving AMC to rely on exploration methods to value the mineral assets, other than the completion of Stage 1. AMC considered the Expected Value method for valuation of Jack Hills DSO but concluded that it was possible for only one of either Jack Hills or Brindal DSO to proceed in the short term having regard to KPMG's forecast iron ore prices and transport limitations. The Expected Value method has been used to value Brindal DSO.

AMC assessed separate values for the Jack Hills' DSO and beneficiation feed ore (BFO) material types. The mineral resources for the Jack Hills deposit include 133 Mt grading 56% Fe that is considered to have DSO potential.

Jack Hills DSO

Based on its consideration of recent transactions involving comparable assets AMC adopted an indicative value of between $0.51 and $1.34 per tonne of contained iron in relation to the Jack Hills DSO, implying a range of values of between $37 million and $98 million allowing for depletion of the mineral resource to the end of Stage 1 mining, with a "preferred" value of $68 million, on a 100% basis.

Jack Hills BFO

AMC considers that the mineral resources for the Jack Hills deposit include 3.08 billion tonnes grading 31% Fe that has BFO potential.

Based on its consideration of various recent transactions relating to magnetite mineral resources and factors that may have influenced transaction outcomes, as well as past exploration expenditure, AMC concluded that a range of values for Jack Hills BFO between $260 million and $423 million to be appropriate , with a "preferred" value of $341 million, on a 100% basis.

Further details in relation to AMC's yardstick analysis are set out in AMC's report, attached at Appendix 8.

JHEP DCF values

Whilst we have not adopted DCF as the principal valuation methodology in assessing our range of assessed fair values for Jacks Hills, we have set out below solely for information purposes a summary of the key technical, operational and other assumptions adopted by us in assessing that the JHEP currently has a negative NPV.

Key operational assumptions

The principal operational assumptions adopted in AMC's DCF valuation of Jack Hills' operations assuming successful completion of the JHEP and the OPR Project are summarised below.

Table 19: Key operating assumptions

Factors	Unit	Assumptions
Mining and construction commencement		2013
Project implementation		2016
Mine Life	Years	39
Total tonnes mined	Mdmt	4,122
Total ore processed	Mdmt	2,123
Average iron ore recovery to concentrates	%	74
Products		
DSO Lump	Mdmt	9
Average DSO Lump Grade	% Fe	62.8
DSO Fines	Mdmt	5
Average DSO Fines Grade	% Fe	59.0
BFO Sinter	Mdmt	153
Average BFO Sinter Grade	% Fe	63.7
BFO Pellets	Mdmt	548
Average BFO Pellets Grade	% Fe	68.4
Costs		
Total capital cost (including sustaining capital) – nominal	$ M	7,716
Average mining operating cost – feed ore	$/dmt	6.44
Average process plant operating cost – feed ore	$/dmt	6.79

Source: AMC Production Model

We have considered AMC's assumptions and discussed them in detail with AMC in the context of the JHEP feasibility study and recent announcements in relation to the cessation of mining activities at Jack Hills in December 2012. Based on our discussions, we consider, subject to our comments below in relation to the risks inherent with this scenario, the assumptions adopted by AMC are reasonable.

Further discussion regarding the assumptions adopted by AMC in assessing the operational value of the JHEP scenario is contained in section 2 of AMC's report.

Economic and financial assumptions

Exchange rates

The exchange rate assumptions adopted by AMC as advised by KPMG are summarised in the table below.

Table 20: Summary of exchange rate assumptions

	2011	2012	2013	2014	2015	2016	LT
AUD:USD	1.00	1.00	0.96	0.92	0.88	0.85	0.85

Source: CapitalIQ, brokers' notes, various economic commentaries and KPMG analysis

The AUD:USD exchange rate is assumed to remain constant at 0.85 post 2016 having regard to our projected long-term inflation rates in Australia and the United States such that purchasing power parity is maintained. Forecast exchange rates have been assessed by us having regard to the prevailing spot exchange price (in the order of AUD:USD 1.00), the forward exchange rate curve and also recent forecasts published by various broking houses and economic commentators.

Iron ore prices

Selection of appropriate pricing assumptions to include in the forecast cash flows of any asset or project is fundamentally a matter of judgement. However, these prices should attempt to reflect those assumptions that purchasers would use in assessing the value of the target company's operations. In arriving at appropriate pricing assumptions for the products to be produced at Jack Hills, we conducted an analysis of forecast iron ore prices based on reports published by various brokering houses and industry and economic commentators.

In addition, we had regard to Crosslands' view that the principal competition for its sinter product will be iron ore fines and that whilst the higher chemical quality of concentrates versus standard Pilbara sinter fines provides a higher value to sinter makers, the lower productivity of Crosslands' ultra-fines may offset some of the chemical advantages in the market place. On balance, we do not consider it unreasonable to adopt Pilbara fines prices as a benchmark indicator for the future pricing of Crosslands' sinters feed (adjusted for iron content).

We have assessed pellet feed prices having regard to the historical pricing relationship between fines and pellet feed ore, which indicates that it is not unreasonable, having regard to the expected positive quality differential of Crosslands' pellet feed, to expect Crosslands' pellet feed to command a premium to benchmark fines prices. Notwithstanding this, it could be argued that the extent of the premium adopted by us is optimistic, however, we note that any reduction in these pricing assumptions would negatively impact the JHEP's already negative implied NPV.

KPMG's iron ore commodity benchmark nominal pricing assumptions for the period 2011 to 2016 are summarised in the table below:

Table 21: Summary of iron ore fines and lumps price assumptions

	2011	2012	2013	2014	2015	2016
Iron ore price (fines) – USc/dmtu	260	245	215	195	165	145
Iron ore price (lumps) – USc/dmtu	290	275	240	220	190	170
Iron ore price (sinters feed) – USc/dmtu	260	245	215	195	165	145
Iron ore price (pellet feed) – USc/dmtu	310	295	260	235	200	180

Source: CapitalIQ, brokers' notes, various economic commentaries and KPMG analysis

Subsequent to 2016, we have assumed that each of the above increases by the long-term inflation rate for the Unites States. In effect, iron ore prices are assumed to remain constant in real US dollar terms post 2016.

Infrastructure tariffs

As noted previously, significant uncertainty exists in relation to the final terms of the SCAs, including port and rail infrastructure tariffs, that will be accepted by the Foundation Customers, which in turn are likely to be influenced by the final ownership, equity and operating model adopted in any restructuring of OPR. In the absence of better information we have adopted the low end of the range of tariffs contemplated in the JHEP feasibility study announced in July 2011.

Inflation

Inflation rate assumptions adopted by AMC as advised by KPMG are set out in the table below.

Table 22: Summary of inflation assumptions

	2012	2013	2014	2015	2016	LT
Australia	3.0%	3.0%	2.8%	2.8%	2.5%	2.5%
United States	2.0%	2.0%	2.0%	2.2%	2.5%	2.5%

Source: CapitalIQ, brokers' notes, various economic commentaries and KPMG analysis

Australian and United States projected inflation rates were determined having regard to the forecasts of a range of brokers and economic commentators. Subsequent to 2016, the rate has been assumed to remain constant at 2.5 % per annum for both Australia and the United States.

Other assumptions

Other key financial and economic assumptions adopted by us in assessing the value of Murchison include:

- an Australian corporate tax rate at an average of 29% over the life of the mine, reflecting an assumption that the Australian Federal Government's proposed MRRT package will be given effect in 2012

- an allowance for the impact of carbon tax. Carbon prices per tonne of emissions has been based on the latest available forecasts published by the Australian Treasury

- an ungeared, post tax nominal discount rate in the order of 15% to 17% per annum. The basis for our calculation of discount rates is discussed at Appendix 5 to this report.

  In considering an appropriate rate of return that an investor may require to invest in the JHEP, we have had regard to the fact that the JHEP DCF analysis assumes the resolution of all key operational and development risks in the timeframe contemplated. Risks to achievement of this outcome include but are not limited to:

  - agreement with OPR in relation to SCA, including the tariffs for access to port and rail infrastructure, has not been reached. Furthermore, the future development of the OPR Project is also dependent upon separate SCAs being reached with the other external third parties comprising the Foundation Customers, both of which are critical to the economic viability of the OPR Project. Each of Sinosteel and the Karara JV participants have indicated that the terms put forward by OPR to date are not supported

  - the feasibility study completed in respect of the JHEP is underpinned by measured and indicated resources rather than the higher confidence JORC category of reserves. Crosslands is currently undertaking further analysis in relation to the feasibility study, the outcome of which is not yet known, but may impact upon our range of assessed values either positively or negatively

  - the WA State Government has been reported as indicating that in the absence of an Implementation Agreement being executed by 31 December 2011, OPR will lose exclusivity in terms of the right to develop the OPR Project. Whilst as a result of the approvals already held by OPR and time required for an alternative party to complete the necessary studies to develop the OPR Project, the risk that OPR would not be involved in some form in any short term project solution is not considered material, there is significant uncertainty in relation to the final operating and ownership model of OPR and what that means in terms of future infrastructure and port access arrangements and tariffs

  - developmental and timing risk associated with the JHEP and the OPR Project exists, including the recommissioning of the current Jack Hills mining project following its planned placement on care and maintenance from early 2012. Any delay in achieving the planned ramp up in production in the timeframe contemplated would adversely impact on our range of assessed fair values

  - Murchison has indicated that it does not have the capacity to satisfy the financial commitments to bring the JHEP and the OPR Project to completion, therefore the projected JHEP cash flows incorporate a significant degree of financial risk

  - Crosslands has indicated that it may consider the leasing out its mining fleet and port capacity during the period that Jack Hills remains on care and maintenance whilst planning for the JHEP continues, however, no agreement has been reached with any parties in relation to this option. Given the uncertainty as to whether this option can or will be crystallised, we have not included any additional value for this potential, this represents an upside risk to our range of assessed fair values.

Whilst we included an adjustment to our base case discount rate applicable to the projected cash flows adopted by AMC to reflect the abovementioned specific project risks, it could quite reasonably be argued that this adjustment is insufficient to adequately reflect the abovementioned and other risks. In these circumstances this would have the impact of further reducing AMC's range of assessed fair values for the JHEP.

Sensitivity analysis

AMC has undertaken a sensitivity analysis around its DCF valuation for Jack Hills based on a range of operational, commercial, financial and other key assumptions. This analysis is contained in section 2.10 of AMC's report.

The sensitivity analysis indicates that the NPV of the JHEP is particularly sensitive to movements in iron ore prices and exchange rate assumptions. In this regard we note that a 10% favourable movement in iron ore prices or exchanges rates from those assumed by us results in a positive NPV for the JHEP.

Corporate costs

Crosslands incurs corporate overheads in relation to managing its business and maintaining its operating assets and expects to continue to incur these costs in relation to the JHEP should this option continue to be pursued. These costs have not been incorporated into AMC's valuation of JHEP, and it is necessary to deduct the present value of anticipated future management and administrative costs from the value of the Crosslands in any consideration of the JHEP. Crosslands estimates that its corporate costs in the absence of the Transaction are likely to be in the order of $8.0 million per annum to $8.5 million per annum (in 2011 post-tax dollars) during the pre-production phase, increasing to approximately $17.0 million to $17.5 million (in 2011 post-tax dollars) from 2016 onwards.

However, we note that this level of corporate costs does not reflect:

- potential direct synergies and cost savings that may be available to a pool of purchasers in acquiring a 100% interest in Crosslands. These synergies could be expected to be realised as a result of economies of scale, elimination of duplication in running Crosslands as a separate company and general finance and support costs.

- one-off costs associated in realising these benefits, likely incurred in the first year expected of the projected cash flow period

Based on our experience as to the types of cost savings that might be available to a pool of purchasers and discussions with Murchison, we have adopted corporate costs, adjusted for costs savings, of between approximately $5.0 million to $5.5 million per annum during the pre-production phase and in the order of $14.0 million and $14.5 million per annum (both in 2011 post-tax dollars) thereafter.

The NPV of these adjusted corporate costs over the projected life of the JHEP has been estimated to be in order of $77 million to $84 million on a post-tax basis. These costs would represent a further reduction in the value to Crosslands of the JHEP option.

Brindal

Expected Value - DSO only project

Given the outcome in relation to NPV of the forecast cash flows for the JHEP, AMC developed an alternative operating scenario, which assumes that the hematite resources delineated at the Brindal deposit are exploited as a DSO only operation and has assessed the value of Brindal based on an Expected Value, having regard to target or likely economic parameters for a potential DSO only operation (Expected Value). The parameters are used to generate a range of NPVs, which are adjusted, usually with allowance for the costs of that ongoing operation, and with a probability/risk factor for the chance of that exploration being successful.

AMC calculated an Expected Value at Brindal under two scenarios:

- a DSO only operation commencing in 2013
- a DSO only operation commencing in 2014.

Key operational assumptions

The principal operational assumptions adopted in AMC's Expected Value for a DSO only project are summarised below.

Table 23: Key operating assumptions – DSO Only case

Factors	Unit	Assumptions	
		Scenario 1	Scenario 2
Commencement		2013	2014
Mine Life	Years	3	2
Total mined	Mdmt	18.4	12.3
Total ore produced	Mdmt	5.4	3.6
Average ore grade	% Fe	61.4	61.4
Total capital cost over life of mine (in 2011 dollars)	$ M	10.5	8.9
Average operating cost - ore (in 2011 dollars)	$/dmt	91.8	91.8

Source: AMC Production Model

We have considered AMC's assumptions and discussed them in detail with AMC in the context of the Jack Hills current operating capacity and results and the scheduled placement of Jack Hills on care and maintenance from February 2012. Based on our discussions, we consider, subject to our comments below in relation to the risks inherent with this scenario, the assumptions adopted by AMC are reasonable.

Further discussion regarding the assumptions adopted by AMC in assessing the Expected Value of the Brindal DSO only scenario is contained in AMC's report.

Economic and financial assumptions

The economic and financial assumptions adopted in respect of the JHEP scenario cash flows have equal application in relation to the Brindal DSO only scenario, other than we have adopted an ungeared, post tax nominal discount rate of 14% per annum.

In considering an appropriate rate of return that an investor may require, we have had regard to various risks associated with the option, including:

- whilst AMC considers that a DSO only project may be a viable option, Crosslands has not performed any formal studies in relation to this alternative scenario, therefore AMC's projections include a greater degree of forecasting risk than a project at feasibility stage or in production

- the developmental and timing risk associated with recommissioning of the current Jack Hills mining project following its scheduled placement on care and maintenance from early 2012. Any delay in the timeframe or recommissioning costs required to recommence production would adversely impact on assessed fair values

The basis for our calculation of discount rates is discussed at Appendix 5 to this report.

Valuation of other mineral assets

AMC has valued Crosslands' other mineral assets not factored into the abovementioned values for Jack Hills and Brindal in the range of $1.7 million to $2.4 million, as summarised in the table below.

In assessing these values, AMC has considered accepted methods for valuing mineral assets, including a market-based approach to compare resources or defined targets to other assets on which transactions have been completed, as well as exploration transaction comparisons for exploration assets which do not have identified mineralisation to a level where a target tonnage and grade can be applied. Further details in relation to each of these assets and the valuation methodology adopted are set out in AMC's report.

Other net assets

Net assets not valued as part of Crosslands' mineral assets comprise cash and sundry other assets and liabilities. Except as specifically noted below, having regard to their nature and quantum, these assets and liabilities have been incorporated in our valuation at net book values as at 30 June 2011.

Cash

We have adopted the book value of Crosslands' cash holdings at 31 October 2011 of $8.7 million

50% equity interest in OPR

We have not included any value in relation to Crosslands' 50% equity interest in OPR in the valuation of Crosslands as this has been separately assessed at an aggregate Murchison level.

Inventory

Inventory relating to existing ore stocks as at 31 October 2011 has been incorporated in AMC's Stage 1 cash flow model.

Working Capital

Trade receivables and trade payables have not been included in AMC's cash flow model. These items have been assumed to be realised and incurred on an ongoing basis over the life of Crosslands' operational assets under the Brindal DSO only scenario. In determining an appropriate level of net working capital likely to be required to be maintained having regard to the level of annual operating revenues projected by AMC, we considered the historical ratios of various iron companies currently in operation.

On this basis we assessed the NPV of the movement in net working capital items over the assumed life of DSO only project to be in the order of $2.4 million (assuming 2014 commencement) to $3.6 million (assuming 2013 commencement)

Property, plant and equipment

Items of plant and equipment required for the operation of the DSO only case have been incorporated in our valuation of the DSO only options. Non-mining property, plant and equipment has been included in other net assets at their written down value as at 31 October 2011.

Future corporate overheads

Murchison incurs corporate overheads in relation to managing its business and maintaining its operating assets. These costs have not been incorporated into the valuation of Crosslands' mineral assets set out above, and therefore it is necessary to deduct the present value of anticipated future management and administrative costs in relation to Crosslands operating assets from the value of the company. As noted previously, we have estimated Crosslands corporate costs after allowance for cost savings and synergies that may be able to be realised by a pool of purchasers to be in the order of $5.0 million per annum to $5.5 million per annum (in 2011 post-tax dollars) in the next few years.

However, we would expect that in the event a decision was made to pursue a Brindal DSO only operation, Crosslands would be able to further significantly reduce its corporate overhead costs reflecting the reduction in the level of activity of the company.

Accordingly, in order to ensure consistency with the valuation approach adopted in respect of Crosslands' mineral assets, we have adopted a notional level of corporate costs of approximately $2.5 million to $2.8 million per annum (in 2011 post tax dollars) over the life of the Brindal DSO only project

The NPV of these adjusted corporate costs for the DSO only project has been estimated, based a projected closure date of 2015, to be in order of $9.7 million to $10.8 million (in 2011 post-tax basis dollars).

Tax losses

Based on AMC's forecast cash flows for the remaining life of Jack Hills Stage 1 and the DSO only case, Crosslands' is estimated to have gross revenue tax losses in excess of $170 million still on hand at the conclusion of the DSO only project. Given the current uncertainty as to whether Crosslands, will be able to derive future assessable income following completion of a DSO only project and assuming a change of control on any acquisition of Crosslands, we have not ascribed any additional value to these residual tax losses at this time.

Residual Contribution

Given our assessment that the JHEP currently has a negative NPV, we have not ascribed any value to MDPL's Residual Contribution obligation.

Chameleon Claim

Whilst Murchison has agreed to settle the Chameleon Claim out of Court, we note that the proceedings will remain on foot in the event the Transaction does not complete.

Chameleon was largely unsuccessful with its original claim, with orders made by the Court for Murchison and Crosslands to pay to Chameleon approximately just $0.3 million plus interest and $0.2 million plus interest respectively.

This decision was appealed by Chameleon. Whilst there can be no certainty as to outcome of the appeal process in the absence of Transaction, Murchison has advised that it considers, based on the information available to it at the date of this report, that the provision raised in its 30 June 2011 accounts remained adequate in the absence of the Transaction.

In any event, we have been advised that Murchison has provided Crosslands with a full indemnity in relation to any judgement handed down against it in respect of the Chameleon Claim. Accordingly we have not included any adjustment to our range of assessed fair values in relation to Crosslands in respect of the Chameleon Claim.

Flood damage

Crosslands has lodged a claim with the Shire for the total repair cost in relation to repairing flood damage to the Cue-Berringarra Road for approximately $2.9 million. Given the inherent uncertainty associated with any claim, at the low end of our range of assessed values for this potential recovery, we have applied a discount of 50%.

Capital gains tax

We have not included any adjustment to our range of assessed fair values for potential capital gains tax on disposal of the Sale Assets on the basis that this would not otherwise be required to be paid in the absence of the Transaction and, in any event, liability for capital gains tax rests with Murchison rather than at the asset level. Murchison has advised that it has received advice from its taxation advisors that it has sufficient tax losses available to it to offset any potential liability for capital gains tax on disposal of Crosslands.

10.3 Other valuation parameters

Implied value per tonne of contained iron equivalent resources

KPMG's assessed enterprise value for Crosslands of $332.8 million to $611.2 million[5] implies contained iron resource multiples as set out in the table below.

Table 24: Implied Crosslands valuation multiples per resource tonne of contained iron

Parameter	Low $/t	High $/t
Resources[1]	0.3	0.6
Note 1: Implied resource of contained iron ore multiples are calculated using Crosslands' most recent stated resources, excluding scats and stockpiles, of 1,045 million tonnes of contained iron		

Source: KPMG analysis

Set out in Appendix 6 is an analysis of the value per resource tonne of contained iron for various companies selected for comparison implied by the market capitalisation and most recent net debt/(cash) positions of those companies as summarised in the table below. Notwithstanding this analysis indicates a wide range of outcomes, we note that the range of Murchison's implied resources values lie within this range, albeit below the average, and at or around the median.

Table 25: Implied Comparable Company valuation multiples per resource tonne

Parameter	Low $/t	High $/t	Average $/t	Median $/t
Resources[1]	0.04	20.2	1.2	0.5
Note 1 : The implied contained iron ore resource multiple using the comparable companies excluding outliers				

Source: KPMG analysis

In considering this outcome we note that:

- operators of hematite operations tend to trade on higher implied multiples than magnetite operations, which may reflect the refining process associated with magnetite that is more complex

[5] Excludes any value in relation to Crosslands' investment in OPR

- a number of the comparable companies also hold other resources of other metals, including, gold, nickel and copper which have impacted the implied multiples of these companies.

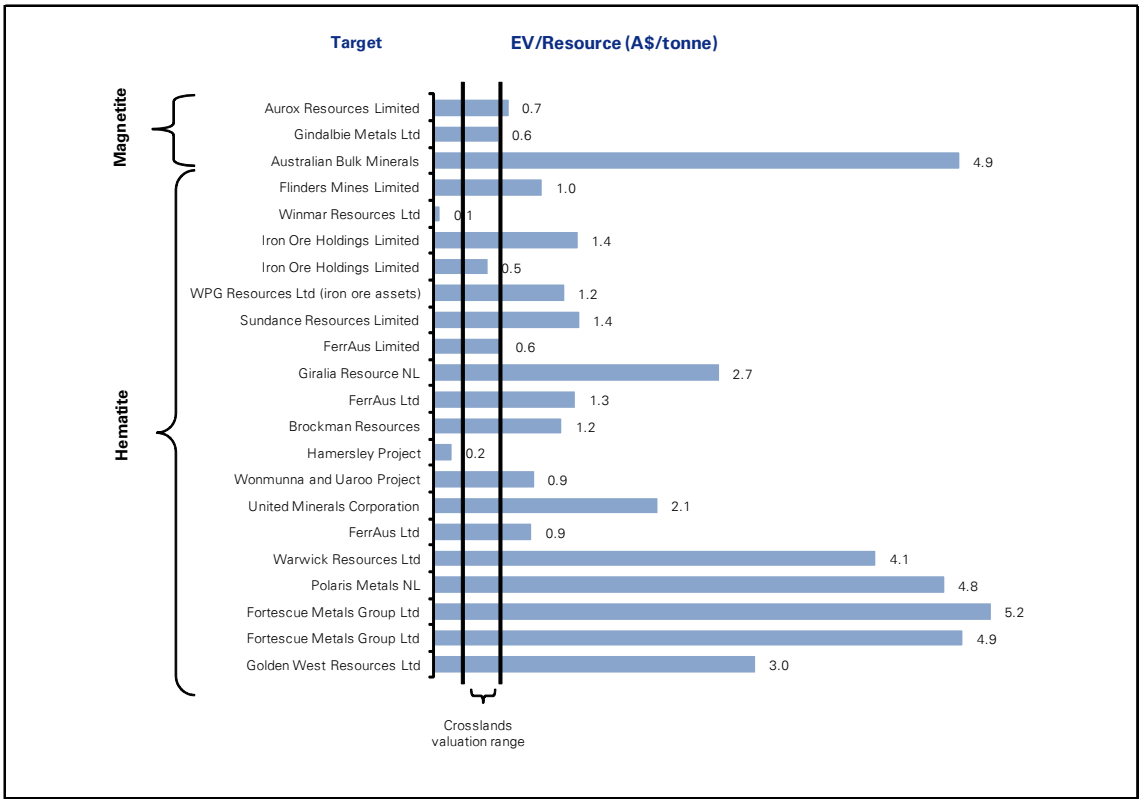
The implied value per resource tonne of contained iron as a measure should also be viewed with some caution as it does not capture such things as:

- the extent to which resources have been developed, their quality, location or proximity to infrastructure
- the quantum or timing of future operating and capital costs required to realise the underlying resources
- potential timing differences companies in reporting updated reserves and resources figures
- a majority of the comparable companies (including three magnetite operations) have reported reserves and therefore should reflect a greater degree of confidence that the resource base can be economically exploited
- the market capitalisation of the comparable companies considered may not include a premium for control.

Transaction resource multiples

KPMG has reviewed data on a range of recent acquisition transactions for iron ore production and exploration companies. The results of this analysis are set out at Appendix 7 to this report and indicate a wide range of valuation metrics. However, as shown diagrammatically below the range of values per resource tonne of contained iron implied by our valuation range attributable to Murchison lies toward the midpoint of the observed range in recent takeovers which are shown in chronological order with the most recent at the top.

Figure 4: Comparison of implied transaction multiples per reserve and resource tonne of contained iron ore



Source: KPMG analysis

11 Valuation of Murchison's effective 50% interest in OPR

11.1 Valuation methodology

OPR's principal asset comprises its right to develop the OPR Project. In our experience, the most appropriate method for determining the value of companies similar to OPR is on the basis of the fair value of the underlying net assets.

We have used the unaudited net assets of OPR as at 31 October 2011 as set out in section 9 of this report as the basis for our valuation.

Having regard to the current stage of development of the OPR Project, its unique positioning and circumstances, including that:

- agreement is yet to be reached with the Foundation Customers, in particular Sinosteel and the Karara JV participants, in relation to the commercial arrangements for infrastructure access. Whilst in arriving at our valuation range for Crosslands' JHEP scenario, we have adopted an assumed infrastructure access tariff in relation to Crosslands based on that Company's internal feasibility

study, we have had no access to either Sinosteel or the Karara JV participants as part of this engagement and are therefore unable to form a view as to likely acceptable tariffs to these parties.

- the final ownership and equity structure of OPR going forward is not settled at this stage
- the potential exists that OPR may lose exclusivity in relation to the right to develop the infrastructure from 31 December 2011

we do not consider there to be a reasonable basis for the adoption of either a market or income based valuation methodology at this time in respect of OPR. As such, we consider the best indicator of OPR's value at the time to be the value of its intellectual property rights, which have been valued on a depreciated optimised replacement cost basis.

Depreciated optimised replacement cost (DORC)

The DORC methodology is based on the premise that a prudent investor would pay no more for intellectual property than the cost to replace or recreate, at current prices, intellectual property having equal utility to that the subject of appraisal. Under this approach, the market value of an asset is determined by reference to the reproduction or replacement cost new of modern equivalent assets, optimised for over-design, over-capacity and redundancy, and adjusted to reflect losses in value attributable to physical depreciation, if applicable, and/or functional and economic obsolescence

The replacement intellectual property is assumed to be created with contemporary research, design and development methods.

Consistent with ASIC's Regulatory Guides in relation to the use by independent experts of specialists when valuing specific assets, Mott MacDonald was engaged to prepare an independent technical report providing a valuation of OPR's engineering related intellectual property assets on adopting a DORC valuation methodology. A copy of Mott Macdonald's report is attached to this report at Appendix 9.

We have considered the assumptions used in Mott MacDonald's valuation models. Due to the various uncertainties inherent in the valuation process, Mott MacDonald has determined a range of values within which it considers the value of OPR's intellectual property assets to lie. The valuations ascribed by Mott MacDonald have been adopted in our report.

Other assets and liabilities of OPR have been incorporated in our valuation at assessed values or book values as discussed later in this section.

An overview of Mott McDonald's valuation results, adopted methodologies and assumptions in respect of OPR's intellectual property, in terms of assessed values, is set out below and discussed further in Mott McDonald's report.

11.2 Valuation summary

We have assessed the full underlying value of Murchison's effective 50% equity in OPR to lie in the range of $93.3 million to $113.1 million.

We have assessed the value of OPR by aggregating the estimated market value of OPR's intellectual property, adding the assessed value of other assets and, if appropriate, deducting any external borrowings and non-trading liabilities. The value of OPR has been assessed on the basis of fair market value, that is, the value that would be negotiated between a knowledgeable and willing, but not anxious buyer, and a knowledgeable and willing, but not anxious seller, acting in an arm's length transaction, where both buyer and seller are fully informed.

In forming our view as to value we have relied upon the valuation of OPR's engineering related intellectual property portfolio prepared by Mott McDonald.

Set out below is a summary of the range of fair market values at which Murchison's effective 50% equity interest in OPR has been assessed.

Table 26: Summary of assessed fair market value of Murchison's effective 50% interest in OPR

	Assessed values	
	Low $M	**High $M**
OPR Intellectual Property	186.6	226.2
Add: Cash and cash equivalents	4.4	4.4
Less: Other net liabilities	4.4	4.4
Total equity value	**186.6**	**226.2**
Murchison equity interest	50%	50%
Value of Murchison's equity interest	**93.3**	**113.1**
Note: Figures may not add exactly due to rounding		

Source: KPMG analysis and Mott McDonald report

Our range of assessed fair values for OPR represents the full underlying value of OPR, inclusive of premium for control. Similar to Crosslands, pursuant to the guidance set out in ASIC's Regulatory Guides we have not adjusted our range of assessed fair value to reflect the pre-existing effective 50% equity interest of MDPL and also without regard to the financial circumstances of OPR. Having regard to these factors, we would expect an arm's length third-party acquirer of OPR would expect the end points of our range of values to reflect some form of discount.

Mott McDonald has assesses the current DORC value of OPR's engineering related intellectual property to lie in the range of $129.6 million to $156.9 million, representing a discount of between approximately 15% and 30% to the historical spend by OPR to 31 October 2011of $186.1 million in relation to this intellectual property.

Mott McDonald notes in its report that its range of values does not include an allowance for non-engineering related intellectual property that may have contributed to value, which includes such things as business development, finance, legal, government affairs, community and stakeholder interactions,

operations, general and administration, human resources and information technology. Spend in these areas over the project life to 31 October 2011 totals approximately $81.5 million. Applying a similar range of discounts as that determined by Mott McDonald in respect of the engineering related intellectual property implies a range of values for these other activities of between $57.0 million and $69.3 million.

We have adopted the book value of Murchison's assets and liabilities as at 31 October 2011, the value of which effectively net to $nil, reflecting that OPR's trading and other liabilities are netted off against cash and cash equivalents on hand and cash calls against the joint venture participants.

12 Impact of the Transaction

Section 4 of the Explanatory Memorandum sets out the pro-forma financial position of Murchison immediately following completion of Transaction as summarised below.

Table 27: Murchison's pro-forma financial position following completion of the Transaction

	Unaudited 30 Sept 11 $M	Pro forma adjustments $M	Pro forma 30 Sept 11 $M
Cash and cash equivalents	6.3	210.5	216.8
Trade and other receivables	1.5	(1.1)	0.4
Other financial assets	1.1	(1.1)	-
Total current assets	**8.9**	**208.4**	**217.3**
Exploration and evaluation expenditure	72.8	(60.7)	12.1
Property, plant and equipment	0.8	(0.2)	0.7
Investments accounted for using the equity method	185.3	(185.3)	-
Available for sale financial assets	2.0	-	2.0
Total non-current assets	**261.0**	**(246.2)**	**14.8**
Total assets	**269.9**	**(37.9)**	**232.0**
Trade and other payables	3.4	(3.3)	0.1
Provisions	0.8	(0.5)	0.3
Interest bearing loans and borrowings	51.2	(51.2)	-
Total current liabilities	**55.4**	**(55.0)**	**0.4**
Total liabilities	**55.4**	**(55.0)**	**0.4**
Net assets	**214.5**	**17.1**	**231.6**

Source: Murchison's Explanatory Memorandum

KPMG was not been involved in the preparation of the pro forma financial statement however we understand the adjustments made by Murchison reflect:

- the assumed receipt of $325 million from MDPL in consideration for the divestment for the Sale Assets
- payment of on-going operational and project costs in the period to 31 March 2012
- repayment of the Bridge Facility, settlement of the Chameleon dispute and transaction costs associated with completion of the Transaction

- the elimination of carrying amounts in respect of Murchison's investments in Crosslands and OPR

A more detailed discussion of the assumptions and adjustments incorporated in the pro-forma financial position of Murchison is set out in section 4 of the Explanatory Memorandum.

Appendix 1 – KPMG Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG are Jason Hughes and Ian Jedlin. Each has a significant number of years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Jason Hughes is a Partner in the KPMG Partnership and an Authorised Representative of KPMG. Jason is a Fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Financial Services Institute of Australasia and holds a Bachelor of Commerce from the University of Western Australia. Jason has extensive experience in the preparation of independent expert reports and corporate valuations.

Ian Jedlin is an Authorised Representative of KPMG, a Partner in the KPMG Partnership and Partner in Charge of KPMG's National Valuations Group. Ian is an Associate of the Institute of Chartered Accountants in Australia, a Fellow of the Financial Services Institute of Australasia and holds a Master of Commerce from the University of New South Wales. Ian has over 20 years experience in the preparation of independent expert reports.

Disclaimers

This report should not be used or relied upon for any purpose other than KPMG's opinion as to whether the Transaction is in the best interests of the shareholders of Murchison. KPMG expressly disclaims any liability to any Murchison shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG nor the KPMG Partnership has been involved in the preparation of the Explanatory Memorandum or any other document prepared in respect of the Transaction. Accordingly, we take no responsibility for the content of the Explanatory Memorandum as a whole or other documents prepared in respect of the Transaction.

It is not the role of the Independent Expert to undertake the commercial and legal due diligence that a company and its advisers may undertake. KPMG provides no warranty as the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and beyond the scope of this report. We have assumed that the due diligence process was conducted in an adequate and appropriate manner.

Our report makes reference to 'KPMG analysis'. This indicates only that we have (where specified) undertaken certain analytical activities on the underlying data to arrive at the information presented.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG provided draft copies of this report to management of Murchison for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG alone. Changes made to this report as a result of those reviews have not altered the opinion of KPMG as stated in this report.

KPMG is entitled to receive a fee of $255,000 in aggregate, excluding GST, for the preparation of this report. Except for these fees, KPMG has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report.

From time to time KPMG, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided a range of advisory services to entities associated with the client for which professional fees are received. Over the past two years professional fees of approximately $2.0 million have been received from Oakajee, approximately $0.1 million has been received from Crosslands and approximately $0.4 million has been received from MDPL. Of the fees received from MDPL, $41,000 has related to tax advice provided by the KPMG Partnership in relation to the tax consequences of the Transaction. Those services were provided by KPMG Partnership personnel based in the Sydney office of KPMG, a different office to that of the principal KPMG personnel involved in the preparation of this report. None of the services provided to any of the parties have related to setting the terms of the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Employees of KPMG, the KPMG Partnership and its affiliated entities may hold securities in Murchison. However, no individual involved in the preparation of this report holds a direct interest in the securities of Murchison.

Consent

KPMG consents to the inclusion of this report in the form and context in which it is included with the Explanatory Memorandum to be issued to the shareholders of Murchison. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG as to the form and context in which it appears.

Indemnity

Murchison has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership against any and all losses, claims, costs, expenses, actions, demands, damages, liabilities or any other proceedings, whatsoever incurred by KPMG, the KPMG

Partnership and/or KPMG entities related to the KPMG Partnership in respect of any claim by a third party arising from or connected to any breach by Murchison of its obligations.

Murchison has also agreed that KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership shall not be liable for any losses, claims, expenses, actions, demands, damages, liabilities or any other proceedings arising out of reliance on any information provided by Murchison or any of its representatives, which is false, misleading or incomplete. Murchison has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership from any such liabilities we may have to Murchison or any third party as a result of reliance by KPMG Corporate Finance, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership on any information provided by Murchison or any of its representatives, which is false, misleading or incomplete.

Professional standards

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (APESB). KPMG and the individuals responsible for preparing this report have acted independently. KPMG was remunerated via a time-based fee, with no part of the fee contingent on the conclusions reached, or the content or future use of this report. Except for these fees, KPMG has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- various ASX company announcements including inter alia, annual and half year financial statements and quarterly activity reports
- various broker and analyst reports
- various press and media articles
- various reports published by IBISWorld Pty Ltd, the Economist Intelligence Unit Limited and the Bureau of Resources and Energy Economics
- financial information from Capital IQ, Platts IODEX, Thompson Financial Securities, Thomson Reuters (Professional) Australia Limited, MergerMarket and Connect 4
- company websites

Non-public information

- the Sale and Purchase Agreement entered into between Murchison, MDPL and others
- Board minutes and various internal briefing papers
- Murchison's and Crosslands' financial projections and supporting documentation
- corporate cost forecasts
- Murchison's top 10 shareholders as at 14 December 2011
- AMC's independent technical specialist report
- Mott MacDonald's independent technical specialist report

In addition, we have had discussions with various senior management of Murchison and Crosslands.

Appendix 3 – Iron Ore industry

Overview

To provide a context for assessing the future prospects of Murchison, we have set out below an overview of recent trends in the global iron ore market, with particular attention paid to the Australian market.

Iron ore mining is a substantial industry in Australia, which, according to IBISWorld Pty Ltd (IBISWorld), represents approximately 3.4% of Australia's gross domestic product. Virtually all of Australia's iron ore is mined in WA with the vast majority of the industry being currently concentrated in the Pilbara region. Iron ore is commonly classified as either:

- concentrates, particles less than 0.15mm in diameter
- fines, between 0.15mm and 6.3mm in diameter
- lump, from about 6.3mm up to 35mm
- pellets, being 6.0mm to 18.0mm synthetically produced lumps.

Some ores, such as pisolitic Channel Iron Deposits, may be produced as a fines product up to 10.0 mm in diameter.

Production of lump and fines ore accounts for approximately 99.7% of overall production in Australia (IBISWorld). Iron ore concentrate for pellet plants, produced from a beneficiation process, currently form a very small proportion of overall iron ore production. There are, however, a number of iron ore magnetite projects in development that are expected to result in an increase in production of iron ore pellets.

Hematite

High-grade hematite-rich iron ore is often referred to as DSO because it is mined and processed using a relatively simple crushing and screening process before being exported for use in steel mills. Hematite-rich deposits typically contain 62-64% Fe as both lump and fines.

Goethite-limonite

Geothite (or limonite) is a mineral that is a hydrated iron oxide, meaning it contains water in its crystal structure. Geothite forms a secondary mineral in hematite-rich deposits, but also forms the dominant mineral in Channel Iron Deposits (i.e. Yandicoogina and Robe River) and detrital deposits. Channel Iron Deposits are predominantly DSO, but lower grade to hematite-rich deposits typically containing 57-58% Fe as fines ore only.

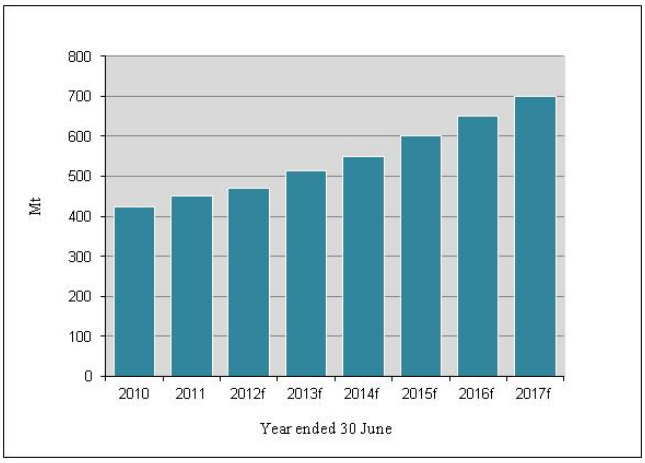
Magnetite

Magnetite ore is suitable for processing into iron ore pellets for use in modern steel production. The magnetic properties of magnetite enable it to be readily refined into an iron ore concentrate. While magnetite is generally a lower-grade deposit, typically 30-40% Fe, it is globally accepted for use in the production of steel. The additional processing cost for the production of magnetite concentrate is sought to be offset by the price it attracts from steel mills because of the high iron content compared to benchmark DSO hematite products.

Industry size

According to IBISWorld in the year ended 30 June 2011, Australia's iron ore industry produced approximately 450 Mt of iron ore and generated approximately $57.7 billion in revenue. The graph below summarises the increase in Australian production volumes for the two years ended 30 June 2011, and the expected production for the years ending 30 June 2012 to 30 June 2017.

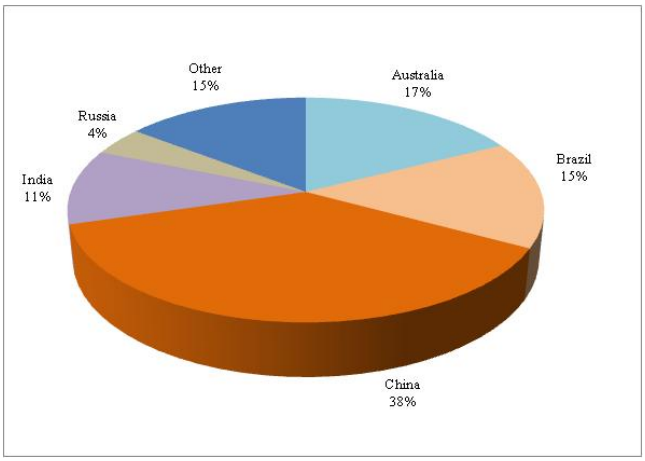
Figure A3-1: Historical and forecast iron ore production in Australia



Source: IBISWorld Industry Report, 24 November 2011

Internationally, Australia is one of the largest producers of iron ore. According to the January 2011 United States Geological Survey, Australia is ranked second only behind China, followed by Brazil, India and Russia. Whilst China produces more ore than any other nation its ore production is typically low grade.

Figure A3-2: Global production of iron ore by country



Source: US Geological Survey, January 2011

The vast majority of production in Australia goes towards export sales, with IBISWorld estimating this figure at around 95%. IBISWorld estimates that China accepts approximately 68% of Australia's exports, with Japan accounting for 19%, South Korea 10% and Taiwan 3%.

According to the Bureau of Resources and Energy Economics (BREE), on a financial year basis, in 2011-12, Australian exports earnings from iron ore are forecast to increase by 26% to $68 billion which reflects a 10% increase in export volumes, to 449 Mt (BREE).

Iron ore demand

Almost all iron ore is used to make steel. As a result, demand for iron ore is almost solely influenced by the volume of steel production. Steel is used in numerous applications, primarily structural engineering, maritime purposes, automobiles and machinery. The demand for steel and steel products is closely linked to general economic growth.

To make steel, iron ore is generally converted to iron in a blast furnace fed with coke and small quantities of fluxes (minerals, such as limestone, which are used to collect impurities). Air which is heated to about 1,200°C is blown into the furnace causing the coke to burn, producing carbon monoxide which reacts with the iron ore to reduce or remove oxygen, as well as heat to melt the iron. The molten iron and slag (impurities) are then drained off, and the iron is added to the steel making process. Direct reduction steel making can also produce steel directly from iron ore.

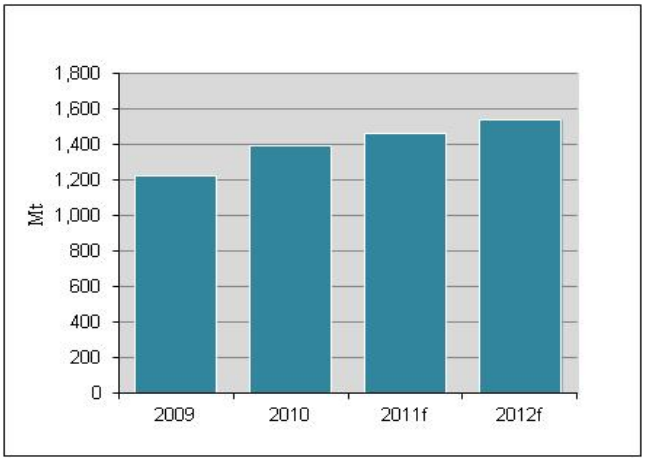
World steel consumption is forecast by BREE to increase by 5% to 1.46 billion tonnes in 2011, driven by infrastructure construction and manufacturing activity across most large steel consuming economies. The majority of growth is forecast to occur in developing economies reflecting stronger economic growth relative to developed countries.

China is currently the world's largest consumer of steel, accounting for an estimated 43% of world consumption in 2010. China's consumption of steel is forecast to increase by 5% in 2011 supported by growth in housing, infrastructure construction and manufacturing of consumer durables. In 2012, China's

steel consumption is forecast to increase in line with continued urbanisation by a further 6% to 666 million tonnes.

BREE expects growth in the demand for steel in developed economies to be moderate supported by growth in the manufacturing sector but offset by expected poor economic growth. BREE also expects that Japan's steel consumption will grow by 10% in 2012 as a result of rebuilding efforts following the March 2011 earthquakes and tsunami.

Figure A3-3: Historical and forecast global steel demand



Source: BREE Australian Commodities Report September quarter 2011

Iron ore supply

The iron ore mining industry has high barriers to entry. This is largely a result of the very significant amounts of capital required to fund exploration and project and infrastructure development, as well as the need to secure long-term sales contracts so as to gain certainty as to future cash flows. These high barriers to entry provide some explanation for the high level of concentration in the industry. IBISWorld estimated that the two largest Australian players, Rio Tinto and BHP Billiton, together held approximately 78% of the market share of production from Australia in 2010.

According to BREE, the majority of supply capacity expansions to be completed over the medium term are expected to occur in Australia and Brazil.

IBISWorld forecast that by 2016-17, Australia's iron ore production and iron ore exports will reach 700 million tonnes and 665 million tonnes respectively with the increased output largely as a result of Rio Tinto's and BHP's expansion plans. Rio Tinto has plans to expand its output to 283 million tonnes per year by 2013 and BHP Billiton's Rapid Growth projects are scheduled to lift the capacity of its iron ore mines and associated infrastructure to 350 million tonnes.

Iron ore pricing

Iron ore pricing is expressed in two different forms both of which are used in Australia. One form is price per iron unit in a tonne of ore, and the other is price per tonne of iron ore at a particular benchmark grade. Both need to be factored by the actual product iron grade to derive an actual revenue price per tonne. Pricing can also include the cost of freight (CFR), cost of freight and insurance (CIF) or be the price net of the cost of freight (Free on Board or FOB). Price is also dependant on whether the product is a lump or fines product.

Method one – benchmark system

Iron ore prices are quoted in US cents per dry metric tonne (USc/dmtu) where the revenue per tonne is simply the USc/dmtu price multiplied by the iron grade. DMTU pricing is almost always done on FOB basis for a particular product (fine or lump). The historical benchmark system was applied using the DMTU price.

Method two – spot or index system

Prices can also be quoted in US dollars per dry metric tonne (US$/dmt) at a particular grade, for a particular product (fine or lump) – this style of pricing is almost always on a CFR basis. For example, the most commonly quoted iron ore price in the spot market is the CFR62 price which equates to the price received for one tonne of iron ore fines at 62% Fe on a CFR basis to a particular port using a particular type of ship. Deriving the FOB price per tonne for a particular product requires net back of shipping and adjustment of price for grade on an agreed system.

The second method is more transparent as it includes shipping prices, destination and grades before a revenue calculation can be made.

Historically, iron ore prices have been set annually under medium or long-term contracts negotiated between major steel producers in Japan and China, and major iron ore exporters in Australia and Brazil. However in April 2010, the industry moved away from the annual benchmark system toward a quarterly pricing system, which has a stronger correlation to spot prices. This was largely in response to demand from producers to allow contract prices to be adjusted more rapidly according to changing market fundamentals. The potential for future change in the pricing system is high.

BREE forecast that 2011 iron ore contract prices will increase strongly to average US$162 a tonne, an increase of 44% from 2010. The forecast higher prices reflect higher spot prices which are supported by reduced exports from India and increased imports into China.

The chart below illustrates the spot iron ore fines price movements for 62% CFR North China ore since the start of June 2008 until September 2011.

Figure A3-4: Spot prices for 62% Fe iron ore fines

Source: Platts IODEX

BREE expects 2012 contract prices to average US$151 a tonne for 62% iron content ore shipped from Australia. BREE anticipates that prices will ease in the short term due to significant growth in supply from Australia and weaker steel production in developed economies.

Analysis of consensus forecasts of various brokerage houses and economic forecasts indicates an expectation by most commentators that prices will come under downward pressure in the mid to long term, possibly as a result of the expected closing of the demand/supply gap.

A summary of recent pricing expectations of market commentators considered by us is set out in the table below.

Table A3 – 1: Summary of market commentators iron ore price assumptions Iron Ore Price

Nominal USc/dmtu Fines (FOB)	2011	2012	2013	2014	2015	2016
Average	257	242	221	193	173	158
Median	258	246	211	193	157	131
High	278	274	265	224	226	237
Low	226	214	174	161	134	105
Number of observations	19	19	14	11	8	7

Source: CapitalIQ, brokers' notes, various economic commentaries and KPMG analysis

Industry regulation

Minerals and Resources Rent Tax

On 2 July 2010, the Australian Federal government announced what it described as an "agreement on improved resource tax arrangements" after the previously announced Resource Super Profits Tax failed to achieve popular or industry support. The new arrangement is to include the introduction of a Minerals Resource Rent Tax (MRRT) regime applicable to iron ore and coal projects from 1 July 2012.

On 3 November 2011, the Government tabled draft legislation into Parliament however at the date of this report the draft legislation has not been passed through both houses of Parliament, therefore the final details of any MRRT mechanism are not known with absolute certainty.

The MRRT is intended to tax iron ore and coal resources as close as practical to the extraction point such that "in theory" any value added through processing is excluded.

Carbon tax

On 10 July 2011, the Australian Government announced the release of its Climate Change Plan introducing its proposed carbon price mechanism (carbon tax), which was subsequently legislated. Under this regime, greenhouse gas emissions will also be taxed from 1 July 2012. At the time of preparing this report, the final details of the mechanism and/or pricing for any trading scheme in the medium term are not known with absolute certainty.

Appendix 4 - Overview of mining in the Mid West

The Mid West covers approximately 468,712 square kilometres (including offshore islands) or nearly one-fifth of the area of WA. The region extends along the coast from Green Head in the south, where it borders the Wheatbelt Region, to beyond Kalbarri in the north where it borders the Gascoyne Region.

The Mid West's economy comprises mining, agriculture, fishing and tourism activities with mining being the major contributor to the Mid West's economy. The emergence of China and India as major industrialised economies stimulated further interest in the region's mineral resources, particularly iron ore.

The Department of Regional Development and Lands estimated the Mid West's Gross Regional Product (GRP) was valued at $4.5 billion for the year ended 30 June 2010, representing 2.4% of Gross State Product. Mining constitutes 52% of the GRP for the region.

Resources

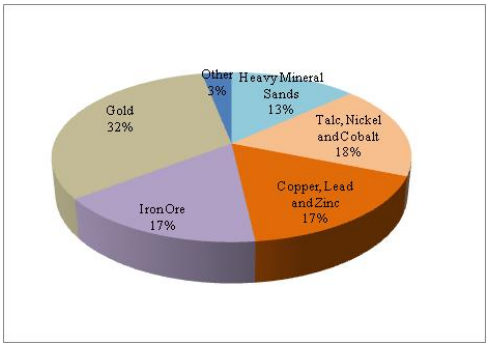
The Mid West has a long history of resource development and is one of the most diverse mining regions in WA. The resources of the region include iron ore, nickel, gold, oil and gas, mineral sands, copper, zinc and lead concentrate, talc and garnet.

According to the Mid-West Development Commission (MWDC), in mid 2010, there were 17 active resource projects and another 21 new projects being progressed to operational status by 18 different companies. Iron ore is the focus of nine projects. Currently, there are $19 billion in resource projects planned or under development in the Mid West.

Mining and mineral resources constitute the highest grossing industry in the Mid West. In 2009-10, the sector's value was estimated at $2.5 billion (excluding offshore petroleum), with on-shore crude oil, condensate and natural gas valued at an additional $52.5 million (MWDC).

Gold mining contributed $816.6 million of value to the economy. Talc, nickel and cobalt collectively amounted to $449.9 million. Copper, lead and zinc, collectively totalled $431.8 million, iron ore contributed $415.7 million and heavy mineral sands and chromite $337.8 million. Although gold is the highest valued mineral, iron ore is driving the growth and investment within the Mid West.

Figure A4 – 1: Mining commodities percentage share of value contribution (excluding offshore petroleum)



Source: Department of Mines and Petroleum

It is anticipated that the Mid West will experience another large growth spurt with the development of new resource projects. This includes a number of large, long-term, iron ore investments.

Iron ore projects

There is an estimated 13 billion tonnes of iron ore mineral resources in the Mid West. The region has evolved primarily as a magnetite rather than a hematite region.

According to the Geraldton Iron Ore Alliance, aggregate production of iron ore is anticipated to grow from a current total of 6Mtpa to 76Mtpa in five years and then to over 110Mtpa by 2017. Construction expenditure on the development of mines and associated infrastructure is estimated to total almost $20 billion over the next 20 years.

Current major iron ore projects in the region identified by the MWDC are summarised in the table below.

Table A4 - 1: major iron ore projects in the Mid West

Company	Location/Project	Resource	Status	Projected life
Crosslands	JHEP	Magnetite	Feasibility studies completed	25+ years
Gindalbie Metals Ltd	Karara Iron Ore Project	Hematite & Magnetite	Hematite operation commenced. Infrastructure construction has commenced to support magnetite operation	30+ years
Sinosteel Midwest Corporation Limited	Koolanoka/Blue Hills	Hematite	In production	5 years

Company	Location/Project	Resource	Status	Projected life
Sinosteel Midwest Corporation Limited	Weld Range	Hematite	Halted pending a viable port and rail solution	15 years
Asia Iron Holdings Limited	Extension Hill	Magnetite	In development with construction expected to commence in Q1 of 2012	50+ years
Golden West Resources Limited	Wiluna West	Hematite	Production is dependent on infrastructure. Forecast to start in Q2 of 2011.	15 years
Mount Gibson Iron Ltd.	Extension Hill	Hematite	In production, sales expected to commence in December 2011	5 years

Source: Mid-West Development Commission Mid-West Project Summary report March 2011, various company reports

The average increase in economic output in the region as a result of the iron ore projects anticipated to come on-stream is estimated to be $1.5 billion from construction activities and $7.4 billion from ongoing operations.

Infrastructure

The growth of resources sector in the Mid West is limited by the current state of the infrastructure in the region. An infrastructure analysis done by the Western Australian Planning Commission highlighted two major infrastructure deficiencies in getting resources to the market:

- the lack of an efficient high capacity rail network
- constraint on the capacity of Geraldton port

The OPR Project is intended to address the above issues. Further details on the OPR project is outlined in section 9.

In addition, the following has also been identified as key issues in the Mid West's infrastructure:

- the availability of future water supply and associated infrastructure requirement for the hematite and magnetite projects are uncertain
- inadequate power supply
- road conditions requiring upgrades in certain parts of the region

Major infrastructure project

Current major infrastructure projects (other than the OPR Project) in the region identified by the MWDC are summarised in the table below.

Table A4 -2: major infrastructure projects in the Mid West

Company	Detail	Status	Cost
Western Power	A 330kV transmission line from Pinjar to Eneabba to improve quality and reliability of electricity supply in the Mid West (Stage 1) Continued transmission line from Eneabba to Moonyoonooka (Geraldton) (Stage 2)	Planned[1]	$320m
Aviva Corporation Limited	810 Mega Watts Coolimba Power Project (Coolimba). It is expected that Coolimba will be able to meet the growing energy demands of the Mid West for more than 30 years	Planned[1]	$1bn
CSIRO	Australian Square Kilometre Array Pathfinder (ASKAP) project, which includes the installation of optical fibre network from the Murchison Radio-Astronomy Observatory (MRO) to Geraldton and the National Broadband Network project between Perth to Geraldton	Planned[1]	Not stated

Notes:
1 Indicates the project has progressed significantly from the conceptual stage but it is not yet committed to proceed

Source: Mid-West Development Commission – Mid-West Project Summary report March 2011

Appendix 5 – Calculation of discount rate

We have assessed an appropriate nominal, post-tax, weighted average cost of capital (WACC) for the JHEP DCF analysis to be in the range of 15% to 17% per annum and 13.5% to 14.5% per annum in respect of the Brindal DSO only.

Selection of the appropriate rate to apply to the forecast cash flows of any asset or business operations is fundamentally a matter of judgement. Whilst there is a body of theory that may provide a framework for the derivation of an appropriate discount rate, it is important to recognise that given the level of subjectivity involved in selecting various inputs to the theoretical framework there is no absolute "correct" discount rate.

We consider the rates adopted to be reasonable discount rates that purchasers would use in the current market in assessing the individual operations of Crosslands and are reflective of the commercial, operational and technical risks of Crosslands' iron ore mining assets.

Introduction to WACC concepts

The WACC of a firm is the expected cost of the various classes of its capital (i.e. its equity and debt), weighted by the proportion of each class of capital to the total capital of the firm and is represented by the following formula, which calculates an after tax nominal rate:

$$WACC = K_d \times (1-t_c) \times (D/(D+E)) + K_e \times (E/(D+E))$$

Where the key inputs are defined as follows:

K_e the after-tax cost of equity, which is the rate of return required by the providers of equity capital.

K_d the pre-tax cost of debt, which is the expected long-term future borrowing cost of the relevant project and/or business.

t_c the applicable corporate tax rate

D the market value of debt

E the market value of equity.

Given that the capital of the firm is used to finance the assets of the firm, WACC can be viewed as the cost of capital for the assets of the firm. It is an opportunity cost of capital in the sense that it reflects the returns that would have been earned in the market with the relevant capital if it was employed in the next best investment of equivalent risk profile. It represents the minimum weighted average rate of return which is required or expected by the providers of capital as compensation for bearing the risks associated with the relevant investment or business operation.

Each of the components of the WACC formula is discussed further below.

Cost of equity (Ke)

The WACC approach represents a merger of the CAPM with capital structure theory. In the WACC formula discussed earlier, the CAPM provides the means for estimating the cost of equity.

The CAPM provides a theoretical basis for determining a discount rate that reflects the risk of a particular investment or business operation. In simple terms, the CAPM states that the returns expected by an equity investor reflect the risk of the underlying equity investment. The risk can be determined by the risk-free rate of return plus a risk premium which reflects the relative risk (as measured by the "beta" factor) required to be borne by the investor. Therefore, the required rate of return for equity securities is determined as set out below:

$$Ke = R_f + \beta \times (MRP) + \alpha$$

Where the key inputs are defined as follows:

R_f risk free rate of return

β beta factor of the investment or business operation

MRP equity market risk premium

α alpha factor

A large degree of subjectivity is involved in estimating the inputs to the formula. These limitations mean that any estimate of the cost of equity must necessarily be regarded as indicative rather than as a firm and precise measure. Furthermore, because the cost of equity is a market-determined measure, changes in market conditions over time will affect its calculation

Risk free rate (R_f)

The relevant risk-free rate of return is the return on a risk-free security, typically for a long-term period. In practice, long dated government bonds are accepted as a benchmark for a risk-free security.

In Australia, the spot yield to maturity of 10-year Commonwealth Government bonds has traditionally been accepted as a proxy for the risk-free rate in determining a cost of equity under the CAPM. However, we note that there is an argument that yields on government bonds may currently be artificially suppressed due to:

- illiquidity issues
- a "flight to quality" as a result of current global economic instability such that the price of bonds has increased, resulting in a fall in nominal returns on "risk-free" securities for reasons other than inflationary expectations,

which has in turn resulted in a prima facie increase in the valuation of assets notwithstanding their cash flow profiles and/or operational risks may have been unchanged from prior periods, which from a commercial perspective is difficult to reconcile having regard to current market conditions.

One approach that has been put forward by commentators to address this issue is to ignore the current spot yield on Government bonds and use a longer-term average bond yield as proxy for the risk free rate. Alternative approaches that we have observed include a specific adjustment to the discount rate either through an increase to the equity market risk premium and/or the alpha factor.

Whilst we concur that the current yield on government bonds may not be sustainable over the medium to long term and can reasonably be expected to revert to higher yield levels over time, we believe that adoption of an "average" longer term rate gives rise, at least in an Australian context, to various issues, including:

- the period over which the average rates is determined is arbitrary and can significantly impact the "average" rate

  Set out below is a graph of historical average monthly yields on 10 year Commonwealth Government Bonds since 1969 as reported by the Reserve Bank of Australia (RBA), along with a summary of the average monthly yield when measured over various observation periods.

Figure A5-1: Historical yield on 10-year Commonwealth Government bonds

Yield on 10 year Government bonds	
10 year avg	5.51
15 year avg	5.72
20 year avg	6.46
25 year avg	7.69
30 year avg	8.76

Source: RBA website

This analysis indicates a wide dispersion of yields over the observation period, with the average monthly yield increasing significantly the longer the observation period used.

- the period over which yields have been recorded by the RBA is relatively short and therefore "one-off shocks" can lead to significant upward bias in the average

- the current yield on Government bonds represents the best indicator of the risk free opportunity cost of the assets for the forthcoming 10 year period at the valuation date.

Equally, given, as discussed below, the market risk premium of 6 percent per annum is based on empirical evidence collected over an extended period of time, which included a number economic cycles, we would be reluctant to arbitrarily adjust the market risk premium.

Having regard to these factors, KPMG's preferred approach is to adopt the prevailing spot rate at the valuation rate as a proxy for the long term risk free rate, with consideration given to the need for a specific adjustment to the cost of equity having regard to a "blended" long-term rate based on:

- the prevailing yield on 10-year Government bonds as a proxy of risk free rate that can be achieved over this period

- a forecast long-run yield at the expiry of the initial 10 year period having regard to estimates published by various economic forecasters,

such that the present value of a nominal distribution stream on holding a fixed interest security over the relevant period at the "blended" rate is the same as that by adopting the yield on 10 year Government bonds available as at 31 March 2009 over an initial 10-year period, followed by the long term rate discussed above.

Set out below are details of the blended rate as at 28 November 2011 and prevailing spot rate of that date

Figure A5-1: Comparison of spot to blended risk free rate

	Rf as at 28 November 2011
Spot	3.9%
Blended	4.8%

Having regard to the projected mine life of Jack Hills this analysis indicates a specific adjustment to the cost of equity in the order of 0.9% per annum is appropriate.

Market risk premium (MRP)

The MRP represents the additional return that investors expect in return for holding risk in the form of a well-diversified portfolio of risky assets (such as a market index). The MRP is the expected risk premium (an ex-ante concept). Given that expectations are not observable, a historical risk premium is generally used as a proxy for the expected risk premium.

The risk premium required by the market is not constant and changes over time. At various stages of the market cycle investors perceive that equities are more risky than at other times and will increase their expected return.

KPMG has adopted a MRP of 6.0% per annum. This figure is within the range of generally accepted market risk premia in Australia.

Beta factor (β)

The beta factor is a measure of the risk of an investment or business operation, relative to a well-diversified portfolio of investments. In theory, the only risks that are captured by beta are those risks that cannot be eliminated by the investor through diversification. Such risks are referred to as systematic, undiversifiable or market risk. The concept of beta is central to the CAPM given that beta risk is the only risk that is priced into investor required rates of return.

The beta for equity securities can be statistically measured by regressing the returns on an equity market index against the share price returns of the relevant stock. By definition, the market portfolio has an equity beta of 1.0. A beta greater than 1.0 implies that the returns on a stock are, on average, more volatile, and hence the stock is more risky than the market, whilst a beta of less than 1.0 implies the reverse.

The beta of a stock can be presented as either an adjusted beta or as an historical beta. The historical beta is obtained from the linear regression of a stock's historical data and is based on the observed relationship between the security's return and the returns on an index. Conversely, the adjusted beta is an estimate of a security's future beta. It is initially derived from the historical beta, but modified by the assumption that a security's true beta will move towards the market average of one, over time. Generally, an adjusted beta is used because of its greater predictive features.

Betas derived from stock market observations represent equity betas, which reflect the degree of financial gearing of the company. Consequently, it is not possible to compare the equity betas of different companies without having regard to their gearing levels. In theory, a more valid analysis of betas can be obtained by "ungearing" the equity beta, by applying the following formula:

$$\beta_a = \beta_e / [1 + (D/E \times (1-t_c)]$$

where "D/E" is the debt and equity values of the relevant equity security and "t_c" is the corporate tax rate. The adjustment involves stripping out the impact of financial gearing from the equity beta to obtain ungeared beta (denoted by β_a).

The following table sets out closing market capitalisation as at 28 November 2011, the two year and five year historical average financial gearing and the adjusted ungeared two year weekly and five year monthly beta estimates for a selection of listed iron ore production companies. The beta factors have been calculated relative to each company's home exchange index and also relative to the Morgan Stanley Capital Index – All Countries (MSCI), an international equities market index that is widely used as a proxy for the global stock market as a whole. The MSCI is often used as a benchmark in respect of assets likely to be attractive to international buyers.

Table A5-2: Selected companies – net financial gearing and ungeared betas

Company	Primary location	Project Status	MktCap $m[1]	Gearing %[2,3] 2 year	Gearing %[2,3] 5 year	Two year weekly ungeared beta Home exchange	Two year weekly ungeared beta MSCI	Five year monthly ungeared beta Home exchange	Five year monthly ungeared beta MSCI
Hematite									
Mount Gibson Iron Ltd.	Mid West	Production	1,359	0%	0%	1.92	1.52	2.06	1.79
Golden West Resources Limited	Mid West	Development	71	0%	0%	0.85	0.88	1.94	1.69
Fortescue Metals Group Ltd.	Pilbara	Production	14,635	11%	17%	1.41	1.14	1.44	0.97
Atlas Iron Limited	Pilbara	Production	2,647	0%	0%	1.64	1.40	1.64	1.39
BC Iron Limited	Pilbara	Production	221	0%	0%	1.24	1.02	n/a	n/a
Flinders Mines Limited.	Pilbara	Development	501	0%	0%	1.01	0.82	0.85	0.29
Brockman Resources Limited	Pilbara	Development	275	0%	0%	1.35	1.07	1.77	1.27
Iron Ore Holdings Limited	Pilbara	Development	199	0%	0%	1.69	1.49	1.40	1.24
Red Hill Iron Ltd	Pilbara	Development	102	0%	0%	0.76	0.62	1.85	1.53
Cazaly Resources Ltd.	Pilbara	Exploration	29	0%	0%	1.19	1.07	1.03	0.92
Pluton Resources Limited	Other	Exploration	48	0%	0%	1.91	1.66	n/a	n/a
Magnetite									
Gindalbie Metals Ltd.	Mid West	Development[5]	579	0%	0%	1.54	1.28	1.75	1.37
Murchison Metals Limited	Mid West	Exploration[5]	184	0%	0%	1.40	1.18	2.03	1.90
Iron Road Limited	Mid West	Exploration	91	0%	0%	1.04	0.96	n/a	n/a
Ferrowest Limited	Mid West	Exploration	5	4%	0%	0.68	0.47	1.48	1.03
Australasian Resources Ltd	Pilbara	Development	83	0%	0%	1.88	1.49	n/a	n/a
Grange Resources Limited	Other	Production	513	0%	0%	1.95	1.52	n/a	n/a
Centrex Metals Limited	Other	Exploration	88	0%	0%	0.74	0.68	1.75	1.50

Company	Primary location	Project Status	MktCap $m[1]	Gearing %[2,3] 2 year	Gearing %[2,3] 5 year	Two year weekly ungeared beta Home exchange	Two year weekly ungeared beta MSCI	Five year monthly ungeared beta Home exchange	Five year monthly ungeared beta MSCI
Western Desert Resources Ltd	Other	Exploration	83	0%	0%	1.39	0.99	n/a	n/a
Eastern Iron Limited	Other	Exploration	9	0%	0%	0.81	0.68	n/a	n/a

Notes

1 Market capitalisation as at 28 November 2011.

2 Where a company does not have any interest bearing debt or the resultant net debt figure is negative i.e. where cash exceeds debt, the ratio of net debt to equity has been recorded as 0%.

3 Gearing ratio calculated as Net debt / (Net debt + equity) at each annual reporting date for the five-year period prior to 28 November 2011.

4 n/a indicates insufficient observations.

5 Gindalbie Metals Ltd and Murchison's hematite projects are in production; however magnetite projects are currently in development.

Source: Capital IQ, latest available financial statements of relevant companies and KPMG analysis

In selecting an appropriate ungeared beta for Crosslands' mineral operations we have:

- considered that mining assets have varying risk profiles depending on the mining method, the nature of the ore being mined and the maturity of the asset and that there is significant variance in observed beta when measured over the different observation periods
- considered that Murchison's share price is likely in recent times to have been impacted by issues with the OPR Project rather than matters solely limited to Jack Hill and/or Brindal
- had regard to the location of the Jack Hills and Brindal projects in the emerging Mid West
- had regard to the current status of the JHEP and the Bridal DSO only alternative, which underpin the value of Crosslands, as being at the planning stage rather than current on-going mining operations
- given greater weighting to the beta observations relative to MSCI, reflecting the international nature of iron ore projects and that iron ore is well traded internationally
- considered that each of BC Iron Limited, Atlas Iron Limited, FerrAus Ltd, Brockman Resources Limited, Flinders Mines Limited and Iron Ore Holdings Limited have been involved in corporate takeover/merger plays in recent times, which may have impacted upon the share price of each company
- a number of the companies considered, including Australasian Resources Limited, Western Desert Resources Limited and Golden West Resources Limited are not pure iron ore plays

Having regard to the above and considering the nature of the Jack Hills and Brindal projects, we consider that, on balance, an appropriate ungeared beta for these assets to be in the range of 1.4 to 1.5.

Having determined an appropriate ungeared beta, it is necessary to "regear" the beta to a specified level of financial gearing to determine the equivalent equity beta.

Debt/equity mix

The selection of an appropriate capital structure is a subjective exercise. The tax deductibility of the cost of debt means that the higher the proportion of debt, the lower the WACC for a given cost of equity. However, at significantly higher levels of debt, the marginal cost of borrowing would increase due to the greater risk which debt holders are exposed to. In addition, the cost of equity would also be likely to increase due to equity investors requiring a higher return given the higher degree of financial risk that they have to bear.

Ultimately for each company there is likely to be a level of debt/equity that represents the optimal capital structure for that company. In estimating the WACC, the debt/equity level assumption should reflect what would be the optimal or target capital structure for the relevant asset. Optimal (as opposed to actual) capital structures are not readily observable. Accordingly, any estimate of optimal capital structure is

necessarily subjective. In practice, the existing capital structures of comparable businesses can be used as a guide to the likely capital structure for a firm, taking into consideration the specific financial circumstances of that firm. In drawing any conclusions from the comparable company information, it is important to note that the observed gearing levels usually represent current gearing levels, which may or may not be representative of optimal, long term gearing levels. Furthermore, the gearing level of a company at a given point in time can reflect recent new issues of debt or equity.

In selecting a gearing level for Murchison, we have had regard to the gearing levels of the selection of listed iron ore producers as set out in Table A5-2 and have also had regard to the fact that recent gearing levels likely reflect the impact of the global financial crisis and, in particular, general global restrictions on the availability of debt funding. Having regard to the long life nature of the Jack Hills operations, we consider there to be reasonable prospects for an increase in gearing levels, particularly for production companies, over the medium to long term which effectively is what has been assumed by the use of discounted cash flows as a valuation methodology. On balance, we consider an appropriate long term gearing level for Murchison to include between 0% and 10% debt.

On this basis the re-geared beta of Crosslands is in the order of 1.5.

Alpha factor (α)

Risk free rate

As noted previously we have applied an additional specific adjustment of 0.9% per annum in relation to the Australian risk free rate.

Specific project risk

Under CAPM theory, it is assumed that diversified investors require no additional return to compensate for specific project risks, because the net effect of specific risk across a diversified portfolio will, on average, be zero i.e. portfolio investors can diversify away all specific risk. In reality many investors will include an additional risk premium to reflect such factors as project location, stage of development, risk inherent in the realisation of the cash flows. Certainly, it is common for companies to set 'hurdle rates' for investments above their own estimates of the cost of capital, to deal with these issues.

Jack Hills

It can be argued that the approach of a valuer to this issue should reflect the approach most likely to be adopted by actual or potential purchasers of similar assets. The JHEP faces significant uncertainties in terms of the future realisation of the cash flows adopted for the purpose of the discounted cash flow analysis, including:

- financing risk; Crosslands (and OPR) are yet to source the funding to develop what are significant projects and will require significant capital investment. We note in this regard Murchison's advice that the project is now beyond its financial capabilities and Mitsubishi's reported indication that the financial commitment is probably beyond its own capacity in terms of balance sheet exposure

- infrastructure risk - there is currently no infrastructure solution in place and no guarantee that a workable solution with OPR will be able to be found. The ability to economically extract the magnetite resource is dependent upon:
    - Crosslands reaching agreement with OPR in relation to an SCA, including infrastructure tariff
    - OPR reaching agreements with each of Gindalbie and the Karara JV participants in relation to SCAs, including infrastructure tariffs, which is beyond the control of Crosslands
- OPR remaining the developer of the OPR Project, which given the potential to lose exclusivity on 31 December 2011 attaches a degree of risk, albeit considered small, of a 3rd party developing the infrastructure
- the Jack Hills project is currently planned to be put on care and maintenance in February 2012, therefore realisation of the cash flows includes a degree of timing risk along with remobilisation risk
- the feasibility study completed in respect of the JHEP is underpinned by measured and indicated resources rather than the higher confidence JORC category of reserves. Crosslands is currently undertaking further analysis in relation to the feasibility study, the outcome of which is not yet known, but may impact upon our range of assessed values either positively or negatively

In our view in setting a discount rate to value the JHEP a purchaser would require an additional premium to compensate for these specific project risks. Based on our professional judgement we have assessed an appropriate specific project risk adjustment to be in the order of a minimum of 2% to 3% per annum, which is in addition to the 0.9% per annum adjustment to reflect the unusually low yield on Government bench at present.

Brindal DSO

Whilst the DSO only option is not dependent upon the successful resolution of a number of the issues facings the JHEP, in particular, the reliance upon an OPR solution is eliminated, there remains a number of risks, including that this option has not been formally modelled by Crosslands and therefore there is an increased degree of forecasting risks. Accordingly, whilst we do not consider the specific risk of this option to be as acute as that of the JHEP and given the relatively short project life for this option modelled by AMC, the exposure to future increase in the risk free rate is also not as acute, we consider an appropriate specific project risk adjustment to be in the order of 1.4%, inclusive of an adjustment to reflect the unusually low yield on Government bonds at present.

Cost of equity calculation

The following table sets out our cost of equity estimate for Murchison based on the assumptions and inputs discussed above:

able A5 – 2: Estimated cost of equity

		JHEP		Brindal DSO Only	
Input	**Definition**	**High**	**Low**	**High**	**Low**
R_f	Risk free rate of return	3.9%	3.9%	3.9%	3.9%
β_a	Asset beta (ungeared beta estimate)	1.4	1.5	1.4	1.5
B_e	Equity beta (re-geared beta estimate)	1.5	1.5	1.5	1.5
MRP	Equity market risk premium	6.0%	6.0%	6.0%	6.0%
α	Alpha adjustment	2.9%	3.9%	1.4%	1.4%
K_e	**Cost of equity (post-tax)**	**15.9%**	**16.8%**	**14.3%**	**14.3%**

Source: KPMG analysis

Cost of debt (K_d)

We have considered the current spread of corporate bonds of various ratings and tenure over the prevailing risk free rate, as well as Murchison's current cost of debt and have adopted a pre-tax cost of debt in the order of 8.0% per annum, which represents a spread of 410 basis points over the risk free rate, which we consider to be reasonable

Corporate tax rate (t_c)

For the purpose of our valuation assessment we have adopted the Australian corporate tax rate of 29% in respect of Murchison given that the relevant cash flows are forecast to commence post the 2012 commencement date for the MRRT and related income taxation amendment legislation.

Calculation of base WACC

The following table summarises the implied base calculation of a nominal post-tax WACC for application in our valuation assessment based on the assumptions/inputs discussed above.

Table A5 – 3: Calculation of WACC – Murchison

		JHEP		Brindal DSO Only	
Input	**Definition**	**High**	**Low**	**High**	**Low**
K_d	Cost of debt (pre-tax)	8.0%	8.0%	8.0%	8.0%
K_e	Cost of equity (post-tax)	15.9%	16.8%	14.3%	14.3%
t_c	Corporate tax rate	29.0%	29.0%	29.0%	29.0%
D/(D+E)	Proportion of debt in the capital mix	10.0%	-	10.0%	-
E/(D+E)	Proportion of equity in the capital mix	90.0%	100.0%	90.0%	100.0%
WACC	**Weighted average cost of capital (nominal post-tax)**	**14.8%**	**16.8%**	**13.4%**	**14.3%**

Source: KPMG analysis

Having regard to the wide variability in data relating to betas and gearing set out above, we consider a discount rate in order of 15% to 17% per annum to be appropriate for the JHEP and 13.5% to 14.5% per annum for the Brindal DSO only

Appendix 6 – Selected listed companies

Table A6 – 1: Selected listed Australian iron ore production companies as at 28 November 2011

Company	Enterprise value $M[3]	Reserve $/t[4]	Resource $/t[5]
Murchison Metals Limited	195.0	n/a	0.3
Hematite[9]			
Fortescue Metals Group Ltd.	16,592.7	12.6	2.9
Atlas Iron Limited	2,281.8	59.8	4.0
Mount Gibson Iron Ltd.	1,286.7	39.6	20.2
Flinders Mines Limited.	464.5	n/a	0.9
Brockman Resources Limited	221.6	0.5	0.3
BC Iron Limited	208.1	21.1	7.5
Iron Ore Holdings Limited	157.3	n/a	0.3
Red Hill Iron Ltd	99.3	1.2	0.6
Pluton Resources Limited	43.9	1.1	0.3
Golden West Resources Limited	39.5	0.9	0.5
Cazaly Resources Ltd.	24.9	1.4	0.3
Magnetite			
Gindalbie Metals Ltd.	704.2	4.0	1.6
Grange Resources Limited	382.1	2.5	1.2
Iron Road Limited	91.0	n/a	0.4
Australasian Resources Ltd	81.3	0.3	0.2
Centrex Metals Limited	69.7	n/a	0.8
Western Desert Resources Ltd	68.8	n/a	0.6
Eastern Iron Limited	5.9	n/a	0.0
Ferrowest Limited	5.7	n/a	0.0
Average		***12.1***	***2.2***
Median		***2.0***	***0.6***
Average (excluding outliers)		***4.1***	***1.2***
Median (excluding outliers)		***1.1***	***0.5***

Notes:

1 *n/a indicates that no reserves data available to calculate reserve multiple.*
2 *nmf indicates that the multiple calculated is negative and is therefore not meaningful.*
3 *enterprise value has been calculated as market capitalisation as at 28 November 2011 and net debt/cash of the selected company reported prior to 28 November 2011.*
4 *calculated as enterprise value divided by reserves.*
5 *calculated as enterprise value divided by resources.*
6 *calculated as enterprise value divided by EBITDA based on most recent annualised EBITDA reported prior to 28 November 2011, adjusted for abnormal items.*
7 *where resource/reserve not 100% owned the multiple calculation is based on the company's relevant interest.*
8 *although BHP and RIO Tinto are all significant iron ore companies, they have been excluded as the diversity of their operations makes it difficult to calculate meaningful resource/reserve multiples for comparison purposes.*

Source: Capital IQ, company financial statements, publicly available resource/reserve information of relevant companies and KPMG analysis

Table A6 – 2: Selected company descriptions

Company	Description
Mount Gibson Iron Ltd. (Mount Gibson)	Mount Gibson together with its subsidiaries, engages in the mining, exploration, evaluation, and development of iron ore deposits in Australia. The company owns and operates Tallering Peak iron ore mine located in the Mid West; and Koolan Island iron ore mine situated in the Kimberley coast, WA. It also owns Extension Hill direct shipping ore hematite project situated in the Mt Gibson Range.
BC Iron Limited (BC Iron)	BC Iron engages in the exploration and development of iron ore deposits in WA. Its principal property includes the Nullagine iron ore project located north of Newman in WA.
Fortescue Metals Group Ltd (FMG)	FMG engages in the acquisition, exploration, development, and production of iron ore properties. Its primary properties comprise the Cloudbreak and Christmas Creek iron ore mines and the Solomon deposit in the Pilbara, WA. FMG also operates an integrated mine, rail, and port supply chain.
Atlas Iron Limited (Atlas)	Atlas engages in the exploration and mining of iron ore in Australia. The company's project portfolio comprises the Pardoo and the Ridley Magnetite projects located east of Port Hedland; the Abydos and the Wodgina project located south of Port Hedland; and the Mt Webber project located south-southeast of Port Hedland. It also holds interests in the Mt Gould and Weld Range projects located in the Jack Hills and Mt Weld areas of the Mid West.
Brockman Resources Limited (Brockman)	Brockman engages in the acquisition, exploration, and development of mineral properties in Australia. It primarily explores for iron ore. The company's key focus is the 100% owned Marillana project, located to the north of Newman, WA. It also has interests in other nickel and cobalt properties.
Golden West Resources Limited (Golden West)	Golden West engages in the exploration and development of mineral properties in Australia. It explores for gold, nickel, lead, uranium, and iron ore deposits. The company's principal property includes the Wiluna West iron ore project comprising 440 square kilometres of tenements located south of Wiluna. It also owns interest in the Doherty's gold project located in the Barrambie Greenstone Belt in the Murchison region, WA.
Red Hill Iron Ltd (Red Hill Iron)	Red Hill Iron engages in the exploration and prospecting of iron ore in the Pilbara Region, WA.
Iron Ore Holdings Limited (Iron Ore Holdings)	Iron Ore Holdings engages in the exploration and development of a portfolio of iron ore projects located in the Central and Western Pilbara regions of WA.

Company	Description
Cazaly Resources Ltd (Cazaly)	Cazaly operates as a diversified mineral resources company primarily in Australia. The company engages in the mining and exploration of mineral properties. It principally explores for gold, iron ore, uranium, and base metals. Cazaly principally holds interest in five distinct project areas within the Pilbara region, which are prospective for iron ore mineralization.
Flinders Mines Limited (Flinders Mines)	Flinders Mines engages in the exploration and development of mineral resources in Australia. The company explores for iron ore in the Pilbara region of WA; and for diamond and phosphate in South Australia and Northern Territory.
Pluton Resources Limited (Pluton)	Pluton engages in the exploration of mineral properties in WA and Tasmania. It holds interests in iron ore projects in the Kimberley region of WA; and copper, gold, and silver projects in Tasmania.
Grange Resources Limited (Grange)	Grange owns and operates integrated iron ore mining and pellet production business in the north west region of Tasmania, Australia. It principally holds interests in the Savage River magnetite iron ore mine, located to southwest of the city of Burnie; and develops a magnetite project at Southdown near Albany in WA. In addition, it produces magnetite and magnetite pellets in Australia.
Murchison Metals Limited (Murchison)	Murchison engages in mineral exploration and evaluation operations, as well as in project development business. It primarily explores for iron ores. The company holds interests in the Rocklea project located in the Pilbara region of WA and the Jack Hills iron ore project situated in the Mid West. It also engages in the construction of a port and rail infrastructure in the Mid West.
Centrex Metals Limited (Centrex)	Centrex Metals Limited together with its subsidiaries, engages in the exploration and mining of iron ores on the Eyre Peninsula, Australia.
Iron Road Limited (Iron Road)	Iron Road engages in the exploration, evaluation, and development of iron ore properties in South Australia and WA. The company's principal property includes the Warramboo iron project consisting of Warramboo, Kopi, and Hambridge prospects located on the Eyre Peninsula of south Australia. Its portfolio also comprises the Windarling and Murchison exploration projects in WA, as well as the West Gawler tenements in south Australia for iron ore mineralisation.
Western Desert Resources Ltd (WDR)	WDR engages in the acquisition, exploration, and development of mineral properties in Australia. It explores for iron ore, gold, uranium, base metals, nickel, tungsten, molybdenum, and other minerals. The company's principle projects include the Roper Bar iron ore project comprising six exploration licenses in the Roper Bar iron ore province; Mountain Creek project situated in northwest of the Roper Bar project area; and Rover project located in the south-west of Tennant Creek, Northern Territory. Its other projects comprise the Spring Hill project situated in the Pine Creek Goldfield, south of Darwin; the Limbla project located in east of Alice Springs; and Thor Mining project.

Company	Description
Australasian Resources Ltd (Australasian Resources)	Australasian Resources engages in the exploration and development of mineral properties in Australia. The company, through its subsidiary, International Minerals Pty Ltd, develop the Balmoral South Iron Ore Project located in the Pilbara region of WA. It also has interests in the Sherlock Bay Nickel Project, the Copper Bore Well and Mt Salt Uranium Projects, and the Cat Camp Nickel Project, which are located in WA. The company has a strategic alliance with Shougang Corporation.
Eastern Iron Limited (Eastern Iron)	Eastern Iron engages in the discovery, delineation, and development of iron ore, precious, and base metal resources in Australia/Asia Pacific region. The company also explores for copper and gold deposits. Its primary projects include the Hawkwood Magnetite-Vanadium project in southern Queensland; and the Cobar/Main Line projects in New South Wales.
Ferrowest Limited (Ferrowest)	Ferrowest engages in mineral exploration activities in Australia. It primarily holds 100% interests in the Yalgoo iron project that produces merchant pig iron from Yogi iron ore deposit located in the Mid West. The company also holds interests in the Western Haematite project located on the company's Yogi tenement package.
Gindalbie Metals Ltd (Gindalbie)	Gindalbie engages in the exploration, evaluation, and development of iron ore projects in Australia. It principally holds interest in the Karara iron ore project located in the Mid West.

Source: Capital IQ and KPMG analysis

Appendix 7 – Selected transactions

Target	Percentage acquired	Acquirer	Date announced	Consideration $M[1,2]	Multiples[3,4,5,6] Resource $/t	Reserve $/t
Magnetite						
Aurox Resources Limited	100.0%	Atlas Iron Limited	10/03/10	142.5	0.7	1.4
Gindalbie Metals Ltd[8]	23.7%	Anshan Iron & Steel Group Corporation	7/11/08	684.4	0.6	2.8
Australian Bulk Minerals[9]	100.0%	Grange Resources Ltd	25/09/08	718.2	4.9	12.5
Hematite						
Flinders Mines Limited[10]	100.0%	Magnitogorsk Iron and Steel Works OJSC	25/11/11	554.0	1.0	n/a
Winmar Resources Ltd[10]	100.0%	Dempsey Minerals Limited	23/11/11	6.0	0.1	n/a
Iron Ore Holdings Limited (Phil's Creek, Lamb Creek and Yadicoogina Creek)[10]	100.0%[17]	Mineral Resources Ltd	13/10/11	42.0	1.4	n/a
Iron Ore Holdings Limited (Koodaideri South tenement) [11]	100.0%[17]	Hamersley Iron Pty Ltd (Rio Tinto Group)	27/09/11	32.0	0.5	n/a
WPG Resources Ltd (iron ore assets)	100.0%	One Steel Limited	22/08/11	346.0	1.3	18.9
Sundance Resources Limited[10]	81.4%	Hanlong Mining Investment Pty Ltd	18/07/11	1,636.8	1.4	10.1
FerrAus Limited	100.0%	Atlas Iron Limited	27/06/11	214.0	0.6	2.0
Territory Resources Limited	68.0%	Jonesville Limited	19/04/11	132.6	29.2	52.1
Giralia Resource NL[12]	100.0%	Atlas Iron Limited	21/12/10	804.4	2.7	n/a[7]
FerrAus Ltd	100.0%	Wah Nam International Holdings Limited	11/11/10	268.8	1.3	n/a[7]

Target	Percentage acquired	Acquirer	Date announced	Consideration $M[1,2]	Multiples[3,4,5,6] Resource $/t	Reserve $/t
Brockman Resources	100.0%	Wah Nam International Holdings Limited	11/11/10	933.7	1.2	1.9
Hamersley Project[13]	51.0%	Saint Istvan Gold	18/10/10	13.8	0.2	n/a
Wonmunna and Uaroo Project	100.0%[17]	E-Com Multi Limited	2/10/10	41.4	0.9	n/a
United Minerals Corporation	100.0%	BHP Billiton Ltd	16/10/09	201.6	2.1	n/a
Mount Gibson Iron Ltd	14.3%	Fushan International Energy Group Ltd	23/09/09	1,848.4	27.7	50.9
FerrAus Ltd	12.0%	China Railway Materials Commercial Corp.	8/09/09	105.0	0.9	n/a[7]
Warwick Resources Ltd	77.8%	Atlas Iron Ltd	7/09/09	65.2	4.1	n/a[7]
Polaris Metals NL	100.0%	Mineral Resources Ltd	20/08/09	120.2	4.8	n/a[7]
Fortescue Metals Group Ltd[14]	8.6%	Hunan Valin Iron & Steel Group Co Ltd	24/02/09	7,523.9	5.2	13.0
Fortescue Metals Group Ltd[15]	9.1%	Hunan Valin Iron & Steel Group Co Ltd	9/03/09	6,912.9	4.9	12.3
Portman Ltd[16]	14.8%	Cliffs Natural Resources Inc	11/09/08	3,566.9	40.9	60.8
Golden West Resources Ltd	11.5%	Hunan Valin Iron & Steel Group Co Ltd	12/08/08	230.9	3.0	n/a[7]

Notes:

1. *Consideration represents the market value of the target, denominated in Australian dollars, calculated based on the bidder's closing share price, the prevailing exchange rate on the last trading day prior to the announcement (as applicable) and the number of shares on issue prior to the announcement date.*
2. *Where the transaction involved a company acquiring the balance of shares it did not directly own, the consideration has been grossed up to reflect an implied acquisition of 100%.*
3. *Resources and reserve multiples are calculated using the enterprise value implied by the consideration offered and the target's net debt/cash position reported prior to the announcement of the transaction. Resources and reserves have been sourced from latest resources and reserves statement announced by the company prior to the announcement of the transaction.*
4. *Reserve multiples are based on proven and probable reserves (exclusive of stockpile)*

Target	Percentage acquired	Acquirer	Date announced	Consideration $M[1,2]	Multiples[3,4,5,6] Resource $/t	Reserve $/t

5. Resource multiples are based on measured, indicated and inferred resources

6. If financial report/announcement does not disclose whether resources are inclusive/exclusive of reserves, we have assumed that resources are disclosed as being inclusive of reserves.

7. In relation to the resource/reserve multiples, n/a indicates that the resource/reserve figure is not available.

8. Contains hematite and magnetite resources and reserves.

9. Equity value based on 380 million Grange shares valued at its closing share price of A$1.89 on 24 September 2008. Deferred consideration and royalties not included in valuation metrics. Implied premium not calculated as ABM is a private company and no share price information prior to the takeover was available.

10. Pending transactions as at the date of this report.

11. Target will also receive 2% FOB royalty on ore mined from the tenements on top of the cash consideration

12. Have assumed an all Scrip alternative

13. Saint Istvan Gold (now Winmar Resources Limited) has an option to acquire an immediate 100% interest in the tenements for an exercise price of $35 million and the grant of a royalty

14. Share issued by Fortescue pursuant to a Share Subscription Agreement between the two parties

15. Valin entered into an agreement to acquire 274 million shares in Fortescue from private equity firm, Harbinger

16. Cliffs Natural Resources acquired an additional 14.81% of Portman Ltd for consideration of $529m. Prior to this, Cliffs had acquired an 80.4% interest in Portman in 2005. The combination of these two transactions results in the calculation of Consideration at $1,126 million and Resource and Reserve multiples of 8.1 and 11.9 respectively.

17. 100% acquisition of tenements

Source: Capital IQ, MergerMarket, Connect 4, company websites, company announcements, company financial statements and KPMG analysis

Appendix 8 – AMC - Independent Technical Specialist Report

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INDEPENDENT TECHNICAL SPECIALIST'S REPORT

MURCHISON METALS LIMITED
KPMG CORPORATE FINANCE (AUST) PTY LTD

AMC NUMBER 211098

23 December 2011

23 December 2011

The Directors
KPMG Corporate Finance (Aust) Pty Ltd
235 St Georges Terrace
PERTH WA 6000

Dear Sir

INDEPENDENT TECHNICAL SPECIALIST'S REPORT
MURCHISON METALS LIMITED

Murchison Metals Ltd ("Murchison") announced on 24 November 2011 that it has entered into a conditional sale agreement ("Proposed Transaction") with Mitsubishi Development Pty Ltd ("MDPL") in relation to its interests in Crosslands Resources Ltd ("Crosslands"), the owner of the Jack Hills iron ore mine, and the Oakajee Port and Rail ("OPR") project. Murchison has stated that it:

- is a 50% shareholder in Crosslands, with the remaining 50% held by MDPL
- has a 50% economic interest in OPR, with the remaining 50% held by MDPL.

Murchison engaged KPMG Corporate Finance (Aust) Pty Ltd ("KPMG") to prepare an independent expert report ("IER") in relation to the Proposed Transaction.

KPMG engaged AMC Consultants Pty Ltd ("AMC") to prepare this independent technical specialist's report ("ITSR") on certain mineral assets ("Assets") of Crosslands for attachment as an appendix to KPMG's IER. KPMG directed that the ITSR include a description of the Assets and their planned development, and a valuation of the Assets as at 1 November 2011. The valuations are based on product pricing, port and rail tariffs, and macroeconomic and taxation inputs provided by KPMG to the extent that those factors are relevant to valuation concerned. The Assets are:

- the Jack Hills operation for the period 1 November 2011 to 29 February 2012
- the Jack Hills Expansion Project ("JHEP")
- the Jack Hills mineral resources
- Crosslands exploration interests.

This ITSR has been prepared by AMC as a Specialist in accordance with the VALMIN Code[1] to the extent that the code is relevant to the assignment, as well as in accordance with the Australian Securities and Investment Commission ("ASIC") Regulatory Guide 111 and Regulatory Guide 112[2]. The terms Mineral Resources and Ore Reserves as used in this report are in accordance with the JORC Code[3]. For the purposes of preparing this ITSR, AMC visited the Jack Hills operation, reviewed material technical reports and management information provided by Murchison and/or Crosslands and held discussions with management staff of Murchison and Crosslands on site and in their Perth offices. AMC has not visited the exploration projects away from Jack Hills as they are not considered material to the overall value of Murchison.

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1 Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports. The VALMIN Code 2005 Edition, Prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.

2 Regulatory Guide 111 – Content of expert reports, and Regulatory Guide 112 – Independence of experts, issued by the Australian Securities and Investments Commission (ASIC).

3 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2004 Edition, Effective December 2004, Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC).

Recent independent enquiry regarding the material Jack Hills tenements has shown that they are in good standing with a strong history of meeting expenditure commitments.

AMC has not audited the information provided to it, but has aimed to satisfy itself that all of the information has been prepared in accordance with proper industry standards and is based on data that AMC considers to be of acceptable quality and reliability.

All monetary figures in this report are expressed in 2011 Australian Dollars ("$") unless otherwise noted. Costs are presented on a cash cost basis unless otherwise specified.

Reporting of production and costs in this report is presented on a calendar (January to December) basis except where otherwise specified.

This report and the valuations and conclusions in it are effective at 1 November 2011. Those valuations and conclusions may change in the future with changes in relevant product prices and assumptions in relation to port and rail tariffs, macroeconomic factors and taxation inputs, and exploration and other technical developments in regard to the projects and the market for mineral properties.

For definitions of abbreviations used in this report, refer to Appendix A.

SUMMARY DESCRIPTION OF MINERAL ASSETS

Jack Hills Current Operation

The Jack Hills iron ore mine is located in the Murchison region of Western Australia. It commenced production in 2007 and has a nominal production capacity of 1.8 Mwmtpa of direct shipping ore ("DSO"), which is road-trucked to the port of Geraldton for export. This operation is generally referred to as "Stage 1".

Murchison announced on 30 November 2011 that Stage 1 mining will cease in late December 2011 and that final shipment of product from Stage 1 is scheduled to occur in February 2012, whereupon the mine will be placed on care and maintenance while Crosslands progresses planning for the expansion of Jack Hills.

Jack Hills Expansion Project

On 4 July 2011, Murchison announced that feasibility studies had been delivered for:

- the JHEP by Crosslands, based on an initial production rate of 23.4 Mwmtpa comprising iron concentrates and DSO, with a mine life of 39 years
- development of an integrated port and rail facility by OPR, with an initial capacity of 45 Mwmtpa.

The OPR project development is based on a new port at Oakajee, approximately 24 km north of Geraldton, and railway located in the mid-west region of Western Australia to service existing and prospective regional iron ore miners for export of bulk iron products.

The feasibility study for the JHEP as delivered by Crosslands is referred to as Bankable Feasibility Study – Rev 0 ("BFS – Rev 0"). BFS – Rev 0 was carried out by Crosslands and the Magnetite Joint Venture ("MJV") (a joint venture between AMEC Minproc Limited ("AMEC Minproc") and WorleyParsons Limited ("WorleyParsons")), and SRK Consulting ("SRK") as the main consultants. BFS – Rev 0 has undergone independent technical peer review. AMC has had confidential access to BFS – Rev 0 which is, in AMC's opinion, a comprehensive and well conducted study, and has a sound basis and has been a key source of information for this ITSR.

Jack Hills Mineral Resources

Murchison's announcement on 4 July 2011 in relation to the JHEP and OPR feasibility studies referred to above contains a statement of Mineral Resource estimates for Jack Hills, with a summary tabulation reproduced in this report as Table I. The estimate is comprised of the main Jack Hills deposit and Brindal, a satellite deposit.

Table I **Total In Situ Jack Hills Project Resource Summary (4 July 2011 ASX Announcement)**

Category	Tonnes (Mt)	Fe Grade (%)	DTR (wt %)
Measured	906	32.4	24.6
Indicated	1,267	32.2	28.1
Inferred	1,061	32.3	27.4
Total	**3,234**	**32.3**	**26.9**

The statement refers to estimates for a number of components of the resource including:

- In situ banded iron formation ("BIF"), alternatively referred to as beneficiation feed ore ("BFO"). This is material that would need to undergo beneficiation to produce a marketable product. The resources are reported at a 22% Fe cut-off ("BIF-BFO").
- In situ massive iron mineralisation ("MIM") that has a grade of less than 50% and could be processed by a beneficiation plant ("MIM-BFO").
- In situ MIM reported at a 50% Fe cut-off which represents material that could reasonably be mined as DSO.
- Other resources reported at a 22 % Fe cut-off which are suitable as BFO plant feed ("Other BFO").

The estimate includes:

- Jack Hills resource
  - BIF-BFO of 2,871 Mt at 30.7% Fe.
  - DSO of 133 Mt at 56.2% Fe.
  - Other BFO totalling 214 Mt at 38.4% Fe.
- The Brindal resource
  - BIF-BFO of 8.3 Mt at 26.8% Fe.
  - DSO of 7.9 Mt at 61.6% Fe.

Exploration Properties

Exploration tenements held by Crosslands consist of eight exploration licences covering 63 graticule blocks (about 195 km^2) at several locations in the mid-west region of Western Australia. Exploration activity on these tenements has identified prospective BIF stratigraphy without indicating significant iron mineralisation to date. There has been limited active exploration since 2008 when drilling and airborne geophysical surveys were completed. Further exploration is warranted although success may depend on the demonstrated economic viability of low grade BIF deposits as a source of magnetite.

MINERAL ASSETS VALUATION SUMMARY

AMC has valued the Stage 1 operation for the period 1 November 2011 to 29 February 2012, and the JHEP, using the discounted cash flow ("DCF") method to arrive at estimates of the project's net present value ("NPV"). AMC's valuations per those NPVs are nominal, ungeared and post-tax.

AMC's valuation of the Stage 1 operation is based on advice from Murchison regarding actual physicals and costs for November and budget physicals and costs for December through February.

AMC's valuation of the JHEP is based on BFS – Rev 0 physicals and costs.

AMC has valued the Jack Hills mineral resources and Crosslands exploration interests using exploration valuation methods, namely:

- the Jack Hills DSO mineral resource has been valued using the Yardstick Value method
- the Jack Hills BFO mineral resource has been valued using the Yardstick Value and Past Expenditure methods

- the Brindal mineral resource has been valued using the Expected Value method.

These methods are commonly used in Australia and are discussed in this report.

AMC's valuations are summarised in Table II.

Table II AMC Valuation Summary – 1 November 2011

Mineral Asset	Valuation Method	100% Asset Value Range[1]			Murchison's 50% Value Range[1]		
		Low[2] ($M)	High[2] ($M)	Preferred ($M)	Low[2] ($M)	High[2] ($M)	Preferred ($M)
Jack Hills operation for the period 1 November 2011 to 29 February 2012 ("Stage 1")	DCF[3]	10	10	10	5	5	5
Jack Hills Expansion Project ("JHEP")	DCF[3]	-494	-211	Nil	-247	-106	Nil
Jack Hills Mineral Resources:							
Jack Hills:							
BFO	Exploration	260	423	342	130	212	171
DSO	Exploration	37	98	68	19	49	34
Brindal:							
BFO	Exploration	0	0	0	0	0	0
DSO	Exploration	40	90	65	20	45	33
Crosslands Exploration Properties	Exploration	1.7	2.4	2.1	0.9	1.2	1.0
Total		**349**	**623**	**486**	**174**	**312**	**243**

[1] The values may not add due to rounding.
[2] The JHEP is assigned Nil value in Low and High range totals.
[3] The discounted cash flows used in this method are nominal, ungeared and post tax.

The VALMIN Code defines a Technical Value as an assessment of future net economic benefit and a Fair Market Value as one which adds to or subtracts from a Technical Value a premium or discount relating to market, strategic or other considerations.

AMC's valuations using the DCF method and presented in this report result in a Technical Value.

AMC's valuations of the exploration assets presented in this report are Fair Market Values. Some of the exploration valuation methods result in a Technical Value, but AMC does not believe it appropriate at this time to apply a premium or discount to assets such as these to obtain Fair Market Value.

KPMG has advised AMC that it has separately considered Murchison's corporate costs.

KPMG has also advised AMC that the OPR project is being valued by others and therefore AMC has not considered any aspects of the OPR project.

It should be noted that estimated NPV's for the JHEP, and therefore AMC's valuation of the JHEP, are highly sensitive (upside and downside) to product prices and foreign exchange rates, operating costs and also the OPR port and rail tariffs, the discount rate, and capital costs.

As noted above, AMC's valuation of the JHEP is based on BFS – Rev 0. Murchison and Crosslands have advised AMC that significant work on the JHEP has continued post that feasibility study, but the work has not been completed or reported and therefore conclusions as to the effects of that further work cannot yet be drawn. Therefore, AMC has not considered the effects of that work-in-progress. The work includes:

- Process plant flowsheet and design, including addition of a flotation section to better manage sulphur levels in the concentrate. These would result in higher capital and operating costs, including higher power requirements, and possible lower iron recoveries to concentrate.
- Refinements to the production schedule which would smooth production rates, with some decrease in production in the initial years.
- Improvements to the mine design which would reduce strip ratio, increase the DSO tonnage from the JHEP and, possibly, bring DSO forward in the production schedule.

AMC's detailed report, of which this letter is a summary, is attached.

Yours faithfully

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1 TENEMENTS

Crosslands' mineral tenements consist of:

- two mining leases and an exploration licence in the Jack Hills area
- four exploration licences in the Weld range area
- four other exploration licences
- nine miscellaneous licences and a general purpose lease for purposes such as roads, powerlines and pipelines.

Table 1.1 lists details of the mining leases and exploration licences. A further four applications for miscellaneous licences and one for an exploration licence have been submitted. The miscellaneous licences and applications and the general purpose lease cover a total area of 80,077 ha with the largest single licence of 78,691 ha to allow for the search for water.

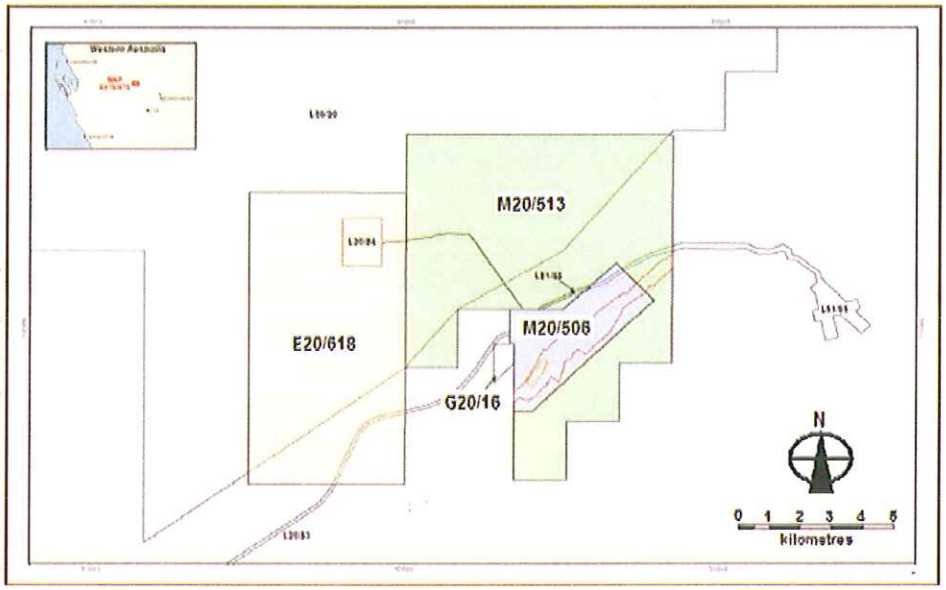
Table 1.1 Crosslands Mineral Tenements

Tenement	Name	Application Date	Grant Date	Expiry Date	Bond ($)	Rent ($/a)	Commitment ($/a)	Rates ($/a)	Area[1]
Jack Hills									
M20/506	Mt Hale Mining	29-Mar-05	21-Oct-05	20-Oct-26	1,100,000	14,970	99,800	13,940	998 ha
M20/513	Mt Hale North	03-Aug-09	08-Oct-10	07-Oct-31	120,000	87,030	580,200	43,298	5,802 ha
E20/618	Mt Hale Flats	07-Dec-05	18-May-07	17-May-12	18,000	3,593	30,000	260	15 blocks
Other									
E20/552	Weld Range West	29-Oct-03	13-Feb-07	12-Feb-12	-	4,311	30,000	1,349	18 blocks
E20/557	Weld Range West South	06-May-04	01-Nov-05	31-Oct-12	-	273	15,000	300	1 blocks
E20/558	Weld Range Central	06-May-04	01-Nov-05	31-Oct-12	-	273	15,000	300	1 blocks
E20/559	Noonie	20-May-04	01-Nov-05	31-Oct-12	10,000	3,832	50,000	8,164	16 blocks
E51/1070	Weld Range North	24-May-04	20-Sep-05	19-Sep-12	-	1,437	50,000	317	6 blocks
E51/1071	Stewart Bore	24-May-04	20-Sep-05	19-Sep-12	-	1,916	50,000	423	8 blocks
E59/1163	Bill Well	06-May-04	21-Apr-11	20-Apr-16	-	908	20,000	350	8 blocks
E59/1629	Pinyalling Hill	25-Sep-09	02-Feb-11	01-Feb-16	-	568	15,000	270	5 blocks

[1] Graticule block is about 3.1 km^2

A recent independent enquiry regarding the material Jack Hills tenements has shown that the tenements are in good standing with a strong history of meeting expenditure commitments. Caveats are registered against M20/513 and M20/506. The location of the main Jack Hills tenements is shown in Figure 1.1.

Figure 1.1 Location of Jack Hills Tenements



In AMC's valuation, no value was attributed to applications, miscellaneous licences or general purpose leases.

2 JACK HILLS EXPANSION PROJECT

The following description of geology, data collection and resource estimation is drawn from BFS – Rev 0 and supporting documentation from mineral industry consultant SRK.

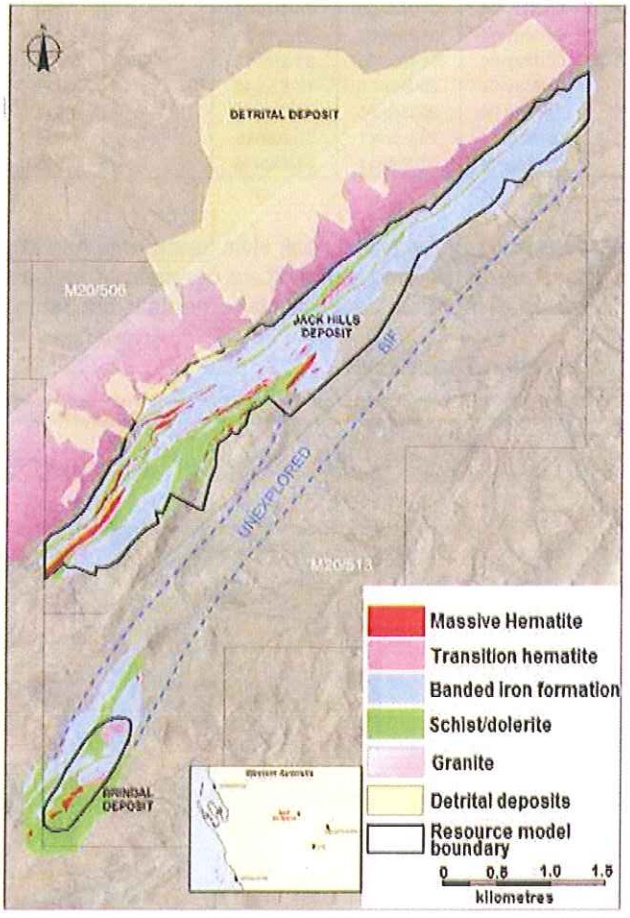
2.1 Geology and Mineral Resources

2.1.1 Geology

The Jack Hills deposit is located in the Jack Hills greenstone belt near the northern edge of the Yilgarn Craton in an area of strongly outcropping metasedimentary and metavolcanic ridges surrounded by poorly outcropping granitoid and gneiss basement.

The dominant greenstone belt lithologies are BIF, chert, mafic and ultramafic rocks, and siliclastic rocks including quartz-mica schist, quartzite, metasandstone and metaconglomerate (Figure 2.1). The main phase of deformation of the greenstone belt was associated with the Cargarah shear and the Yalgan fault. The overall stratigraphy is interpreted to form a northeast-plunging anticline. The main Jack Hills deposit is located on the sub-vertical to overturned, steeply dipping, northwestern limb of the anticline. The Brindal deposit is located on the southern extension of the eastern limb.

Figure 2.1 Interpreted Geology of the Jack Hills and Brindal Areas



The BIF units and associated hematite mineralisation are the dominant mineralisation types in outcrop and form prominent ridge lines that rise above the surrounding granite flat lands, ranging from about 530m reduced level ("RL") to 697 mRL with the highest point at Mt Hale. The BIF consists of 1 mm to 10 mm thick laminae of fine-grained hematite (generally formed by oxidation of magnetite) alternating with quartz-rich laminae.

Silica-rich rocks within the metasediments form bands up to several hundred metres thick and tens of kilometres long and are often inter-bedded with BIF.

Mafic metavolcanic and intrusive rocks consist of chlorite-carbonate schist, tremolite-chlorite schist, and actinolite-clinozoisite-quartz schist, and massive metadolerite. Ultramafic rocks consist of talc-carbonate-chlorite schists. The mafic and ultramafic rocks are present throughout the stratigraphic sequence between the ridges of metasedimentary rock.

2.1.2 Mineralisation

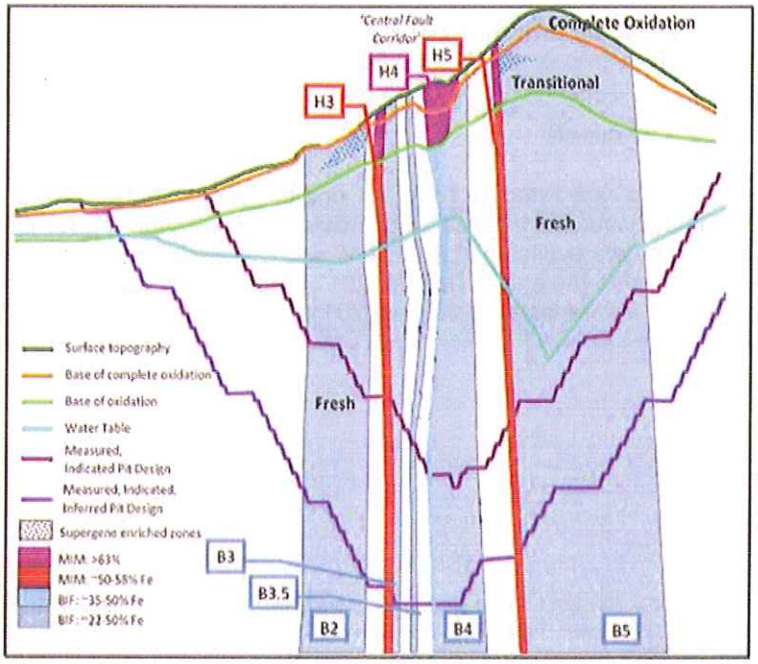
The Jack Hills mineral resource is made up of three deposits:

- The main Jack Hills deposit consisting of BIF and MIM veins and lenses, with a strike length of about 7 km, forming the main Jack Hills Range and encompassing the established Stage 1 mining operation.
- Detrital iron deposits ("DID"); comprising conglomerates, canga sheets, and channel fill covering the plains along the northwestern flank of the Jack Hills Range.
- The Brindal deposit consisting of MIM lenses and minor BIF, located 3 km south of the main Jack Hills deposit.

The BIF is the dominant iron-bearing rock type and varies in thickness from 5m to 250m in width. As shown in Figure 2.2 for the southwestern end of the Jack Hills deposit, five main BIF units have been identified. They trend northeast to southwest, dipping vertically 80° to the southeast. Surface mapping, pit floor mapping and drilling has demonstrated strong lateral and vertical continuity to all the BIF rock units.

Fresh BIF consists of magnetite, hematite ± quartz, talc, amphibole, and carbonate. Weathering modifies the BIF to hematite, goethite, limonite, quartz, and clay in the oxide zone and to hematite, ± magnetite, martite, goethite, limonite, quartz, talc, amphibole, carbonate, and clay in the transition zone.

Figure 2.2 Geological Cross Section



MIM occurs as pods and veins of mainly massive magnetite and/or hematite and are commonly localised at the contacts of the BIF and mafic waste rock units. Most MIM lenses strike northeast to southwest, with dips sub-vertical to steep to the southeast. MIM occurs as hypogene or supergene mineralisation. Hypogene MIM is considered to have a hydrothermal or metasomatic origin associated with faults and extends to depth in fresh rock. Supergene MIM was formed through surficial weathering processes and is restricted to the weathering zone developed over BIF or hypogene MIM. The main MIM lenses are named H3 to H5. The H3 and H4 lenses (hypogene and supergene respectively) were the focus of Stage 1 mining operation.

DID consists of conglomerate or breccia in sheets and channel deposits consisting of BIF or MIM clasts of hematite, quartz ± goethite, lesser oxidised mafic or granite clasts, in a clay matrix.

The proposed project (JHEP) will produce four primary product types:

- premium lump
- premium fines
- pellet feed as magnetically recovered concentrate
- sinter feed as gravity-recovered concentrate.

The character of each product reflects the primary mineralogy of the rock modified by alteration or weathering. Mineral liberation analyses indicate that more than 95% of the total contained iron is contained in iron ore mineral species (magnetite, hematite and iron hydroxides).

The nature of magnetite concentrate varies across BIF units and is most pronounced across the weathering profile, reflecting the oxidation of magnetite to hematite (martite) ± goethite. MIM and BIF units are hematite-dominant near surface, with increasing magnetite through the transition zone to the base of oxidation at about 70m below surface.

2.1.3 Mineral Resources

Mineral resources at Jack Hills are reported in four components:

- BIF which would need to undergo beneficiation is referred to as BFO. The mineral resources from the five BIF units are reported at a 22% Fe cut-off.
- MIM that is possibly BFO has a grade of less than 50% Fe and could be processed by a beneficiation plant.
- MIM that could reasonably be mined as DSO. It is massive magnetite reported at a 50% Fe cut-off. Mineralisation of this type that is not direct shipped forms a further feed stock for the beneficiation plant.
- DID reported at a 22% Fe cut-off.

Mineral resources for Jack Hills[4] are listed in Table 2.1 and for Brindal in Table 2.2. The mineral resource includes an estimate of magnetic recovery indicated by Davis Tube Recovery ("DTR"). The Jack Hills mineral resource estimate is based on data available at April 2010 and depleted to 30 May 2010. Subsequent to that date, 1.5 Mt of DSO were mined to the end of October 2011. The Brindal mineral resource estimate is based on data available at April 2011 and reported at 30 June 2011.

[4] Refer to ASX Announcement dated 4 July 2011 for further details of the Brindal Mineral Resource estimate and 23 September 2010 for the Jack Hills Mineral Resource estimate. Tonnes are dry metric tonnes. The DID mineral resource (118 Mt at 32.6% Fe, 3.6% DTR) may not be available for future economic extraction due to position of integrated waste landform. Refer to page 2 of the Explanatory Memorandum for the Competent Person's Statement.

Table 2.1 Jack Hills Mineral Resources at 30 May 2010

Estimate	Tonnes (Mt)	Fe (%)	DTR (%)
BIF > 22% Fe			
Measured	834	31	23
Indicated	1,160	31	28
Inferred	877	31	30
Subtotal	2,871	31	27
DID > 22% Fe			
Inferred	118	33	3.6
MIM < 50% Fe			
Measured	31	46	39
Indicated	35	45	37
Inferred	31	46	39
Subtotal	96	46	38
MIM > 50% Fe			
Measured	38	57	48
Indicated	61	56	35
Inferred	34	55	42
Subtotal	133	56	40
Total			
Measured	902	32	25
Indicated	1,256	32	28
Inferred	1,060	32	27
All	**3,218**	**32**	**27**

Table 2.2 Brindal Mineral Resources at 30 June 2011

Estimate	Tonnes (Mt)	Fe (%)	DTR (%)
BIF > 22% Fe			
Indicated	8.3	27	1
MIM < 50% Fe			
Indicated	0.1	47	2
MIM > 50% Fe			
Measured	3.4	63	1
Indicated	3.5	61	2
Inferred	1.0	59	1
Subtotal	7.9	62	1
Total			
Measured	3.4	63	1
Indicated	11.9	37	1
Inferred	1.0	59	1
All	**16.3**	**44**	**1**

2.1.4 Resource Estimation

The mineral resource estimates were developed by Crosslands in conjunction with an independent consultant. The estimates were subject to independent audit. Mineralisation in the Jack Hills area was drilled using reverse circulation ("RC") and diamond drilling at a spacing of about 100m to 200m, with closer spaced drilling to 40m to 80m on the main MIM lenses in areas anticipated for initial mining. Drillhole spacing is about 50m in Measured and Indicated Resource.

The drill data consisted of 1,716 drillholes completed between 1970 and 2010 at both Jack Hills and Brindal for a total of 337,520m drilled. About 87% of drilling is RC. Drillhole data were collected using documented standard operating procedures. In diamond drillholes logged BIF and MIM rock types were sampled for analysis honouring geological boundaries up to a maximum sample length of 2m in BIF and 1.5m in MIM. RC samples of 1m were composited over 2m for analysis. Analyses were carried out using fused bead X-ray

fluorescence ("XRF"). Routine data quality control procedures have been maintained during the main drilling campaigns and independent reviews determined that the data was of an acceptable standard.

Drilling data and detailed surface mapping was used to develop wireframes of geological units and oxidation boundaries as a framework for resource estimation. Data analysis (including variography) was carried out on 6m composites for Fe, SiO_2, Al_2O_3, P, LOI, CaO, MgO and S grades, density and DTR. These variables were estimated using ordinary kriging into a block model with parent cell dimensions of 25m East x 25m North x 12 mRL with cell splitting to delineate boundaries. Concentrate grades from DTR testwork were estimated using inverse distance squared. Waste rock domains (dolerite, dolerite dykes and granite) were estimated using inverse distance squared.

The mineral resource estimate was classified into Measured, Indicated and Inferred Resource categories based on data quality, the continuity of the geological interpretation and the continuity of grade. The confidence in grade largely reflected confidence in the estimated iron grade. Confidence in estimated density and DTR may be less where regressions were used in areas where density and DTR determinations were not continuous in drillholes.

Crosslands is presently finalising an updated Mineral Resource for Jack Hills. Crosslands has advised AMC that the updated mineral resource estimate does not contain any material changes other than improved resource categorisation, and minor improvements in certain grades and tonnes.

2.2 Mining

The JHEP is proposed as an owner miner operation, utilising a fly-in/fly-out roster from Perth, which is some 650 km to the south-south-west.

An Ore Reserve estimate has not been announced for the JHEP. Consequently, the JHEP references to "ore" in this report relate to pit inventory and/or plant feed considered in BFS – Rev 0.

Open pit mining operations will present 55 Mdmtpa to the beneficiation plant over the life of the mine, from a total material movement of up to 125 Mdmtpa, at a total stripping ratio of 0.94 tonnes of waste per 1 tonne of plant feed. Plant feed is planned to be sourced mainly from Jack Hills but also from a small satellite deposit, Brindal.

Plant feed is classified into two types in BFS – Rev 0; DSO, both lump and fines produced from predominately high grade hematite mineralisation, and BFO, lower grade mineralisation requiring upgrade through processing to generate a marketable product. The majority of plant feed mined in BFS – Rev 0 is BFO.

2.2.1 Pit Optimisation

Mining limits derived from Whittle™ pit optimisation software were used as the basis for final pit design. This software uses the Lerchs-Grossmann algorithm to define pit shapes which maximise project operating surplus based on inputs including a mining model, metallurgical parameters, cost and revenue factors, and slope design constraints. The mining model was developed by applying mining loss and dilution to the resource model, and calculating recoverable iron units. A series of option and sensitivity analyses was also conducted on the pit optimisation results, to identify the most favourable outcome, with the conclusion being that, overall, the final pit is relatively insensitive to change in inputs. The selling cost used in pit optimisation does not include allowance for the OPR port and rail fixed tariffs, as this is considered capital in nature and operating costs have been used for pit optimisation.

2.2.2 Mining Method

The mining method proposed for the JHEP uses conventional drill and blast, to break plant feed and waste, and shovel and truck, for loading and hauling operations.

Material will be drilled and blasted in 12m benches, and then mined by hydraulic shovels or front end loaders on 12m high faces to rear dump off highway haul trucks. During the pre-strip phase a mining contractor, using smaller backhoe excavators will develop narrow areas, establish adequate access for larger equipment and extract DSO on 3m high flitches.

BFO zones are amenable to large scale bulk mining operations, while higher grade MIM, largely concentrated in the weathered zones near surface, will require more selective mining techniques.

2.2.3 Equipment Selection

Selection of the appropriate loading and hauling equipment class for the JHEP is based on consideration of bench height, mining selectivity to minimise mining loss and dilution, mining productivity, blending strategy, operating costs and capital costs. The class of production equipment selected in the study is:

- Large diesel hydraulic face shovels as primary loading units (Liebherr R9800, 36 m^3 bucket).
- Front end loaders as secondary loading units (LeTourneau L-1850, 26 m^3 bucket).
- Large haul trucks (Caterpillar 793, 220t payload).

Drilling equipment selected in BFS – Rev 0 was based on:

- Production drilling equipment was selected to drill a 216 mm to 229 mm diameter, 12m hole (plus sub-drill) in one pass using large rotary down hole hammer drills (Bucyrus SKFX).
- Smaller and more flexible secondary and pioneering drilling equipment (Atlas Copco ROCD65).

2.2.4 Mine Design

The optimised pit shell was used as the basis of the mine design, which involves adding benchs, berms and haul roads.

Geotechnical investigation indentified that the main failure mode of pit slopes was likely to be planar and toppling failures on bedding, or foliation on contacts between units. Steep bench faces and wide berms were designed in areas where toppling failure is expected to be the main failure mechansism. Overall slope design parameters are 40 degrees in weathered rock and 40 to 50 degrees in fresh rock.

Benchs are 12m high, and the life-of-mine ("LOM") pit is approximately 7 km long, up to 1.7 km wide and is almost divided in two along its length by Mt Hale, a significant cultural feature that is intentionally not mined. A 65m exclusion zone radius is applied around the centre of Mt Hale.

Ramp widths have been set at 40m for dual lane access, which takes into account safety berms, drains and equipment separation distances.

2.2.5 Mine Scheduling

The pit sequence implemented in BFS – Rev 0 is the culmination of a number of design and production iterations to improve the quality of the blended feed to the process plant while maximising financial return.

The initial phase of mining in the first three years of the project, includes pioneering and pre-striping activities to set the pit up for full production once plant commissioning and transport infrastructure construction is complete. The pre-strip phase develops a series of ramps running down the north-west contour face of the range being mined. These ramps maintain access to mining levels for the first 6 to 7 years of mine life. During this stage, waste mined will be used for infrastructure development including the starter embankment for the Integrated Waste Landform and the rail embankment. Significant low grade stockpiles of plant feed will also be built up in this period.

After the first three years, emphasis has been placed on mining multiple areas to achieve the required production rates and blending of different plant feed types of varying quality to maintain a specific plant feed quality. High and low grade areas must be developed simultaneously in order to meet quality targets.

2.2.6 Production Inventory

An Ore Reserve estimate has not been announced for the JHEP. The term "ore" as used in this report in relation to the JHEP refers to the pit inventory and/or plant feed considered in BFS – Rev 0.

The Jack Hills and Brindal LOM pit inventories per BFS – Rev 0 are listed in Table 2.3 and Table 2.4 respectively.

Table 2.3 Jack Hills LOM Pit Inventory[1, 2]

Material	Resource Category	In Pit[3] (Mbcm)	In Pit[3] (Mt)	In Pit Grades								
				Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	LOI (%)	S (%)	CaO (%)	MgO (%)	DTR (%)
BIF + DSO	Measured	240	766	31.44	44.03	0.74	0.03	2.64	0.03	0.98	5.99	23.79
	Indicated	300	967	29.37	48.13	0.69	0.02	2.00	0.05	1.00	5.22	26.21
	Inferred	103	328	28.49	50.44	0.76	0.02	1.76	0.06	1.07	4.50	25.25
	Unclassified	17	50	1.75	4.41	0.04	0.00	0.02	0.00	0.03	0.21	1.75
	Total	**660**	**2,111**	**29.33**	**45.97**	**0.71**	**0.02**	**2.15**	**0.05**	**0.98**	**5.27**	**24.60**
Waste	**Total**	**710**	**1,989**	**3.64**	**7.11**	**0.16**	**0.00**	**0.21**	**0.01**	**0.09**	**0.47**	**2.55**

[1] Per Murchison's 4 July 2011 ASX Announcement, Feasibility Studies and Market Update, "The JHEP feasibility study has produced a mining inventory that supports the reported feasibility study production rates and mine life of 39 years. The mining inventory is at a feasibility level of accuracy and is based on rigorous analysis, detailed studies and ongoing external review which provides confidence in the project estimates. The feasibility study provides a solid foundation for the subsequent estimation of Ore Reserves. Crosslands expects that a sufficient proportion of the mining inventory will be converted into an Ore Reserve to support the proposed production rate and mine life for the JHEP."

[2] The resource model input to pit optimisation and design to determine the Jack Hills pit inventory for BFS – Rev 0 were depleted for projected mining to the end of Stage1.

[3] In pit inventory after application of mining loss and dilution.

Table 2.4 Brindal LOM Pit Inventory[1]

Material	Resource Category	In Pit[2] (Mbcm)	In Pit[2] (Mt)	In Pit[2] Grades								
				Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	LOI (%)	S (%)	CaO (%)	MgO (%)	DTR (%)
BIF	Indicated	2.92	7.15	25.23	59.42	2.4	0.02	1.58	0.01	0.04	0.19	0.58
	Total	**2.92**	**7.15**	**25.23**	**59.42**	**2.4**	**0.02**	**1.58**	**0.01**	**0.04**	**0.19**	**0.58**
DSO	Measured	0.99	3.01	62.63	5.97	2.20	0.03	1.91	0.01	0.02	0.19	3.05
	Indicated	0.97	2.95	61.25	7.75	2.73	0.03	1.89	0.1	0.01	0.12	4.31
	Inferred	0.16	0.47	56.67	13.32	2.87	0.03	2.00	0.01	0.02	0.06	5.32
	Total	2.12	6.42	61.56	7.32	2.49	0.03	1.90	0.01	0.02	0.15	3.79
BIF + DSO	**Total**	**5.03**	**13.57**	**42.43**	**34.76**	**2.45**	**0.03**	**1.73**	**0.01**	**0.03**	**0.17**	**2.10**
Waste	**Total**	**3.83**	**8.35**	**14.97**	**16.40**	**7.25**	**5.86**	**2.16**	**0.01**	**1.01**	**4.74**	**0.66**

[1] Per Murchison's 4 July 2011 ASX Announcement, Feasibility Studies and Market Update, "The JHEP feasibility study has produced a mining inventory that supports the reported feasibility study production rates and mine life of 39 years. The mining inventory is at a feasibility level of accuracy and is based on rigorous analysis, detailed studies and ongoing external review which provides confidence in the project estimates. The feasibility study provides a solid foundation for the subsequent estimation of Ore Reserves. Crosslands expects that a sufficient proportion of the mining inventory will be converted into an Ore Reserve to support the proposed production rate and mine life for the JHEP."

[2] In pit inventory after application of mining loss and dilution.

2.3 Metallurgy and Processing

2.3.1 Introduction

The proposed JHEP involves treatment of feed through two processing plants:

- A 2 Mdmtpa to 3 Mdmtpa contract crushing and screening plant for treatment of high grade DSO in the early years of the project.
- A 55 Mdmtpa beneficiation processing plant that will treat BFO to produce two concentrate products:
  - Magnetically recovered concentrate marketed as pellet feed.
  - Gravity recovered concentrate marketed as sinter feed.

The BFO beneficiation plant will be made up of commercially proven unit operations including conventional crushing and wet grinding, magnetic separation, gravity concentration with hydrocyclones, up-flow hydroclassifiers and spirals, and flotation to remove silica and pyrite.

Based on an average plant feed grade of 31% Fe, and an average feed rate to the BFO plant of 55 Mdmtpa, approximately 20 Mdmtpa of iron oxide concentrates will be produced.

2.3.2 DSO Production

DSO will be treated in a mobile crushing and screening plant similar to that used in current contract mining operations to produce lump and fines products. The handling and metallurgical characteristics of the Jack Hills DSO are now well known from years of operating experience. The DSO products are characterized by low alumina content and are therefore readily accepted in the marketplace.

The DSO lump and fines products generated from the proposed JHEP crushing and screening plant will be trucked to a product stockyard at site and then railed to the port.

2.3.3 BFO Metallurgical Testwork

A number of staged metallurgical testwork programmes have been undertaken on diamond drill core and bulk plant feed samples. The work programmes have involved extensive bench scale testing, and bulk pilot scale testing, and have included evaluation of eight different beneficiation flowsheets. The majority of the testwork has been undertaken in Perth based metallurgical laboratories including ALS Ammtec, Amdel and SGS Lakefield, which are all ISO 9001 and/or NATA accredited.

Vendor testing of product samples has been undertaken by a number of equipment vendors including FL Smidth, Metso, Outotec, Xtrata Technology, and Ishigaki. A number of testwork programmes on blended plant feed samples prepared to represent the current mine schedule are currently ongoing, with the objective of providing further definition of the gravity beneficiation characteristics and improve product quality.

Geometallurgy

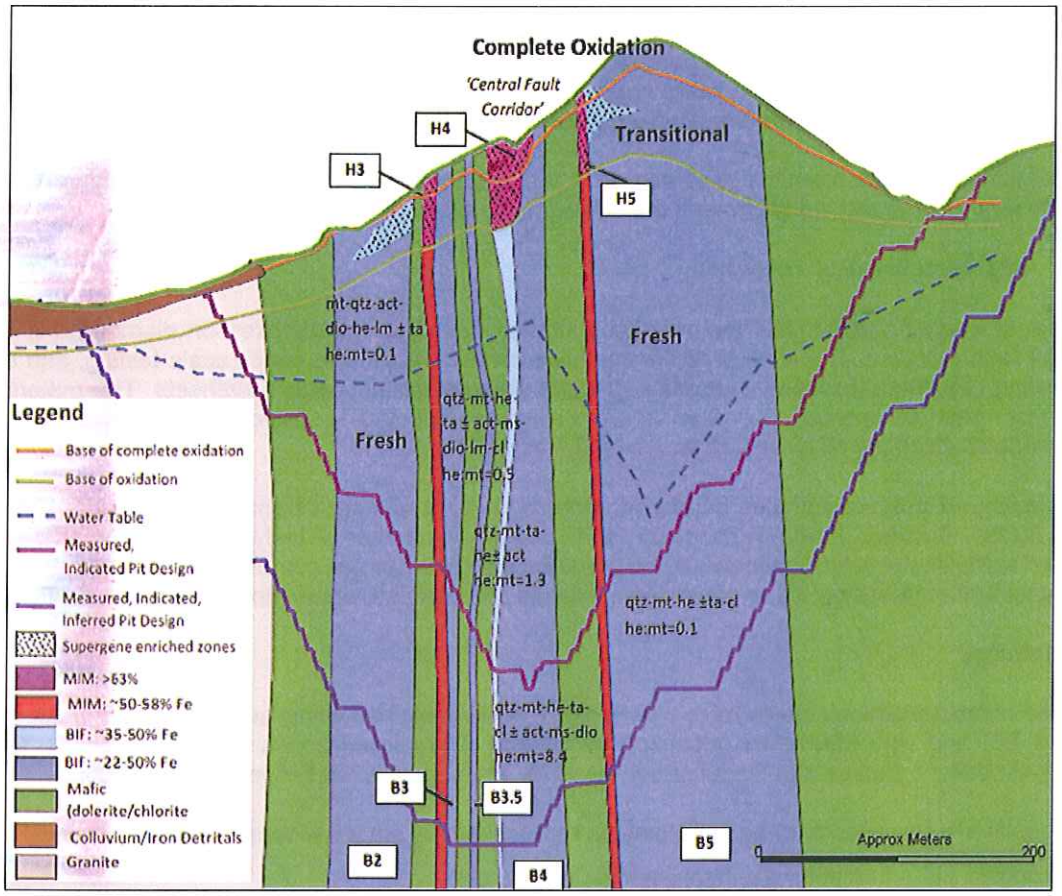
Plant feed characterisation studies have shown that BFO is contained within sub-vertical BIF units (identified as B2 to B6) and vein MIM units (identified as H2-H5). Mineralised zones have been shown to display relatively consistent grade along the length of the strike and vary in width between 10m to 200m.

The BIF units are classified to three sub-domains represented by stages of weathering as follows:

- Oxidised BIF – hematite, goethite, limonite, quartz, clay.
- Transitional BIF – hematite with some magnetite, martite, goethite, quartz, talc, amphiboles, carbonates, clay.
- Fresh BIF – magnetite, with some hematite, quartz, talc, amphiboles, carbonates.

A schematic drawing of the typical BIF and MIM domains, and weathering sub-domains, across strike at the Mt Matthew location is presented in Figure 2.3.

Figure 2.3 Schematic of Domains Across Strike Mt Matthew Location



Mineralogical studies have been undertaken as part of plant feed variability testing on approximately 500 drill samples to characterize metallurgical behaviour within the various mineralised domains. Mineralogy was undertaken using the Mineral Liberation Analysis ("MLA") technique which integrates Scanning Electron Microscopy and Energy Dispersive X-Ray Spectrometry analysis technologies.

Domain bench scale variability testing was undertaken on specific core intervals selected spatially along strike. A total of 49 samples were selected and tested using conditions proposed for the processing plant involving grinding to a size of P_{80} 250 microns (µm), followed by rougher magnetic separation and regrinding concentrate to P_{80} 75 µm for cleaning. DTR testing was also undertaken on the samples using the same procedure used for generating the geological DTR data base, so that a correlation of data could be undertaken. Non-magnetics were tested using gravity techniques aimed at simulating plant beneficiation processes.

Some important geometallurgical observations from these mineralogical and variability investigations include:

- Plant feed mineralogy varies from predominantly hematite at surface to magnetite in fresh rock at depth.
- On average the minerals magnetite and hematite account for 94% of Fe in fresh plant feed, 85% in transition plant feed, and 81% in the oxide domains.
- Within BIF plant feed, only low levels of iron are associated with sulphur, carbonate or phosphate minerals.
- MLA work showed that the 80th percentile grain size for magnetite ranged from approximately 20 µm to 125 µm. Hematite grains were shown to be within a similar size range.

- Magnetite grain size generally decreases from domain B2 through to B5, and is increasingly finer through the oxide ore.
- A high variability in iron, magnesium, sulphur and magnetic iron content is evident within the majority of domains, indicating that plant feed blending will play a key role in meeting product quality and maximizing iron recovery.
- A good correlation between the DTR test and laboratory wet drum magnetic separators was demonstrated.

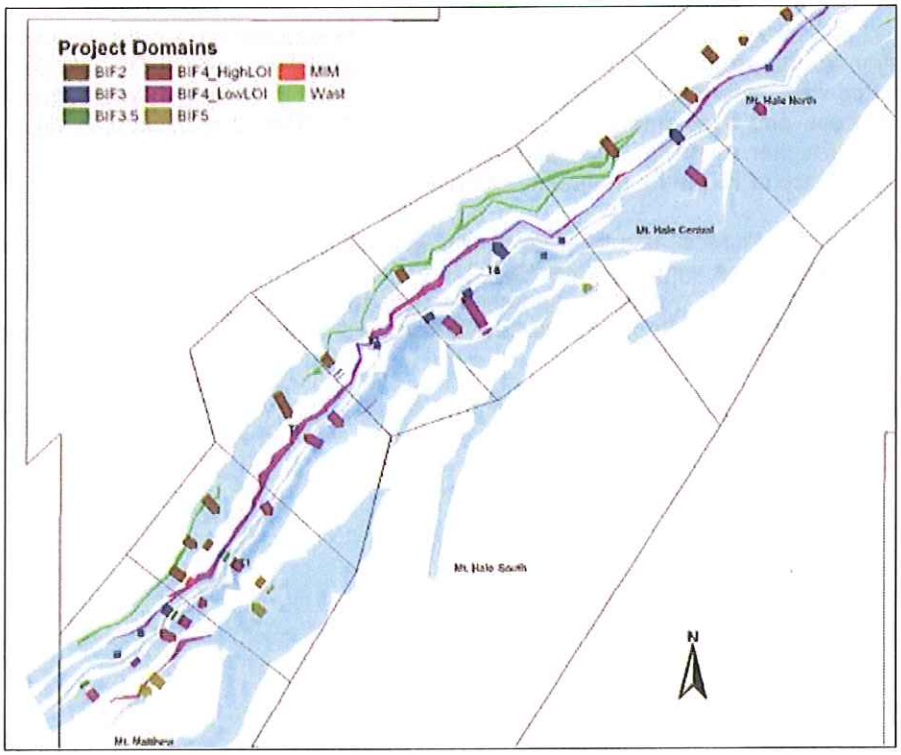
Testwork Samples

Drill interval samples for mineralogical evaluation and bench scale variability testing were taken from varying depths over the full length of the strike. Intervals were selected by geological and mineral processing personnel to cover all major domains and alteration.

Blend samples for initial pilot plant testing were prepared from bulk domain samples sourced from the bottom of the current DSO pit. Although it was originally intended that marketing samples be generated from this phase of piloting, it was later realized from variability testing, that these samples would not be representative of the overall deposit as per the mine schedule.

A LOM blend bulk sample was generated in late 2010 from exploration drill samples to be representative of the latest mine schedule at that time. The sample is known as Years 0-15 Blend and was used in testwork and piloting for evaluation of eight different flowsheets. The drill intervals used in preparing this bulk sample were sourced from domains along the deposit as presented in Figure 2.4.

Figure 2.4 Domain Sampling for Year 0-15 Blend Sample



Since completion of BFS – Rev 0, two additional bulk samples have been generated for on-going testwork and pilot runs. These are a six tonne "Early Mine Blend" sample, and a 41 tonne "Customer Blend" sample. Testwork with these samples is on-going.

Comminution Testing

Comminution testing for BFS – Rev 0 has been undertaken in four campaigns and covered a wide range of domain variability testing. The results have shown that the BIF has relatively low hardness characteristics, and that there is a trend of decreasing rock competency with depth moving down the oxidation profile. Mean testwork data from comminution testing is presented in Table 2.5.

Table 2.5 Mean Comminution Data

Plant Feed Type	SMC Test A*b value[1]	Bond Ball Mill Work Index (kWh/t)	Bond Abrasion Index Ai
Oxide	62	10.9	0.40
Transition	76	9.8	0.28
Fresh	72	8.2	0.19
Overall	**68**	**9.3**	**0.28**

[1] High A*b values indicate low competency for SAG milling.

The decreasing Bond Ball Mill Work Index and Abrasion Index values down the oxidation profile indicate that processing costs will decrease with depth. Allowance is made in the proposed mine schedule by early treatment of fresh plant feed in blends so that unit costs are minimized and concentrator capacity is fully utilised.

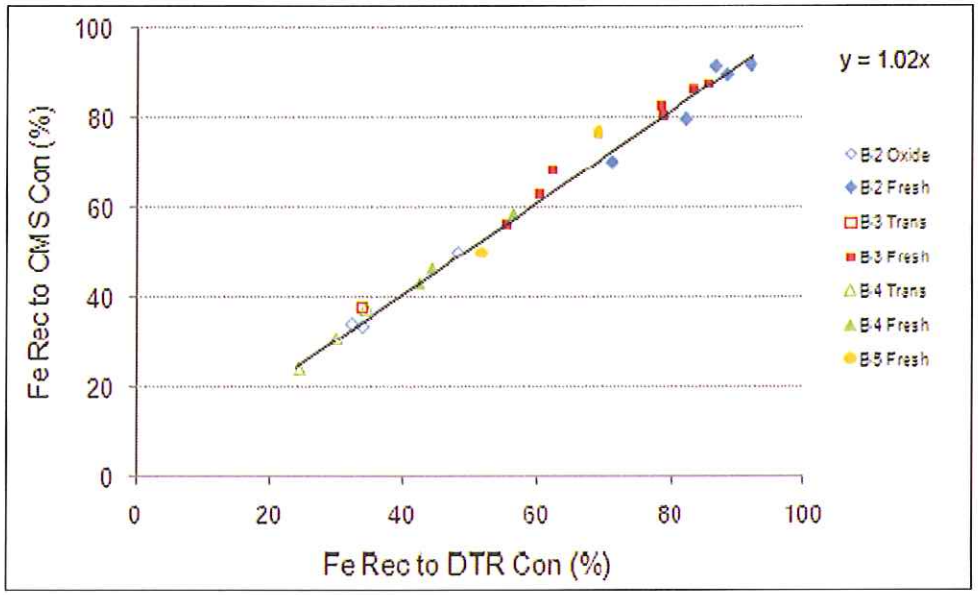
Magnetite Concentration by Magnetic Separation

Geological evaluation of the Jack Hills resource included determination of the magnetically recoverable iron oxide minerals using the industry standard DTR tests. These standard tests utilised a grind size of around 45 µm and a magnetic intensity of 3000 Gauss.

Bench scale and pilot magnetic separation testing has been conducted on a range of samples to provide design information for the process plant, and to calibrate the predictive recovery models developed by DTR testing. The testing was undertaken using laboratory magnetic wet drum separators suitable for replicating the proposed process and subsequent design scale up. BFS – Rev 0 comminution design allows for a primary grind and rougher magnetic separation at a size of 250 µm, followed by regrinding of rougher magnetics to a grind size of 75 µm for magnetite cleaning.

Magnetic separation pilot testwork results were similar to the domain batch variability testwork, in that they provided a strong relationship with the equivalent DTR tests. This facilitated development of a predictive equation of the DTR results with magnetic separation results to predict concentrate grade and recovery. Iron recovery calculated from DTR tests is compared with cleaned concentrate magnetic separation results in Figure 2.5.

Figure 2.5 Comparison of Magnetic Separation and DTR Results



The results show a strong correlation providing confidence to magnetite concentrate predictions over the range of domains, and provide an algorithm to predict concentrate iron recovery. AMC notes that the magnetite concentrate (pellet feed) production accounts for over 75% of LOM concentrate product, and considers that the magnetic separation testwork outcomes and flowsheets developed in BFS – Rev 0 are established to a satisfactory level of confidence.

Hematite Concentration by Gravity and Flotation

Gravity separation has been pursued as a low cost process to upgrade the non magnetic streams and therefore a large amount of bench and pilot scale testwork has been undertaken in stages. Gravity processes tested include bench scale air tables and wet tables, batch scale jigs, pilot scale up-current hydro-classifiers and spirals.

Early bench scale testwork with jigs did not provide satisfactory grade recovery relationships, and therefore later programmes have evaluated up-current hydroclassifiers and spirals for gravity concentration. The developmental testwork showed the need for coarse and fine gravity circuits, with the fines circuit involving two stages of gravity separation including a hematite regrind circuit to a grind size of 106 µm. It has also been shown that a further beneficiation step involving reverse flotation to reject silica is required to meet the sinter feed marketing specifications. An additional benefit of the flotation step is that it also removes a major proportion of contained pyrite which is also concentrated in gravity operations.

The overall hematite circuit developed in the testwork is predicted to achieve a product quality of over 64% iron and less than 5% silica. The ability to meet a specification of less than 0.08% sulphur has proved to be marginal and work is on-going to improve pyrite removal from concentrate.

Concentrate Dewatering and Washing

Vendor testwork has been conducted on samples prepared in pilot testing. Tests have been undertaken on both iron oxide concentrates and tailings. The aim of vendor testing has been to determine the optimum unit operations and equipment selection for dewatering of these process streams.

Based on the samples tested, and work undertaken, it was concluded that vacuum filtration achieved acceptable product moisture levels for both magnetite and hematite concentrates. The target chloride specification of the concentrates is <0.02% and preliminary washing testwork on concentrates has shown this can be achieved.

Product Quality

Predicted product quality based on testwork results is compared with target specifications in Table 2.6.

Table 2.6 Predicted Concentrate Quality versus Product Specifications

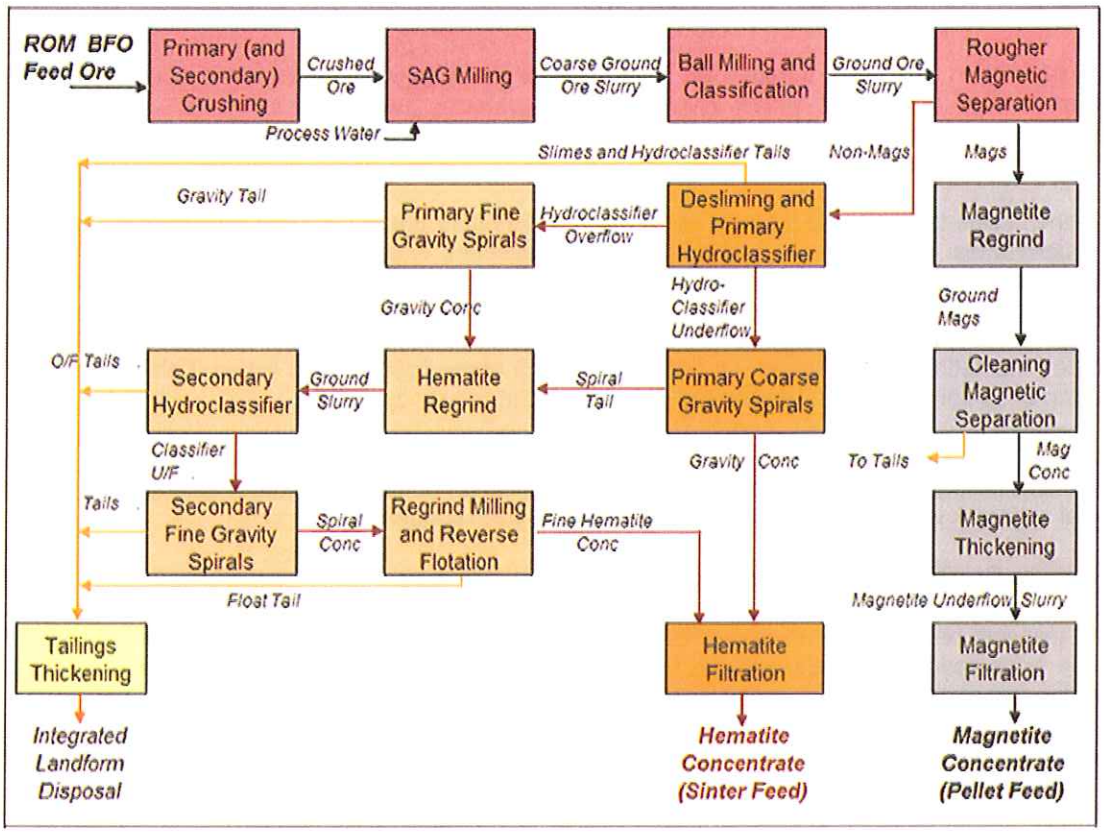
Product Parameter	Pellet Feed (Magnetite Concentrate)		Sinter Feed (Hematite Concentrate)	
	Target Specification (%)	Predicted (%)	Target Specification (%)	Predicted (%)
Fe	67.5 (min 67.0)	68.5	65.0 (min 62.0)	64.4
MgO	1.0 (max 1.5)	0.6	2.5 (max 3.5)	1.2
Al_2O_3	0.1 (max 0.15)	0.03	0.1 (max 0.2)	0.13
SiO_2	3.5 (max 3.7)	3.0	4.5 (max 5.0)	4.1
Cl	<0.02	0.02	<0.02	0.02
Na_2O & K_2O	0.05 (max 0.07)	0.05	0.05 (max 0.07)	0.05
S	0.02 (max 0.05)	0.008	0.05 (max 0.08)	0.08-0.1
Sizing (P_{80} µm)	75	75	135	135 (or lower)

The comparisons shown in Table 2.6 indicate that acceptable product quality is expected from the beneficiation plant.

2.3.4 BFO Plant Design and Process Description

The process flowsheet developed for BFS – Rev 0 is presented in simplified block flow form in Figure 2.6. This flowsheet forms the basis for the design of the concentrator and required site services.

Figure 2.6 BFO Plant Design Block Flowsheet



Two identical parallel concentrator modules will be installed, each treating 27.5 Mdmtpa plant feed. Common facilities include a crushed plant feed stockpile, magnetite and hematite regrind, as well as concentrate thickening, filtration, handling, storage and tailings thickening and disposal systems. The unit operations for each of the modules are as follows:

- Primary crushing of direct tipped run-of-mine ("ROM") plant feed in a gyratory crusher. (Allowance has been made for secondary crushing when treating hard plant feed.)
- Coarse grinding of plant feed in a 12m diameter semi-autogenous grinding ("SAG") mill fitted with a 22.5 MW motor.
- Ball milling of coarse ground plant feed in a 10.5 MW ball mill operating in closed circuit with a cyclone classification circuit. Cyclone overflow product to be maintained at a size of P_{80} 250 µm.
- Rougher magnetic separation in two banks of 12 low intensity magnetic separators ("LIMS") operating at a field intensity of 1200 Gauss.
- Regrind of magnetic concentrate in three conventional regrind mills to a grind size of 75 µm followed by magnetic concentrate cleaning in two banks of LIMS triple drum cleaners.
- Thickening of magnetite concentrate in a 56m diameter high rate thickener and subsequent filtration in four vacuum belt filters.
- De-sliming of non-magnetics in clusters of de-sliming cyclones, and then classification of de-slimed product in five parallel up-current hydroclassifiers.
- Gravity separation of both overflow and underflow from the hydroclassifiers using staged banks of multiple start spirals. Coarse spiral concentrate reports to final hematite concentrate, while fine spiral concentrate reports to a regrind circuit.
- Regrinding of the combined hematite stream of gravity concentrate from fine spirals and coarse spiral tail, in a regrind ball mill to a grind size of 106 µm.
- Classification of reground spiral products in secondary up-current hydroclassifiers, with classifier underflow reporting to a secondary spiral gravity circuit consisting of banks of multiple start spirals.
- Regrinding of secondary spiral gravity concentrate and the reverse flotation in banks of flotation tank cells using a commercial cationic collector.
- Filtration of the combined hematite concentrate in multiple vacuum belt filters.

Common concentrate handling facilities are installed for stacking of both wet magnetite (pellet feed) concentrate, and wet hematite (sinter feed) concentrate, in dedicated stockpiles, with associated loading and load out facilities for rail transport to the port.

High level design criteria for BFS – Rev 0 process plant are presented in Table 2.7. Detailed design criteria and mass balance data has been developed and used to determine equipment requirements as part of the capital cost estimate.

Table 2.7 High Level Design Criteria

Criteria Parameter	Units	Value
Annual Plant Feed Treatment Rate (nominal)	Mdmtpa	55
Number of Concentrator Modules		2
Operating Hours per Annum	h	8,000
Plant Feed Treatment Rate	t/h	6,875

AMC considers that while the flowsheet and process design is relatively complex for an iron ore processing plant, it should provide flexibility in achieving the required product quality. There may be opportunities to simplify the circuit and optimize the number of unit operations with further development work. The high metallurgical variability between different sub domains means that blending will be a key issue in achieving consistent product quality.

2.3.5 Post BFS – Rev 0 Developments

BFS – Rev 0 issued in June 2011 outlined a number areas for on-going metallurgical and process work. The objectives of the on-going studies are to provide concentrate samples for customers, validate the flowsheet and design criteria, further validate concentrate predictive models, and mitigate areas of process risk. The key components of work include:

- Final comminution piloting to confirm comminution design and generate samples for additional stages of hydroclassifier testwork.
- Flotation optimisation including alternative reagents.
- Six tonne "Early Mine Blend" pilot run to validate design and generate samples for downstream hematite beneficiation.
- Forty-one tonne "Customer Blend" pilot run to generate customer samples and validate process and concentrate predictive equations.
- Hematite concentrate slurry settling, filtration and handling characteristics confirmation testwork.
- Reverse flotation testwork and sulphur removal on coarse gravity hematite concentrate.
- Wet High Intensity Magnetic Separation ("WHIMS") testing as an alternative to spiral stages for a trade-off study.

Much of this work is reported to be near completion, with some stages of work still on-going. Crosslands indicated that although the flotation testwork on coarse spiral product shows success in decreasing the sulphur content of the sinter feed product, it is at the expense of iron recovery. Alternative flowsheets are under consideration to overcome the sulphur impurity issue. Other potential resolutions being considered are selective mining to reduce sulphur content of BFO, and also targeted marketing to source customers with less stringent sulphur specifications.

2.3.6 Metallurgy and Processing Key Findings

- The metallurgical testwork undertaken to develop a suitable processing flowsheet has been comprehensive and has covered a wide range of plant feed types and variability samples. AMC considers that the work programmes have addressed most of the potential recovery and concentrate quality issues raised during the staged programmes of work.
- For magnetite (pellet feed) concentrate production which accounts for over 75% of LOM concentrate product, the supporting flowsheets, product recovery and product quality are well established and to a satisfactory level of confidence.
- AMC notes that there are still some outstanding issues in regard to meeting target hematite (sinter feed) concentrate product quality, and that these issues are the subject of ongoing testwork programmes. The results of this later work may require modifications to the BFS – Rev 0 flowsheet and possibly reduce iron recovery below levels predicted in BFS – Rev 0. AMC considers that if changes are required to the flowsheet they will not have a major effect on the process plant capital estimate.
- The proposed beneficiation treatment plant is made up of unit operations commercially proven with other iron ore operations. Although the overall flowsheet is complex, AMC considers that it should provide flexibility in meeting target product quality with a blend of plant feed types.

2.3.7 Power and Gas

For the purposes of BFS – Rev 0, provision of power to the mine and processing facilities is based on engaging a third party Independent Power Producer ("IPP") to build own and operate power generation facilities. Crosslands will then enter a long term Power Purchase Agreement ("PPA") with the selected IPP.

In early 2011, Crosslands prepared requests for quotations from qualified potential IPP parties to construct, own, and operate a gas fired power station and associated gas pipeline. Bidders were asked to submit proposals for operation of the power station, or gas pipeline or both. The scope of the request also included a dedicated power supply to the Byro borefield. Non binding bid documents were received from five established IPPs for power supply.

After a preliminary evaluation of bids, the lowest prices for the mine site and Byro power stations were established at March 2011, as presented in Table 2.8. These costs do not include Renewable Energy Certificates or gas commodity costs. Costs are to be escalated at Consumer Price Index ("CPI").

Table 2.8 IPP Power Supply Costs

Parameter	Units	Main Mine Site Power Station	Byro Power Plant
Capacity Charge	$/MW/month	35,382	46,103
Energy Charge	$/MWh	10.22	12.76
Ave Heat Rate HHV	kJ/kWh	9,177	9,657

The cost amounts above were based on a power load estimate of 173 MW at the time of the bids. AMC notes that subsequent to this estimate, the predicted peak power load has increased to over 200 MW and final power requirements are subject to results from ongoing work process development programmes.

BFS – Rev 0 is based on Crosslands procuring a supply of natural gas to both power stations, and the gas to be delivered to the IPP at existing inlet points on the Dampier to Bunbury Natural Gas Pipeline ("DBNGP"). Based on the heat rates shown in Table 2.8, the amount of gas required has been estimated at 35 TJ/d maximum daily quantity and 12 PJ/a annual contract quantity.

The Western Australia gas market is dominated by only a few gas sellers and fewer than 10 major gas buyers make up 80% of the gas market. Most gas trade is undertaken through confidential bi-lateral gas supply agreements, and there is essentially no clearly visible market price for gas. Based on publically available information Crosslands considers that new contracts will range between $5/GJ to $12/GJ with a mode (most frequent) price of around $8/GJ.

Crosslands has held a number of discussions with gas suppliers to develop a gas supply agreement terms sheet, and these discussions will be ongoing. There are indications that gas will be available, but until a firm project implementation schedule and financing arrangements are in place it will be difficult to source a firm terms sheet for a Gas Supply Agreement. For the purpose of BFS – Rev 0, Crosslands has estimated an oil indexed price of $8.31/GJ.

A gas lateral pipeline from the DBNGP is proposed through a defined corridor to the power station locations. The gas lateral will be approximately 225 km in length and be sized to suit an expanded plant with a third processing module. The corridor will be dependent on ongoing heritage studies and landowner negotiations. The proposed gas lateral is estimated to cost $131M to construct.

An application to the Dampier Bunbury Pipelines for project access to the DBNGP has been made. It is noted however, that the DBNGP requires expansion as there is currently no un-contracted capacity. Crosslands entered into an agreement to provide a front end engineering design for the expansion. Crosslands has advised that this study has been completed and includes details of expansion options and estimated costs.

In addition to evaluation of IPP proposals, Crosslands has evaluated an onsite Design and Construct alternative for power production. This is essentially developed as a fall-back position and is essentially the same as the IPP solution, except that the facilities would be developed by Crosslands. An alternative grid power supply from the South West Interconnected System is also currently being evaluated by Crosslands.

2.3.8 Water Supply

Most of the process water supply (up to 37 GL/a) will be sourced from the Byro Sub-basin, some 165 km to the west of the mine-site. Near-potable water (up to 3 GL/a) will be taken from the Murchison Paleochannel borefield, adjacent to the site.

The Byro supply will be delivered to site via a pipeline to be laid within the already-planned gas-pipeline corridor; there is ample area within the corridor for the two systems. For a two-module plant operation at Jack Hills, no intermediate pumping will be required between the borefield and the plant; for three modules, an intermediate pumping station will be required approximately halfway along the route. Power for the borefield pumps and pumping into the pipeline will be provided through a gas-fired station to be built on or

near the borefield. For the three-module case, an additional power-line will be constructed to deliver power to the intermediate pump station; the line will originate from either the plant or the Byro borefield, as determined by evaluations carried out in future.

For two modules, the Byro borefield will comprise 31 bore pumps abstracting water from 300m depths at the rate of 123 m^3/h each. A network of high density polyethylene plastic pipes will deliver water to two transfer tanks. A borefield transfer pump station (multiple centrifugal pumps with one on standby) will deliver water to a break-tank at the highest point along the pipeline corridor. At this point the static head is sufficient for gravity feed to the raw-water at the plant-site.

The Murchison supply will be delivered via pipeline, with power for pumps ultimately provided by an overhead line from the site gas-fired power station at the plant-site. Initially (construction), four bores will deliver water to a break-tank in the plant area. Treated water will be produced on site using a package plant employing reverse osmosis and standard potable-water treatment technologies. Waste brine from the reverse osmosis plant will be evaporated in a series of evaporation ponds.

Water, both potable and process, will be distributed around the site via separate booster pumps and pipe networks.

2.3.9 Other Infrastructure

Accommodation Village

A fully equipped accommodation village is to be installed approximately 10 km from the mine site to house personnel involved in construction and operation of the project. The village is to be located within walking distance of the airstrip terminal to simplify transit arrangements.

During the construction phase it will be necessary to accommodate up to 2,500 personnel, and this decreases to 870 personnel in the operational phase after construction and commissioning is complete. The design of the village caters for the accommodation style of both construction and operational phases. Excess temporary style accommodation will be removed after plant construction completion.

Village facilities will include wet and dry mess, gymnasium, swimming pool, ice facilities and laundry facilities. A small temporary village will also be installed near the Byro borefield during construction.

Airstrip

A dedicated Class 3C airstrip will be built adjacent to the accommodation village. The airstrip will be designed to comply with the requirements of the Civil Aviation Safety Regulations codes suitable for use of a Fokker-F100 aircraft capable of carrying approximately 100 passengers.

Communications

An industry standard communications system will be installed including telecommunication towers, closed circuit television, local and wide area networks, radio and microwave systems, as well as satellite and telemetry systems.

It is noted that here is a radio quiet zone in place for the Mid West region as part of an embargo for the possible installation of the Square Kilometre Array ("SKA") as part of Australia's radio-astronomy programmes. Crosslands has prepared a response to the initial government discussion paper, and as far as possible the communications design has included measures to mitigate signals directed towards the proposed SKA. Crosslands will be required to seek solutions from CSIRO before making communications licence applications.

Buildings and Services

Suitable administration, workshops, stores, laboratory and other buildings will be installed to meet all construction and operational requirements. Sewerage and potable water facilities will be installed to cover requirements of the mine site and accommodation facilities.

A dedicated fuel farm and distribution facilities will be installed to serve the mining and general operational requirements, as well as provision of emergency fuel storage for the power station.

2.4 Environment and Permitting/Approvals

2.4.1 Overview

The JHEP is located in an environmentally-sensitive region characterised by biological communities which have evolved in the Yilgarn BIF ecosystem, producing biogeographic "islands" of high conservation value. There is considerable socio-political pressure for sequestration of large BIF areas into the highly-protected conservation estate.

Nonetheless, the JHEP involves environmental impacts which, in general, are manageable through careful location of facilities, avoidance of highly-sensitive pockets, control of off-site impacts and provision of environmental offsets.

Impacts on sensitive ecosystems will require ongoing monitoring, to demonstrate manageability of impacts, but issues likely to curtail operations are considered by AMC to be unlikely to develop.

The timelines for statutory environmental approvals under Part IV of the *Environmental Protection Act* (EP Act) to permit a March 2012 start to construction are tight but achievable, but regular liaison needs to be maintained with the Environmental Protection Authority ("EPA") and the office of the Minister for the Environment – approvals processes are usually slowed during the December/January holiday season.

Approvals under the *Mining Act* are based on an interim Mining Proposal for the "early DSO" element of the JHEP, with non-DSO activities to be pursued later. The Department of Mines and Petroleum ("DMP") has provided feedback on a draft Mining Proposal submitted by Crosslands, and a revised version is scheduled for submission to DMP in early December 2011. Given DMP's usual timelines for assessment, approval by March 2012 can reasonably be assumed.

Acid mine drainage risks have been, and continue to be, assessed through rigorous testwork programmes based on current requirements of EPA and DMP. These risks are relatively minor, but require ongoing work to develop methods for prediction of occurrence of acid-forming material and for long-term management by encapsulation with inert and acid-consuming material to exclude ingress of oxygen and water which would otherwise foster sulphide oxidation.

Closure concepts have been developed within a framework of providing safe, stable and non-polluting structures and surfaces after decommissioning. A closure cost estimate of some $300M has been developed, and is considered by AMC to be a reliable basis for project valuation at this stage.

2.4.2 Individual Environmental Issues

Environmental Approvals

Documents for statutory approval processes have been developed from a suite of well-planned and robust baseline field and other studies. Well-recognised and experienced technical consultants have been used for these studies, to co-ordinate the work, and develop the documentation. The documents include management plans which can be expected to provide a sound basis for operational environmental management, impact-assessment and statutory reporting.

Approvals under Part IV of the EP Act have been slowed by two appeals (from members of the public) against the August 2011 Report and Recommendations of the EPA. The appeals were technically of little consequence, but the appeals-resolution process is time-consuming. The appeals were dismissed by the Minister for Environment on 2 December 2011. To ensure the timely issue of the subsequent Ministerial Statement (authorising commencement of the project), Crosslands has established close contact with the Minister's office and the Office of the EPA ("OEPA") and the statement is expected in late December 2011. Even if the statement is not issued until January 2012, some pre-strip and DSO mining utilising the current mine site infrastructure could commence in March 2012, but the schedule is tight.

DMP approval of the "early DSO" part of the JHEP by March 2012 would meet the self-imposed timelines that DMP uses for *Mining Act* approvals, given submission of the revised Mining Proposal in early December 2011. Again, stewardship of the bureaucratic process will facilitate the meeting of that timeline.

As advised by Crosslands, additional 45C applications to the EPA for changes to the camp, airstrip and IWL footprints will be required prior to submission of the JHEP Mining Proposal to the DMP. The JHEP Mining Proposal encompasses all activities of the JHEP including construction of the processing plant, camp, and airstrip which are currently excluded from the Interim Mining Proposal.

Other approvals (e.g., Department of Water licences for groundwater abstraction, EP Act Works Approvals and Licences) are effectively secondary permits whose issuance can be expected following receipt of the "umbrella" approvals discussed above.

Biological Impacts and Management

Flora and fauna species and communities of high conservation value have been identified during the numerous detailed baseline studies that form the basis of impact prediction and management planning. Potential impacts have been shown to be small and acceptable in terms of the local and regional occurrences of these biota and communities, and operations modified to avoid or reduce impacts.

Management plans have been developed to avoid or ameliorate impacts on rare, endangered or threatened flora and fauna species, and on ecological communities identified as having high conservation value and afforded some statutory protection.

Subterranean fauna (stygofauna and troglofauna) occurring in impacted areas, including the Murchison and Byro borefields, have been shown to occur also in non-impacted areas. However, a likely condition of project approval is for regular (mostly annual) monitoring of subterranean fauna, to ensure that significant conservation issues do not develop.

Acid Drainage

A series of detailed geochemical testwork programmes conducted over two years has shown that, while potentially acid forming ("PAF") material occurs in mine waste, it represents an extremely small percentage of the total waste volume. The testwork includes both static (acid-base accounting) and kinetic (column-leach) programmes; the kinetic work has generally shown that static testwork (quicker and cheaper) is a reliable predictor of long-term acid-drainage risks.

By far the greater proportion of mine waste is non acid forming ("NAF"), with some acid consuming ("AC") material as well. This provides a sound basis for the design of systems to manage the PAF material to provide long-term amelioration of risk of acid drainage.

Most of the PAF material occurs in a single area of the mine, but it is not visually distinguishable from NAF and AC material. To ensure that PAF material is identified during mining and properly managed (encapsulation), techniques will be developed as part of grade-control work to identify high-sulphur PAF waste and accommodate it in mine plans. Encapsulation with NAF/AC material within the waste stockpile can then be planned, probably without any need to rehandle PAF waste – it occurs relatively early in mine life, so can be scheduled for placement in a pre-determined part of the stockpile that will eventually be covered with considerable depths of NAF/AC waste.

Tailings have also been shown to be NAF, so that no special treatment is likely to be required for the final tailings surface within the Integrated Waste Landform ("IWL") – a tailings storage facility ("TSF") within the waste stockpile.

Standard leaching tests have also shown that neither mine waste nor tailings are likely to produce circum-neutral acid drainage from rainwater percolation. Enrichment of natural drainage with some elements and compounds may occur, but risky heavy-metal contamination is improbable.

Water Supply and Management

Near-potable water will be sourced from the nearby Murchison borefield, with brackish water for process and other non-potable uses coming from the Byro borefield some 165 km to the west. The Byro supply pipeline will be co-located with the proposed gas pipeline, for which a corridor has already been established.

The Department of Water ("DoW") – the water regulator – is satisfied that the water supplies are sustainable; it was in fact the DoW which directed Crosslands to evaluate the Byro groundwater resource when it became apparent that the Murchison borefield could not sustainably meet total requirements. Importantly, the DoW has complimented Crosslands on the excellence of its stakeholder consultation programme that was part of the development of the Byro water-supply option.

Biological impacts of water (subterranean fauna, groundwater-dependent ecosystems ("GDEs")) have been assessed in the studies discussed in Section 2.4.2 above. While ongoing monitoring will be required, and some compensatory releases might be required to protect GDEs, AMC considers it unlikely that these impacts will prove to be a major issue of the life of the project.

Water management plans have identified the need to maximise recovery of process water from tailings, and the steepened-beach option adopted for tailings placement will facilitate this strategy. Scavenging of water from deposited tailings will also assist consolidation and strengthening of the tailings within the IWL.

Local groundwater will be protected by monitoring bores located around the project area, particularly down-gradient from the IWL. The lined and bunded decant-collection drain at the foot of the tailings slope will reduce risks of downstream groundwater impacts, and the bore-monitoring regime to be established to the west of the decant-collection drain system will allow early detection of contaminated seepage, which can be returned to process via recovery bores.

Tailings, Waste Storage and Closure

To meet statutory requirements, a conceptual closure plan has been developed for the JHEP. This plan will be refined over the life of the project and optimised based on experience, project development and evolving standards and technologies.

The plan aims primarily to provide a safe, stable and non-polluting landform after decommissioning. The largest closure task, and cost, is the IWL; other facilities are individually relatively small in scale and easily closed and rehabilitated with well-established techniques.

The IWL concept involves partial progressive encapsulation of tailings with mine waste over the life of the project. The waste is placed to provide an elevated platform from which tailings can be discharged, with added flocculants, to create long beaches with slopes up to 5° (traditional tailings discharge produces beaches generally much lower than 1°). This facilitates drainage of entrained water, and thus hastens consolidation and improves overall storage efficiency.

The sides of the IWL are progressively extended out as the tailings stack extends away from the deposition platform, and the drainage (decant) is collected via a downstream lined drain system for return to process.

Ultimately, the whole of the tailings mass is covered with mine waste and a permanent landform created. This landform is then battered down and shaped as required to manage rainfall runoff, and revegetated.

This closure strategy for the IWL assumes that the steepened-beach strategy proves effective, and that no stability issues develop over the project life as a result out-of-design performance of the tailings. If such issues did develop, the nature and structure of the final IWL could be significantly different, and closure designs would need to be reassessed, not least in terms of materials balance.

Notwithstanding the above comments, the closure estimate of some $300M is in AMC's view reasonable. It is certainly much larger than the Unconditional Performance (environmental) Bond likely to be required by DMP as part of the Mining Proposal approvals process.

2.5 Project Execution

The execution phase of the project includes the engineering design, procurement (with special consideration of long lead items), construction and commissioning of plant and facilities in order to generate saleable products.

The selected delivery model for construction components the JHEP is for Crosslands to engage an Engineering Procurement and Construction Management ("EPCM") Contractor. The EPCM Contractor will be responsible for all aspects of design, procurement, construction and commissioning of the complete process plant and associated infrastructure.

Mining pre-production and pre-stripping will be managed by Crosslands and work areas for mining and construction will be physically separate.

The JHEP is planned to coincide with the commissioning of the new port and rail infrastructure proposed by OPR.

Key dates from BFS – Rev 0 project implementation scheduled include:

- Awarding EPCM Contract – October 2011.
- Start Site Construction Works – January 2012.
- Project Funding Approval – March 2012.
- Pre-production and Pre-strip, Contract Mining – December 2012.
- Commencement of Owner Mining – March 2013.
- Complete Construction of Processing Module 1 – June 2014.
- Mine Power Station Constructed – March 2014.
- Start Commissioning of Processing Module 1 – October 2014.
- Load First Train – January 2015.

2.6 OPR Port and Rail

Review of OPR port and rail infrastructure is not a part of AMC's scope for the ITSR. However, the JHEP is predicated on the OPR project being implemented, and AMC's assessment of the JHEP is based on OPR's tariffs for the port and rail services as advised by KPMG. Given the JHEP's requirements of the OPR project, AMC includes an introductory description of the OPR project for completeness, as follows.

OPR is proposing to develop a port, about 20 km north of Geraldton, and rail infrastructure to service mines in the Mid West Region of Western Australia. The Oakajee port facility and rail infrastructure will be operated as an integrated system for handling and shipping or iron ore products. Crosslands is a proposed Foundation Customer of OPR.

Key proposed OPR infrastructure includes:

- Constructions and maintenance infrastructure.
- Rail track and track works from mine to port, and associated signalling and communications.
- Locomotives and wagons.
- Rail marshalling yard.
- Car dumper, stockpiles, product stackers, product reclaimers and conveyors.
- Ship loader.
- Mooring dolphins and access jetty.

Common-user infrastructure (including channel, dredging, breakwater and tug and pilot facilities) are part-funded by the State of Western Australia and Commonwealth Government of Australia.

2.7 Capital Costs

2.7.1 Initial Capital Costs

Capital costs for the JHEP were estimated as part of BFS – Rev 0. Capital cost estimates were based on an EPCM contract strategy. Capital cost estimates have been based on a range of sources including, budget and preliminary prices from vendors, suppliers and contractors.

Capital cost estimates for mining equipment, processing plant and infrastructure have been prepared by internationally recognised engineering and consulting companies, including AMEC Minproc, WorleyParsons and SRK.

Crosslands prepared capital cost estimates for owners costs during construction/preproduction.

In BFS – Rev 0, Monte Carlo analysis was undertaken on a range of cost input categories in order to determine the contingency cost ($335M) and accuracy of the estimate around ±10%.

The initial capital cost estimate, in 2011 Australian dollars, is $3,945M at a P50 confidence level. The P50 confidence capital cost estimate is an output of the Monte Carlo analysis. Based on the analysis, there is an equal chance of actual capital costs being higher or lower than the P50 estimate. The Monte Carlo analysis in BFS – Rev 0 also presents a P90 capital cost estimate (only a 10% chance the actual capital cost will exceed the P90 cost, based on the analysis). The P90 capital cost estimate for the JHEP is $4,232M, or $287M more than the P50 estimate. AMC notes that it is common industry practice to adopt the P50 capital cost estimate for project evaluation.

Table 2.9 lists a high level breakdown of initial capital costs estimated in the BFS – Rev 0.

Table 2.9 BFS – Rev 0 Initial Capital Costs

Item	Capital Cost ($M)
Mining Equipment	411
Preproduction Mining Costs	510
Processing Plant	925
Preproduction Processing and Admin Costs	136
Product Storage and Handling	94
Utilities	170
Infrastructure	556
Indirect Costs	553
Owners Costs	255
Contingency (P50)	335
Total	**3,945**

AMC has undertaken a high level review of capital expenditure for BFS – Rev 0. AMC believes that capital expenditure has been estimated using standard industry practice and is appropriate for the project considered.

Mobile mining fleet numbers, which form the basis of the mining equipment capital estimate, are determined with regard to the mining schedule, equipment utilisation, productivities and equipment costs, as is standard industry practice.

AMC has reviewed the mining equipment selected, for blast hole drilling, loading and hauling, and other ancillary plant and equipment, and considers that the selection is appropriate for the proposed project. AMC has reviewed the mining fleet purchase costs and the method of mining capital cost estimation and considers that the approach used is in line with standard industry practice and the resulting mining capital cost estimate is appropriate for the project.

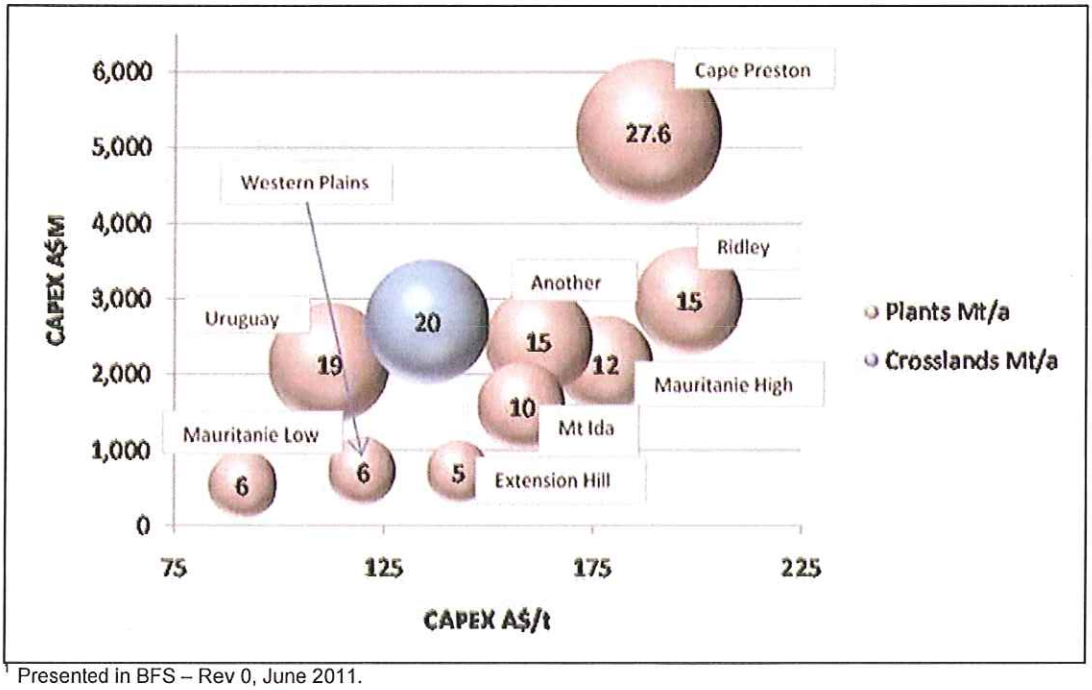
The capital cost estimate for the process plant and associated infrastructure was prepared for Crosslands by the MJV, a joint venture between two large engineering companies AMEC Minproc and WorleyParsons. These companies have considerable experience with large mining projects. The estimate was prepared to a Class 3 Bankable Feasibility level standard, in March 2011 dollars. Derivation of quantities was nearly all by material take-offs from layouts and engineering drawings, and the installation costs were based on lowest conforming man hours and costs from contractor quotations. Multiple budget pricing was sought from the market for equipment prices, and the lowest conforming budget price was used from tender evaluations by MJV. Approximately 94% of equipment prices used in the overall estimate were based on competitive price quotations, with the balance determined from historical engineering project data. Equipment installation costs were based on historical prices developed from recent projects by MJV.

AMC considers that the methodology in preparing the process plant and associated infrastructure capital cost estimate is in line with industry standard practice, and that the costs are within expectations considering the capacity, location and flowsheet for the proposed facility.

The initial capital cost estimate includes preproduction costs for mining, processing and administration. These costs include clearing vegetation, pre-striping of the pit area, relocating exiting waste dumps, developing bases for stockpiles, plant commissioning and recruitment and training of operations personnel.

Figure 2.7 illustrates the results of a capital cost benchmarking analysis presented in BFS – Rev 0. The benchmarking analysis compares the JHEP (shown as "Crosslands" in Figure 2.7) to other similar projects. Data for projects other than JHEP were sourced from the public domain and excludes transport costs.

Figure 2.7 Capital Cost Benchmarking Undertaken in BFS – Rev 0[1]



[1] Presented in BFS – Rev 0, June 2011.

For each project, Figure 2.7 illustrates capital cost, capital cost per tonne of annual concentrate capacity and annual capacity (inside the bubble). Crosslands' analysis suggests that BFS – Rev 0 is at the lower end of the range for capital cost per tonne of annual capacity.

AMC notes that work has continued on capital cost estimates after the completion of BFS – Rev 0 in the pursuit of both process and value improvements.

2.7.2 Sustaining Capital Costs

Sustaining capital costs have been estimated in BFS – Rev 0. Capital costs have been defined as sustaining if they are incurred after the ramp up to full production (1 January 2015 in BFS – Rev 0).

The majority of the sustaining capital costs relate to the mining fleet. Mining fleet sustaining capital costs are made up of fleet replacement and scheduled major component change-outs. Scheduling of major component change-outs (e.g. engine replacement) is specified by the original-equipment-manufacturer. Purchases of replacement mining equipment are scheduled using the same method as is used to determine the initial mining equipment capital. The method involves tracking equipment usage, and triggering replacements as useful economic life is exhausted. AMC considers this to be common industry practice, has reviewed the estimates and believes them to be appropriate for the proposed JHEP.

Sustaining capital costs for the processing plant have also been estimated as part of BFS – Rev 0. Cost data from a similar plant in the Pilbara region were used as a reference in developing sustaining capital costs. The cost calculation considered the mean time between failure for equipment items, and also allowed for process improvement projects.

Table 2.10 lists a high level breakdown of sustaining capital costs estimated in BFS – Rev 0.

Table 2.10 JHEP BFS – Rev 0 Sustaining Capital Costs

Item	Capital Cost ($M)
Mining Equipment	1,172
Processing and Infrastructure	382
Integrated Waste Landform	193
Closure	78
Total	**1,826**

2.8 Operating Costs

Operating cost estimates have been prepared as part of BFS – Rev 0. Operating costs have been estimated by internationally recognised consultants and engineers.

AMC has reviewed operating cost estimates and finds that they have been estimated using standard industry practice and are appropriate for the project considered.

In BFS – Rev 0, Crosslands states that "A total of 93 per cent of the operating estimate costs have been developed through detailed estimates and quotes or through detailed calculations". Crosslands has estimated the accuracy of the operating cost estimates as around -±10% using Mont Carlo simulation, which is an appropriate outcome for this level of study. Costs expressed as unit rates in terms of processing feed tonnes and concentrate tonnes in BFS – Rev 0 are based on 55 Mdmtpa and 21.5 Mdmtpa, respectively.

The LOM mining operating cost estimate as presented in BFS – Rev 0 amounts to a total of $6.25/dmtpa of plant feed or $16.12/wmtpa of concentrate. Table 2.11 lists the mining unit operating costs per tonne of plant feed by cost centre.

Table 2.11 Mining Unit Operating Costs (Real) by Plant Feed Tonnes

Cost Centre	Unit Cost $/dmtpa Plant Feed
Labour	2.11
Consumables	1.41
Maintenance	1.10
Diesel	1.23
Contractor	0.05
Administration	0.34
Total	**6.25**

Table 2.12 list the mining unit operating costs per tonne of total material movement ("TMM") (plant feed plus waste) by activity.

Table 2.12 Mining Unit Operating Costs (Real) Per Tonne of Total Material Movement

Activity	Unit Cost $/dmtpa TMM
Drilling	0.38
Blasting	0.38
Loading	0.29
Hauling	1.11
Ancillary	0.47
Plant Feed Rehandling	0.08
Overheads	0.50
Contractors	0.05
Total	**3.26**

The LOM process plant operating cost estimate as presented in BFS – Rev 0 amounts to a total of $6.85/dmtpa of plant feed or $17.67/wmtpa of concentrate. The breakdown of this estimate is as per Table 2.13.

Table 2.13 Process Plant Unit Operating Cost (Real) Breakdown

Cost Centre	Unit Cost $/dmtpa Plant Feed
Labour	0.86
Reagents and Consumables	2.07
Maintenance	0.48
Power	3.39
Water	0.04
Total	**6.85**

Power costs account for approximately 50% of the process plant operating cost. The high power requirements are a result of the need for primary grinding of plant feed and subsequent regrinding of streams in downstream flowsheets. The cost of power will be dependent on the final negotiated power price with the selected IPP, and more importantly the negotiated cost of supply of gas to the IPP, which has been assumed to be available at approximately $8.31/GJ based on limited publically available information. There is a risk that the final negotiated gas price could be higher than assumed for BFS – Rev 0.

LOM non-power costs total $3.45/dmtpa plant feed. Based on experience with other projects of this nature, AMC considers that this cost is reasonable for a project of this nature and size.

General and administration costs are those not directly attributed to specific mining, plant or process area, but which are costs which are incurred by JHEP as a whole. General and administration costs include costs of external consultants, fly-in/fly-out travel, communication costs and annual insurance costs.

Estimates for general and administration operating costs in BFS – Rev 0 are around $1.05/dmtpa of plant feed and $2.71/wmtpa of concentrate.

2.9 Product Pricing, Macroeconomic Factors, and Tariffs

For valuation purposes, KPMG provided AMC with OPR port and rail tariffs, product pricing, exchange rates, inflation rates and discount rates.

In addition, KPMG has provided AMC with taxation calculations.

KPMG provided AMC with a range of post tax, nominal and ungeared discount rates of 15% to 17%.

Table 2.14 lists product prices and macroeconomic factors applied.

Table 2.14 Product Prices and Macroeconomic Factors[1]

Estimate	Unit	2011	2012	2013	2014	2015	2016
Fines Price – Pilbara	USc/dmtu	260	245	215	195	165	145
Lump Price – Pilbara	USc/dmtu	290	275	240	220	190	170
Sinter Feed Price – Pilbara	USc/dmtu	260	245	215	195	165	145
Pellet Feed Price – Pilbara	USc/dmtu	310	295	260	235	200	180
Fines – Freight Adjustment – OPR to Pilbara	US$/dmt	-1.02	-1.04	-1.06	-1.08	-1.11	-1.13
Lump – Freight Adjustment – OPR to Pilbara	US$/dmt	-1.01	-1.03	-1.05	-1.07	-1.10	-1.12
Sinter Feed – Freight Adjustment – OPR to Pilbara	US$/dmt	-1.085	-1.11	-1.13	-1.15	-1.18	-1.21
Pellet Feed – Freight Adjustment – OPR to Pilbara	US$/dmt	-1.085	-1.11	-1.13	-1.15	-1.18	-1.21
Exchange Rate – AUD:USD	:	1.00	1.00	0.96	0.92	0.88	0.85
Australian Dollar Inflation	%	-	3.0	3.0	2.8	2.5	2.5

[1] After 2016 exchange and inflation rates are maintained at 2016 levels. Prices and freight adjustments are inflated to maintain 2016 real price levels, per KPMG instruction.

The OPR port and rail tariffs as provided by KPMG are presented in BFS – Rev 0. They are in 2011 dollars and are set out on Table 2.15 Tariffs are based on 23.5 Mwmtpa of contracted capacity, and are applied on a take or pay basis.

Table 2.15 OPR Port and Rail Tariffs

Estimate	Unit	2016 to 2026	2027 to 2039	2040 to 2045	2046 to 2053
Fixed Tariff	$/wmt	27.58	27.68	26.60	3.90
Variable Tariff	$/wmt	3.60	3.60	3.60	3.60[1]
Total Tariff	**$/wmt**	**31.18**	**31.28**	**30.20**	**7.50**

[1] Fixed tariff levels relate to Crosslands contribution to OPR capital expenditure. Crosslands tariffs are lower after payment of Crosslands contribution to OPR capital expenditure is complete.

2.10 Valuation Models

AMC, in conjunction with KPMG, has developed a production case and DCF analysis for the JHEP.

From its review of BFS – Rev 0, AMC concluded that production physicals and costs outlined in BFS – Rev 0 formed a reasonable basis for consideration of project value. The only exception being that the project implementation schedule is delayed for one year. The one year delay to the implementation schedule has been adopted, as it is considered to be a likely outcome, based on discussions with Crosslands. Accordingly AMC's production case for the project is based on BFS – Rev 0, delayed for one year, which includes the following:

- Mining and construction commencing in 2013.
- Construction and preproduction activities being completed at the end of 2015.
- Mining and processing continuing until 2054.
- Production of around 23.5 Mwmtpa of iron ore products commencing in 2016, and continuing until 2024, before average production quantities decline to around 19 Mwmtpa.
- Mining of 2.1 Bdmt of plant feed and 2 Bdmt of waste over the life of the mine.
- Sales of 714 Mwmt of dry iron ore products over the life of the mine.
- Consideration of four distinct products, DSO lump, DSO fines, BFO sinter feed and BFO pellet feed.
- As in BFS – Rev 0, a discount of 15%, relative to the benchmark fines price forecast, is applied to DSO fines revenue because of its lower average grade of around 59%.
- Different moisture contents for the different products (DSO lump -1.5%, DSO fines - 0.7%, BFO sinter feed - 8.5%, BFO pellet feed - 8.5%).
- P50 capital cost estimates from BFS – Rev 0, excluding corporate costs incurred in the preproduction period, which are considered by KPMG.

- Sustaining capital cost estimates and operating cost estimates from BFS – Rev 0 excluding corporate costs, which are considered by KPMG.
- Western Australian Government royalties of 7.5% of DSO revenue and 5% of BFO revenue.
- Vendor royalties of 2.7% of DSO revenue, and 2.2% of BFO revenue.
- Marketing payments of 1.5% of revenue, excluding revenue earned under existing off take agreements. Existing off take agreements cover 40% of DSO, and 4 Mdmtpa of concentrate sales.
- An allowance has been made for a Native Title royalty, the terms of which are confidential.

While production physicals and costs are largely unmodified from BFS – Rev 0, pricing and macroeconomic assumptions have been modified according to instructions from KPMG. KPMG has also calculated company tax, Minerals Resource Rent Tax ("MRRT") and Carbon Tax for AMC's production cases.

The OPR port and rail tariffs supplied by KPMG are presented in BFS – Rev 0.

Table 2.16 lists physicals and nominal cash flows considered in AMC's production case for the JHEP.

Table 2.16 AMC's Production Case for the JHEP

Estimate	Units	2013	2014	2015	2016	2017-2021	2022-2026	2027-2031	2032-2041	2042-2051	2052-2056	Total
Mining and Processing												
Total Tonnes Mined	Mdmt	11	30	98	104	579	531	532	1,103	990	143	4,122
Tonnes Processed	Mdmt	-	-	5	50	285	275	275	550	550	134	2,123
Products												
DSO Lump Tonnes	Mdmt	-	-	-	2	6	-	-	-	-	-	9
DSO Lump Grade	% Fe	-	-	-	62.8	62.8	62.8	-	-	-	-	62.8
DSO Fines Tonnes	Mdmt	-	-	-	1	3	-	-	-	-	-	5
DSO Fines Grade	% Fe	-	-	-	59	59	59	-	-	-	-	59
BFO Sinter Tonnes	Mdmt	-	-	-	7	28	23	23	41	26	5	153
BFO Sinter Grade	% Fe	-	-	-	63.9	63.7	63.6	64.1	64	62.6	64.1	63.7
BFO Pellet Tonnes	Mdmt	-	-	-	11	70	80	67	137	150	34	548
BFO Pellet Grade	% Fe	-	-	-	67.9	68.2	68.4	68.2	68.4	68.5	68.4	68.4
Costs/Cash Flows												
Capital Costs	$M	-711	-1,814	-1,764	-	-	-	-	-	-	-	-4,288
Sustaining Capital Costs	$M	-	-	-	-14	-188	-654	-274	-1,009	-947	-343	-3,428
Operating Costs	$M	-	-	-	-1,656	-9,427	-10,646	-12,097	-28,981	-29,718	-7,470	-99,995
Royalties	$M	-	-	-	-250	-1,362	-1,470	-1,429	-3,421	-4,404	-1,108	-13,443
Revenue	$M	-	-	-	2,738	15,252	16,919	16,582	39,927	51,706	13,250	156,373
Company Tax	$M	-	-	-	-	-481	-1,253	-533	-1,676	-4,125	-2,087	-10,154
MRRT	$M	-	-	-	-	-	-	-	-	-	-	-
Carbon Tax	$M	-	-1	-13	-11	-55	-75	-106	-365	-681	-293	-1,601
Total	**$M**	**-711**	**-1,814**	**-1,777**	**807**	**3,739**	**2,820**	**2,143**	**4,475**	**11,832**	**1,950**	**23,464**

Table 2.17 lists modelling results by the discount rates provided by KPMG from AMC's production case for the JHEP based on a valuation date of 31 October 2011.

Table 2.17 AMC Modelling Results for the JHEP

Discount Rate[1] (%)	NPV ($M)
15	-211
17	-494

[1] Discount rates are post tax, nominal and un-geared.

AMC modelling, using applied pricing, macroeconomic and OPR port and rail tariff assumptions, results in negative NPVs. The internal rate of return of the project is 13.8%.

Tables 2.18 and Table 2.19 list sensitivity analysis results for the 15% and 17% discount rate cases respectively.

Table 2.18 NPV Sensitivity for the JHEP with a 15% Discount Rate

Sensitivity Factor (%)	Capital Cost ($M)	Operating Cost[1] ($M)	Price ($M)	Foreign Exchange ($M)	Discount Rate ($M)	OPR Tariffs[2] ($M)
60	904[3]	2,241	-4,388	7,233	1,713	1,237
70	626	1,630	-3,222	4,510	990	840
80	347	1,018	-2,068	2,480	467	439
90	69	404	-1,100	907	80	84
100	-211	-211	-211	-211	-211	-211
110	-491	-831	782	-1,018	-433	-507
120	-772	-1,477	1,911	-1,729	-603	-805
130	-1,053	-2,187	3,047	-2,417	-736	-1,106
140	-1,336	-2,994	4,183	-3,056	-839	-1,417

[1] Total operating cost including tariff operating cost.
[2] Tariff operating component of total operating cost.
[3] If JHEP capital were 60% of that modelled, the NPV would be $904M using a 15% discount rate.

Table 2.19 NPV Sensitivity for the JHEP with a 17% Discount Rate

Sensitivity Factor (%)	Capital Cost ($M)	Operating Cost[1] ($M)	Price ($M)	Foreign Exchange ($M)	Discount Rate ($M)	OPR Tariffs[2] ($M)
60	565	1,517	-3,935	5,607	1,116	683
70	301	1,016	-2,980	3,370	497	360
80	36	515	-2,032	1,704	58	34
90	-229	11	-1,230	417	-260	-251
100	-494	-494	-494	-494	-494	-494
110	-761	-1,005	314	-1,162	-669	-739
120	-1,028	-1,536	1,237	-1,751	-800	-985
130	-1,295	-2,120	2,169	-2,320	-899	-1,234
140	-1,564	-2,779	3,101	-2,844	-973	-1,492

[1] Total operating cost including tariff operating cost.
[2] Tariff operating component of total operating cost.

The project is particularly sensitive to revenue sensitivity factors, namely price and foreign exchange. For example, a 10% increase in price assumptions results in a project with a positive NPV using AMC's production case assumptions. The project is also sensitive to cost inputs.

2.11 Technical Risks and Opportunities

AMC has reviewed BFS – Rev 0 and also had discussions with Crosslands and Murchison about ongoing work for the JHEP. Crosslands continues a range of studies for technical improvements for the JHEP, which are ongoing and not complete. It is likely that outcomes from continuing studies will have both positive and negative impacts on the JHEP cash flows. Based on the review and discussions with Crosslands and Murchison, AMC concludes that the key technical risks and opportunities for the JHEP are as follows.

2.11.1 Geology and Mining

- Continuing pit design and scheduling work could reduce mining costs.
- Work undertaken by Crosslands post BFS – Rev 0 has indentified additional DSO that could be mined early in the production schedule, thereby improving economics.
- BFS – Rev 0 pit optimisation is based on Measured and Indicated Resources. Pit optimisation sensitivity analysis undertaken for BFS – Rev 0, including Inferred Resources, indicates a larger pit limit, with an increase of plant feed of around 600 Mt, at slightly higher stripping ratios and slightly lower grades. AMC considers that a larger pit limit would not materially affect AMC production case NPV's, as the JHEP already has a long life, and cash flows forecast after 30 years are heavily discounted.

2.11.2 Metallurgy and Processing

- The optimum process flowsheet for achieving required hematite (sinter feed) concentrate is still under development. There is a risk that iron recovery may be lower, and operating costs higher, when the optimum flowsheet is determined.

2.11.3 Capital Costs

- Capital costs incurred during construction could be higher than those estimated. Construction in the resources sector is currently at high levels, and there is a risk that the high construction activity combined with a lack of skilled resources could result in a significant increase in capital cost.
- Capital cost estimates could increase due to scope changes. For example, if the process flowsheet design was changed, additional plant and power generation capital costs could result.

2.11.4 Operating Costs

- OPR port and rail tariffs constitute 44% of operating costs, AMC notes that commercial agreement has not been reached with OPR on tariffs, and that the NPV is sensitive to final terms which are uncertain.
- A smoother product profile, and better aligned contracted OPR capacity, would result in incurring lower take-or pay penalties from OPR.
- In BFS – Rev 0 power station and gas pipeline construction costs are included in the operating cost estimates, via fixed charges from an IPP, which would own and operate the assets. Costs associated with this arrangement are based on request-for-quotation data supplied by interested parties. AMC notes that commercial agreements for this infrastructure have not been concluded, and that a range of alternative outcomes could eventuate. Possible outcomes could include Crosslands incurring capital costs for power infrastructure, or alternative sources being identified, for example coal fired power from generators in the South West of Western Australia.
- Gas supply costs for BFS – Rev 0 have been assumed based on limited publically available information, and there is a risk that costs could be significantly higher when a gas supply contract is negotiated.

2.11.5 Project Implementation

- Misalignment of completion of construction of the JHEP and OPR can be expected to have an adverse effect on production ramp up and costs.

3 JACK HILLS STAGE 1 - CURRENT OPERATION

The Jack Hills iron ore mine is located in the Murchison region of Western Australia.

It is currently a DSO operation which is referred to as Stage 1. It commenced mining in November 2006, with the first shipment of DSO product occurring in February 2007.

It has a nominal production capacity of 1.8 Mdmtpa of DSO product. Plant feed and waste are mined by contract using conventional truck and shovel methods.

Figure 3.1 shows the Stage 1 pit as seen during AMC's site visit on 23 November 2011. The darker grey material that runs along the pit keel is indicative of the DSO that is currently being produced.

ROM plant feed is crushed and screened under contract in a mobile crushing and screening plant. The lump and fines DSO products are stored in separate stockpiles and then trucked to the nearby mining town of Cue where additional storage facilities are available. The product is then trucked using triple road trains to storage and loading facilities at the Port of Geraldton where the products are loaded and shipped to export customers.

The plant feed handling and metallurgical characteristics of the Jack Hills DSO are now well known through operating experience over the last four years. The historical quality of DSO lump and fines product for 44 shipments over the life of current operations is presented in Table 3.1. The lump ratio is approximately 65% to 70%.

Table 3.1 Historical Lump and Fines Product Quality

Product	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	S (%)	LOI (%)
Lump	64.1	2.91	0.41	0.07	0.01	2.42
Fines	62.1	4.88	1.04	0.07	0.01	2.51

The Jack Hills DSO is characterised by low alumina content and is therefore readily accepted in the marketplace.

Figure 3.1 Jack Hills Pit Looking South West

Recent operating summary statistics taken by AMC from Crosslands monthly management reports are presented in Table 3.2.

Table 3.2 Jack Hills Current Operation Statistics

Item	Unit	July 2010 to June 2011	July 2011 to October 2011
Plant Feed Mined - volume	kbcm	206	122
Plant Feed Mined - tonnes (dry)	kdmt	890	527
Waste Mined - volume	kbcm	2,356	748
Strip Ratio - volume	bcm:bcm	11.4	6.1
Products Shipped - tonnes (wet)	kwmt	1,574	542
Products Shipped - grade	% Fe	61.8	62.6
Operating Cost/Tonne Shipped	$/wmt	111	120

Murchison announced on 30 November 2011 that Stage 1 mining will cease in late December 2011 and that final shipment of product from Stage 1 is scheduled to occur in February 2012, whereupon the mine will be placed on care and maintenance, while Crosslands progresses planning for the expansion of Jack Hills.

Based on actual performance data for November and budget forecasts for December to February, AMC has prepared an operating plan for the remainder of the Stage 1 operation. Key aspects of the plan include:

- Total opening stocks 170,000 dmt.
- Plant feed mined 280,000 dmt.
- Waste mined 540,000 dmt.
- Production shipped 420,000 wmt at 62% Fe.
- Operating cost $102/wmt shipped.
- Costs for putting the operation on care and maintenance $6M.

AMC has valued the Stage 1 operation for the period 1 November 2011 to 29 February 2012 at $10M using November actual sales revenue provided by Crosslands and KPMG's product pricing, and macroeconomic factors for post November cash flows and KPMG taxation inputs.

4 JACK HILLS EXPLORATION VALUE

4.1 Exploration Valuation Methods

AMC uses a range of industry valuation methods to value exploration assets. Where possible, AMC applies more than one method to each asset and generates ranges of values. Values are rounded and outliers sometimes excluded before selecting a most likely value range and a preferred value for the asset. The valuation methods used are described as follows:

a) **The Past Expenditure method:** A Prospectivity Enhancement Multiplier ("PEM"), generally between 0.5 and 3.0, is applied to past direct expenditure, which AMC judges to be effective in regard to future prospectivity. Planned future expenditure, whether or not committed, is not included in the base expenditure to which a PEM is applied, but may be taken into consideration in the assessment of prospectivity through the PEM range selected.

b) **The Yardstick Value method:** A value per unit of product, or yardstick value, is assigned to an actual resource or to AMC's estimate of a resource reasonably likely to be delineated by further work. The yardstick values used are based on AMC's assessment of transactions in recent years, the likely complexity of mining and processing and AMC's assessment of the relative quality of the deposit.

c) **Actual or Comparable Transaction method:** A value is determined by reference to either actual transactions for the property in question or, more commonly, to recent transactions in the same general geological environment for properties deemed to be at a similar level of exploration and prospectivity. As many such transactions are of a farm-in nature AMC assesses a "cash equivalent" value for them by assessing from the terms the "deemed expenditure" on the property at the time of the deal, discounted by a time and probability factor for the likelihood that the farm-in will be completed. The resulting value is then adjusted for any other terms of the joint venture and/or for the results of work carried out since the commencement of the farm-in.

A derivation of this method assigns values per unit area of tenement derived from comparable transactions. Values per unit area usually decrease with increase in the size of the tenement package.

d) **Expected Value method**: Expected values are estimated where it is reasonable to target the range of economic parameters of a project, which may result from ongoing exploration. The parameters are used to generate a range of NPVs which are adjusted, usually with allowance for the costs of that ongoing exploration, and with a probability/risk factor for the chances of that exploration being successful. The factor also takes account of the risks associated with project development, and generally range from 0.1 to 0.5 but sometimes higher.

4.2 Jack Hills DSO Valuation

DCF analysis by AMC indicated negative NPV for the JHEP leaving AMC to rely on exploration methods to value the mineral assets, other than the completion of Stage 1. AMC considered the Expected Value method for valuation of Jack Hills DSO but concluded that it was possible for only one of either Jack Hills or Brindal DSO to proceed due to transport limitations within the timeframe of higher iron ore prices as advised by KPMG. Therefore the Expected Value method has been used to value Brindal DSO, leaving the remaining DSO at Jack Hills to be considered using the Yardstick Value method.

BFO and DSO material types need to be treated separately when considering value using the exploration Yardstick Value method. The mineral resources for the Jack Hills deposit include 133 Mt grading 56% Fe that is considered to have DSO potential.

Mineralisation that has potential as DSO can be valued using yardstick values calculated from transactions for similar direct shipped iron ore products. AMC has identified four recent transactions that can be used to calculate Yardstick Values between $0.51 and $1.34 per tonne of contained iron. The transactions considered are summarised below:

- Option granted to E-Com Multi Limited for the right to purchase the Wonmunna and Uaroo iron ore projects from Talisman Mining Limited for $41.35M. Mineral resource of 78.3 Mt grading 56% Fe indicating a value of $0.94 per tonne of contained iron.
- Iron Ore Holdings sold Koodaideri South tenements to Rio Tinto Limited for $32M. Mineral resource of 107 Mt grading 59% Fe indicating a value of $0.51 per tonne of contained iron.
- Iron Ore Holdings sold Central Pilbara tenements to Mineral Resources Limited for $42M. Mineral resource of 55 Mt grading 57% Fe indicating a value of $1.34 per tonne of contained iron.
- Flinders Mines Limited takeover by Magnetogorsk Iron and Steel Works OJSC for $554M. Mineral resource of 917 Mt grading 55% Fe indicating a value of $1.09 per tonne of contained iron.

This indicates a value for Jack Hills DSO of between $37M and $98M allowing for depletion of the mineral resource to the end of Stage 1 mining. The mid-point of this range is $68M.

4.3 Jack Hills BFO Valuation

The mineral resources for the Jack Hills deposit include 3.08 Bt grading 31% Fe that has BFO potential that consists of BIF and DID reported at a 22% Fe cut-off and MIM that does not report as DSO.

AMC has identified a number of transactions that relate to magnetite mineral resources but has concluded that transactions for deposits close to a coast and transactions up to 2008 may indicate higher values than are indicated by recent Murchison-region transactions. AMC also considers that deposits with higher mass recoveries will return a higher yardstick value per tonne of contained iron metal than those with lower recoveries and that this should be taken into account when considering value.

AMC has identified two Murchison-region transactions that relate to magnetite mineralisation that indicate Yardstick Values of $0.27 to $0.58 per tonne of contained iron. A summary of the transactions is:

- The Chongqing Chonggang Minerals Development Investment Ltd acquired 60% of the Extension Hill project for $280M. The extension Hill mineral resource has been stated at 1.6 Bt, with a recovered iron grade of 68% Fe and mass recovery of 38%, indicating a value of $0.58 per tonne of contained iron and $1.13 per tonne of recovered iron.

- The Sichuan Taifen Group acquired a 50% interest in the Yalgoo iron project and the Western Haematite project of Ferrowest Limited for $20M. The Yalgoo mineral resource has been stated at 552 Mt grading 27% Fe, indicating a value of $0.27 per tonne of contained iron. The mass recovery of this mineral resource is not known to AMC.

These transactions indicate values based on contained iron for Jack Hills BFO of between $260M and $558M.

For the Extension Hill transaction, the mass recovery and recovered grade indicate that the mineral resource consists of higher mass recovery than at Jack Hills. The Extension Hill transaction indicates a Yardstick Value of $1.13 per tonne of recovered iron when mass recovery is taken into account. Applying this value per tonne of recovered iron to the Jack Hills BFO returns a value of $288M.

AMC has concluded that a range of values between $260M and $423M could be applied to Jack Hills BFO with the upper end of the range ($423M) being the midpoint between the two values (based on contained iron and recovered iron) indicated by the Extension Hill transaction ($288M and $558M). The mid-point of the valuation range of $260M and $423M is $341M.

Exploration expenditure on the Jack Hills tenements totals $177M. All of this expenditure has increased the value of the Jack Hills tenements by increasing the total mineral resources or improving confidence in mineral resource estimates. Applying a PEM of 1.5 to 2 on this expenditure indicates a value of $265M to $354M which falls within AMC's valuation range of $260M and $423M as described above.

AMC has considered it appropriate to use Murchison-region transactions in deriving Yardstick Values. In comparison, Metallurgical Corporation of China Limited is reported as having paid $400M in 2008 for the Cape Lambert Project in the Pilbara region which included mineral resources of 1.56 Bt with a recovered iron grade of 62% Fe and mass recovery of 32%. This indicates a Yardstick Value of $1.29 per tonne of recovered iron. Applying this value per tonne of recovered iron to the Jack Hills BFO returns a value of $328M which is also within AMC's valuation range.

4.4 Brindal Valuation

Mineral resources for Brindal include 7.9 Mt grading 62% Fe that has potential for DSO, for which AMC has estimated the value using the Expected Value method. AMC's Expected Value cases for Brindal are based on a reopening of the Jack Hills Stage 1 (current) operation at the start of 2013, or 2014, after being closed for around 1 or 2 years respectively.

Additionally, AMC's Expected Value cases for Brindal are based on the following:

- Remobilising Crosslands staff and mining, processing and haulage contractors to site to reopen mining operations.
- Production of 1.8 Mdmtpa of lump and fines products per a mining schedule for which a constant mining rate and strip ratio are assumed.
- Provisional allowances for capital costs for remobilisation of contractors (based on Crosslands board papers) and development of haul roads.
- Sustaining capital costs of 1% of operating costs for maintenance of infrastructure
- Upon cessation of mining an asset salvage value of $15M and a closure and rehabilitation cost of $12M.
- Production costs based on current Stage 1 site costs, with allowance for different total material mining rates (i.e. lower stripping ratios).
- Royalties based on those incurred by the current operation, and changes to Western Australian Government royalties.
- Continuing mining operations while they are profitable. The Brindal Expected Value case profitability is a function of production costs, and the iron ore prices provided by KPMG. It results in production ceasing at the end of 2015 (because Brindal would not be profitable after 2015, based on the cost and price assumptions).

Table 4.1 lists key physical and nominal cost information for AMC's Brindal Expected Value cases.

Table 4.1 Brindal Expected Value Cases

Estimate	Unit	2013 Start	2014 Start
Physicals			
Plant Feed Mined	Mdmt	5.4	3.6
Waste Mined	Mdmt	13.0	8.70
DSO Lump Tonnes	Mdmt	3.5	2.35
DSO Lump Grade	% Fe	62.8	62.8
DSO Fines Tonnes	Mdmt	1.9	1.25
DSO Fines Grade	% Fe	58.9	58.9
Project Duration	Years	3	2
Costs/Cash Flow			
Capital Cost	$M	8.5	8.7
Sustaining Capital Cost	$M	2.00	0.2
Operating Costs	$M	541	366
Revenue	$M	743	478
Royalties	$M	68	44
Tax	$M	1	1
Cash Flow	$M	90	59

For AMC's Expected Value cases, KPMG provided tax calculations and a discount rate of 14% pa. After allowance for discounting, the Expected Value method gave a range of values for Brindal of $40M to $90M with a mid-point of $65M.

AMC has not applied a probability/risk factor to the range of values indicated by the Expected Value method. The valuation is based on a pit design derived from an Indicated Resource, production costs based on actual Stage 1 costs, and prices and tax inputs provided by KPMG. AMC considers that risks associated with the project, such as a decision to proceed with mining and a decision on a haulage route, are incorporated into the range of values as described above.

5 CROSSLANDS EXPLORATION PROPERTIES

Exploration tenements held by Crosslands consist of eight exploration licences covering 63 graticule blocks (about 195 km^2) at several locations in the mid-west region of Western Australia. Under an agreement between the shareholders of Crosslands, any tenement interests acquired by Murchison within 650 km of the proposed Oakajee port form part of the Crosslands tenement holding.

The exploration tenements are listed in Table 5.1 and their locations shown in Figure 5.1.

Table 5.1 Crosslands Exploration Tenements

Tenement	Name	Application Date	Grant Date	Expiry Date	Bond ($)	Rent ($/a)	Commitment ($/a)	Rates ($/a)	Area
E20/552	Weld Range West	29-Oct-03	13-Feb-07	12-Feb-12	-	4,311	30,000	1,349	18 blocks
E20/557	Weld Range West South	06-May-04	01-Nov-05	31-Oct-12	-	273	15,000	300	1 blocks
E20/558	Weld Range Central	06-May-04	01-Nov-05	31-Oct-12	-	273	15,000	300	1 blocks
E20/559	Noonie Hills	20-May-04	01-Nov-05	31-Oct-12	10,000	3,832	50,000	8,164	16 blocks
E51/1070	Weld Range North	24-May-04	20-Sep-05	19-Sep-12	-	1,437	50,000	317	6 blocks
E51/1071	Stewart Bore	24-May-04	20-Sep-05	19-Sep-12	-	1,916	50,000	423	8 blocks
E59/1163	Bill Well	06-May-04	21-Apr-11	20-Apr-16	-	908	20,000	350	8 blocks
E59/1629	Pinyalling Hill	25-Sep-09	02-Feb-11	01-Feb-16	-	568	15,000	270	5 blocks

Figure 5.1 Crosslands Exploration Tenement Locations

The Bill Well and Pinyalling Hill tenements are only recently granted and there hasn't been significant exploration activity.

5.1 Weld Range West, West South and Central

Exploration activity on the Weld Range West, West South and Central exploration licences are reported together. The iron ore deposits at Weld Range (not on these tenements) occur as lenses in two Archaean BIFs that generally dip steeply to the southeast with most of the deposits occurring in a persistent BIF up to 40m thick in the Wilgie Mia Formation. The iron mineralisation is predominantly hematite, hematite/goethite and goethite, confined to narrow discontinuous lenses within the BIF. The iron deposits of the Madoonga Formation, consist mainly of goethite and lesser hematite/goethite. The BIF of the Weld Range area forms part of a greenstone belt succession consisting of mafic and ultramafic intrusive and volcanic rocks, mafic tuff, BIF, and quartzite. The greenstone belt is surrounded by Archean aged granite and granitic felsic intrusive.

The exploration target on these tenements is BIF-hosted iron deposits similar to those at Sinosteel Midwest Corporation's Weld Range Project. Exploration has consisted of airborne magnetic and radiometric surveys, a gravity survey, geological mapping and rock chip sampling and RC drilling (24 drillholes for 2,284m). The exploration activity has identified MIM of hematite overprinting jaspilite-hematite/magnetite BIF in small pods. The BIF units are thin providing little scope for a significant magnetite occurrence. Further drilling to pursue the MIM occurrence was planned. Direct exploration expenditure on these tenements totals $1.0M.

5.2 Noonie Hills

The Noonie Hills tenement forms the southernmost part of the Jack Hills greenstone belt, which is an Archean belt of BIF, pelitic, metasedimentary, and mafic-ultramafic rocks hosted by regional Archean granitoid-gneiss terrain. The greenstone belt hosts the Jack Hills magnetite deposit to the northeast. The tenement is being explored for iron deposits similar to the Jack Hills deposit.

Previous exploration by Crosslands consisted of RC drilling, incorporating 16 holes for a total of 2,061m of drilling with associated downhole geophysical logging. A close-spaced airborne magnetic and radiometric survey was also completed along with geological mapping, ortho-photography, and rock chip sampling.

Noonie Hills contains significant amounts of lower-grade BIF containing modest amounts of hematite and magnetite mineralisation. Recent drilling failed to detect substantial high-grade hematite mineralisation. Latest reporting indicates that further drilling was planned targeting possible supergene enriched zones. Direct exploration expenditure on these tenements totals $0.57M.

5.3 Weld Range North

The Weld Range North tenement is located at the northern end of Weld Range and covers BIF outcrops that occur along the strike length of Weld Range. Limited exploration has been complete on the tenement involving assessments of existing data and planning of a drilling programme. Planned work included geological mapping and RC drilling. Expenditure to date is $0.28M.

5.4 Stewart Bore

Stewart Bore is located approximately 30 km to the east of the Jack Hills deposit and covers part of the Jack Hills greenstone belt. The geology is structurally and lithologically complex, Geological mapping indicates an Archean granite gneiss complex with fault controlled lenses of mafic and ultramafic intrusive rocks.

An airborne magnetic survey and RC drilling of BIF units was carried out in 2008 and subsequent work has focussed on data assessments and reconnaissance work to identify drilling targets. Assay results indicate suggest that the BIF is lower grade than typical Jack Hills and Weld Range BIF with iron analyses generally in the range of 35% Fe to 45% Fe in the mineralised zones, and high grade direct shipping ore was not intersected. Direct exploration expenditure on these tenements totals $0.83M.

5.5 Summary of Exploration Values of Other Properties

Exploration activity on these tenements has identified prospective BIF stratigraphy without indicating significant iron mineralisation to date. There has been limited active exploration since 2008 when drilling and airborne geophysical surveys were complete. Further exploration is warranted although success will depend on the demonstrated economic viability of low grade BIF deposits as a source of magnetite.

Total direct exploration expenditure on the tenements is $2.7M. Applying a PEM of 0.8 to 1.0 to the expenditure to reflect the effectiveness of that expenditure indicates a value of $2.2M to $2.7M.

AMC has identified transactions involving tenements prospective for iron mineralisation without reported mineral resources. The value per unit area indicated by these transactions varies widely, possibly reflecting location, strategic value or indications of possible future exploration success. The average of five recent transactions indicates a value of $13,000 per square kilometre. Removing an extreme high and an extreme low value from these transactions indicates a value of $6,000 per square kilometre. This range indicates a value for the exploration tenements of $1.2M to $2.5M using this method.

Considering results of both these methods, AMC considers a range of values between $1.7M and $2.4M with a preferred value of $2.1M, to be appropriate.

6 SOURCES OF INFORMATION

The assessments reported herein are based on:

- documents, reports, and other information provided by Murchison and reviewed by AMC
- the site visit made by AMC on 23 November 2011
- discussions by AMC with Murchison and Crosslands.

Much of the information was available as electronic copies which were provided to AMC for its engagement.

A list of material references used by AMC is presented in Appendix B. This list is not exhaustive.

Diagrams included in this report have been sourced from Murchison, as have estimates of Mineral Resources and mining inventories, and past performance data.

7 QUALIFICATIONS

This report has been prepared by AMC. It has been prepared in accordance with the VALMIN Code as well as ASIC Regulatory Guide (RG) 111 and RG 112.

AMC is a firm of mineral industry consultants whose activities include the preparation of due diligence reports on and reviews of mining and exploration projects for equity and debt funding and for public reports. AMC has completed assignments of a similar nature for KPMG. AMC has also carried out technical consulting assignments for Murchison and Crosslands in relation to the JHEP. In these assignments, AMC and its sub-consultants have acted as independent parties and have no business relationship with either KPMG or Murchison or Crosslands other than the carrying out of individual consulting assignments as engaged.

The contributors to this report include:

Name	Qualifications	Affiliations	Involvement
Lawrie Gillett	BEng (Mining) DipGeosc (Mineral Economics)	AMC Director/Principal Mining Consultant	Project management and mining
Brad Watson	BEng (Hons) (Mining Engineering), BComm (Finance)	AMC Senior Mining Engineer	Modelling scenarios, mining and general
Dean Carville	B App Sc (App. Geol)	AMC Principal Geologist	Geology, resources, exploration and exploration valuations
Tony Showell	B App Sc (Metallurgy)	Tony Showell & Associates, Metallurgist	Metallurgy and processing, and associated infrastructure
Chris John	BSc (Agric) (Hons) PhD	John Consulting Service, Director	Environment, permitting and approvals
Bruce Gregory	BEng (Mining) Diploma Financial Management Diploma Applied Finance & Investment	AMC General Manager, Perth/Principal Mining Engineer	Peer review

Neither AMC nor its sub-consultants involved in the preparation of this report have any material interest in Murchison or Crosslands or in any of the properties described herein. Additionally, they do not have any pecuniary interest, association or employment relationship with KPMG or Murchison or Crosslands.

AMC was not involved in setting the terms of the Proposed Transaction nor has it provided advice of a strategic nature to Murchison in relation the Proposed Transaction.

While some employees of AMC and its sub-consultants may have small direct or beneficial shareholdings in Murchison, neither AMC nor the contributors to this report nor members of their immediate families have any interests in Murchison that could be reasonably construed to affect their independence.

AMC is being paid a fee by Murchison for preparation of this report according to its normal per diem rates and out-of-pocket expenses. No part of the fee is contingent on the conclusions reached. Except for this fee, AMC has not and will receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report. Payment of AMC's fee, and its magnitude, is not contingent upon the outcome of the Proposed Transaction.

In a letter relating to our engagement, Murchison agreed to comply with those obligations of the commissioning entity under the VALMIN Code including that to the best of its knowledge and understanding, complete, accurate and true disclosure of all relevant material information would be made to AMC for the purposes of preparing this report.

In preparing this report, AMC has:

- Relied on information provided by Murchison, and has not audited such information. AMC has not, however, uncritically used the information provided and has satisfied itself as to the reasonableness of the information used.

- No reason to believe that the information provided by Murchison is materially misleading or incomplete or contains any material errors. Murchison has been provided with drafts of those sections of our report relating to its operations to enable correction of any factual errors and notation of any material omissions. The views, statements, opinions and conclusions expressed by AMC are based on the assumption that all data provided to it by Murchison are complete, factual and correct to the best of its knowledge.
- Accepted port and rail tariffs as advised by KPMG.
- Accepted metal prices, foreign exchange rates, inflation rates, discount rates, and taxation advice as provided by KPMG, with AMC not being expert in these areas.

This report and the conclusions in it are effective at 1 November 2011. Those conclusions may change in the future with changes in relevant metal prices, foreign exchange rates, inflation rates, discount rates, taxation, and exploration and other technical developments in regard to the projects and the market for mineral properties.

Murchison has provided AMC with indemnities in regard to damages, losses and liabilities related to or arising out of the engagement other than those arising from illegal acts, bad faith or negligence on AMC's part or AMC's reliance on unauthorised statements from third parties.

This report has been provided to KPMG for the purposes of forming its opinion in regard to the Proposed Transaction. AMC has given its consent for its report to be appended to KPMG's report and for it to be provided to shareholders and has not withdrawn that consent before their lodgement with the Australia Securities Exchange ("ASX"). Neither this report nor any part of it may be used for any other purpose without written consent.

As referred to above, AMC has undertaken technical consulting assignments for Murchison and Crosslands in relation to the JHEP. These have been undertaken in the last two years and relate to certain mining engineering aspects of the JHEP, namely:

- Pit optimisation, pit design and mine scheduling work for Crosslands prior to the JHEP feasibility study – job complete.
- Evaluation for Murchison of mining dilution and mining loss methodologies and their likely effect on estimates of direct shipping ore – job complete.
- Assistance to Murchison with review of certain mine planning aspects of the JHEP feasibility study – job not active.

The signatories to this report are corporate members of the AusIMM and bound by its Code of Ethics.

Yours faithfully

L J Gillett
F AusIMM (CP)
Director/Principal Mining Consultant

BS Gregory
M AusIMM
General Manager, Perth/Principal Mining Engineer

APPENDIX A

ABBREVIATIONS

%	percent
µm	micron
$	Australian dollar
AC	acid consuming
Al_2O_3	Aluminium oxide
AMC	AMC Consultants Pty Ltd
AMEC Minproc	AMEC Minproc Limited
ASX	Australian Securities Exchange
B	billion
Bdmt	Billion dry metric tonnes
bcm	back cubic metres
BFO	beneficiated feed ore
BFS – Rev 0	Jack Hills Expansion Project Bankable Feasibility Study – Rev 0
BIF	banded iron formation
CaO	calcium oxide
C	centigrade
CIL	carbon in leach
CIP	carbon in pulp
CPI	consumer price index
Crosslands	Crosslands Resources Ltd
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DBNGP	Dampier to Bunbury Natural Gas Pipeline
DCF	discounted cash flow
DID	detrital iron deposits
DMP	Department of Mines and Petroleum
dmt	dry metric tonne
dmtu	dry metric tonne (iron) unit
DoW	Department of Water
DSO	direct shiping ore
DTR	Davis Tube Recovery
EP Act	Environmental Protection Act
EPA	Environmental Protection Agency
EPCM	Engineering Procurement and Construction Management
Fe	iron
GDEs	groundwater-dependent ecosystems
GL	giga litre
IPP	Independent Power Producer
ITSR	independent technical specialist's report
IWL	Integrated Waste Landform
JHEP	Jack Hills Expansion Project
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2004 Edition, Effective December 2004, Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC).
kbcm	thousand back cubic metres
kdmt	thousand dry metric tonnes
km	kilometres
km^2	square kilometres
koz	thousand ounces
KPI	Key Performance Indicator
KPMG	KPMG Corporate Finance (Aust) Pty Ltd
kt	thousand tonnes
ktpa	thousand tonnes per annum
kwmt	thousand wet metric tonnes
LIMS	low intensity magnetic separators
LOI	loss on ignition
LOM	life-of-mine
M	million
m	metres
m^2	square metre
m^3	cubic metres

m^3/s	cubic metres per second
Mbcm	million back cubic metres
Mdmtpa	million dry metric tonnes per annum
MDPL	Mitsubishi Development Pty Ltd
MgO	Magnesium oxide
MIM	massive iron mineralisation
MJV	Magnetite Joint Venture
MLA	Mineral Liberation Analysis
mm	millimetres
mRL	reduced level
MRRT	Minerals Resource Rent Tax
Mt	million tonnes
Mtpa	million tonnes per annum
Murchison	Murchison Minerals Ltd
MW	megawatt
Mwmt	million wet metric tonnes
Mwmtpa	million wet metric tonnes per annum
NAF	non acid forming
NPV	net present value
OEPA	Office of the EPA
OPR	Oakajee Port and Rail
oz	ounce
P	phosphorus
Pa	Per annum
PAF	potentially acid forming
PEM	Prospectivity Enhancement Multiplier
PJ/a	petajoules per annum
PPA	Power Purchase Agreement
ppm	parts per million
QA/QC	quality assurance/quality control
RG 111 and RG 112	Regulatory Guide 111 – Content of expert reports and Regulation Guide 112 – Independence of experts issued by the Australian Securities and Investments Commission (ASIC)
RL	reduced level
ROM	run-of-mine
S	sulphur
SAG	semi-autogenous grinding
SiO_2	silicon dioxide
SKA	Square Kilometre Array
SRK	SRK Consulting
t	tonnes
TJ/d	terajoules per day
TMM	total material movement
tpa	tonnes per annum
tph	tonnes per hour
TSF	tailings storage facility
VALMIN Code	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports. The VALMIN Code 2005 Edition, Prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.
WHIMS	Wet High Intensity Magnetic Separation
wmt	wet metric tonnes
wmtpa	wet metric tonnes per annum
WorleyParsons	WorleyParsons Limited
XRF	X-ray fluorescence

APPENDIX B

REFERENCES

The titles of key documents, presentations and files provided to and used by AMC in preparing the ITSR are listed below.

Acid and metalliferous drainage management strategy (July 2010).

Acid and metalliferous drainage study (October 2009).

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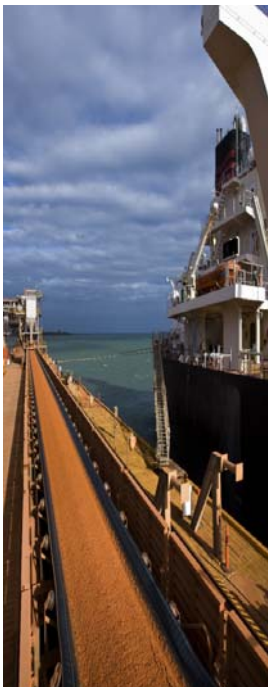
Appendix 9 – Mott Macdonald - Independent Technical Specialist Report





Oakajee Port and Rail Project

Independent Engineering Assessment Report

23 December 2011

KPMG

Mott MacDonald

Oakajee Port and Rail Project

Independent Engineering Assessment Report

23 December 2011

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Independent Engineering Assessment Report

Issue and revision record

Revision	Date	Originator	Checker	Approver	Description
A	05/12/11	Calvin Li	Richard Hilldrup	David R Gutteridge	First draft for discussion
B	23/12/11	Calvin Li	Michael Hewett	Richard Hilldrup	Issue as final

Content

Executive Summary

This report is prepared by Mott MacDonald Australia Pty Ltd to provide an independent assessment of the value of the technical works executed by Oakajee Port and Rail (OPR) Pty Ltd and its consultants in delivery of the Bankable Feasibility Studies for the Oakajee Port and Rail (OPR) Project.

Mott MacDonald undertook an independent desktop review of the intellectual property made available to it between the dates of 21st November 2011 and 7th December 2011 via the project electronic data room.

Mott MacDonald has assessed the value of the feasibility study and therein the intellectual property as AUD$ 142.6m.

As this work has been undertaken independently it is recommended a ranging factor of ±10% be applied to the figure providing a range of cost as follows:

	Low AUD$ million	High AUD$ million
Value of Intellectual Property	129.6	156.9

1. Introduction

1.1 Purpose

This report has been prepared by Mott MacDonald Australia Pty Ltd as part of an independent valuation of Murchison Metal Ltd's (Murchison) Intellectual Properties in the OPR Project. This report sets out Mott MacDonald's assessment of the value of the IPs made available during the period 21st November 2011 to 7th December 2011, the methodology applied in arriving at that valuation, and a summary of the key assumptions used in developing the valuation model.

1.2 Scope

The scope of the assessment included the valuation of all Intellectual Properties related to the Bankable Feasibility Studies (BFS) made available in an electronic data room (Appendix C provides a list of all documents accessed as part of the assessment process). This included:

- Bankable Feasibility Studies of port marine and landside, rail, project execution planning, and simulation
- Project Management Study Contractor (PMSC)
- Statutory and regulatory approvals of Land access, Native Title / Heritage, and Environmental

The assessment considered the value of each of these discrete groups of IPs, providing an assessment of their optimised replacement cost using a valuation model methodology described in section 4.

The valuation excluded all non-engineering IPs, specifically:

- Business Development
- Finance
- Legal
- Government Affairs
- Community & Stakeholder
- Operations
- General & Administration
- Human Resources
- Information Technology

Whilst it is acknowledged that these exclude IPs would have provided some inputs to the formation of the overall IPs it was not possible to assess their contribution to the overall IP cost given the documentation and timescale available.

This report has been prepared in accordance with the Australia Securities and Investment Commission (ASIC) Regulatory Guides 111 and 112.

Neither Mott MacDonald nor any of its personnel involved in the preparation of this report had any material interest in Murchison or in any of the properties described herein.

Mott MacDonald was remunerated on a time-based fee for the preparation of this report, with no part of the fee contingent on the conclusions reached, or the content or future use of this report. Except for these fees, Mott MacDonald has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report.

1.3 Abbreviation

Below gives a list of abbreviations and acronyms used in this document:

Table 1.0 Abbreviation

No	Abbreviation	Definition
1	ASIC	Australia Securities and Investment Commission
2	BFS	Bankable Feasibility Study
3	DORC	Depreciated Optimised Replacement Cost
4	IP	Intellectual Property
5	LOE	Level of Effort
6	MDPL	Mitsubishi Development Proprietary Limited
7	OPR Project	Oakajee Port and Rail Project
8	OPR Pty Ltd	Oakajee Port and Rail Proprietary Limited
9	PMSC	Project Management Study Contractor
10	SDA	State Development Agreement

2. Overview of the OPR Project

OPR Pty Ltd was established in September 2007 as a 50/50 joint venture between Murchison and Mitsubishi Development Pty Ltd (MDPL). OPR Pty Ltd was established to design, develop, construct and operate new rail and deepwater port infrastructure to facilitate the export of expanded production from iron ore mines in Western Australia's mid-west region. OPR Pty Ltd will be operated independently on a commercial basis to provide 'open access' transport and materials handling infrastructure to all users. The port facilities will be located approximately 25km north of Geraldton.

On 20 March 2009, OPR Pty Ltd, Murchison, MDPL, and the Western Australian State Government signed an exclusive State Development Agreement (SDA) for the development of the multi-billion dollar deepwater port at Oakajee and integrated rail network with a nameplate capacity 45Mtpa to service iron ore mines and other port users in the mid-west region (see Figure 1.0). The port will cater for large iron ore carriers and the railway network will service the growing number of mining projects in the region.

In March 2010, OPR Pty Ltd delivered a draft BFS to the Western Australian State Government which demonstrated technical feasibility for the development of the OPR Project. First revision of the BFS was provided to Western Australian State Government for approval in August 2011. Since then both parties have been progressing the drafting of Implementation Agreements, the successors to the SDA from 31 August 2011, for both port and rail facilities.

Figure 1.0 Location of Oakajee port and the mid-west region

3. Assumptions

Due to the timescales and independence of the valuation it has been necessary to make a number of assumption, these assumptions are discussed below.

3.1 General Assumptions

In terms of project delivery it was assumed:

- The IP was generated through a standard engineering process / lifecycle and normal working day of 7.5 hours.
- The IP was generated by a team of appropriately qualified and experienced personnel.
- The IP was generated without any additional cost and time charged.

The team for the works involved the following standard roles

Table 1.1 Resources

Position	Role
Executive	Overall management and corporate responsibility for project delivery
Project Manager	Plan, execute, and finalise projects within schedule
Engineer	Provide technical solution
Special Consultant	Technical specialist
Surveyor	Site survey
Technical Officer	Provide engineering support
Drafter	Provide technical drawings
Admin	Provide administrative support

3.2 Approvals Assumptions

3.2.1 Land Access for Feasibility Studies

The following assumptions were used in our assessment:

- Land access was negotiated between the parties with extensions to access granted as necessary with no additional cost.
- No disruptions to landowners during access period, i.e. no compensation events.

3.2.2 Native Title Agreement

The following assumptions were used in our assessment:

- All negotiations were suspended in mid of 2011.
- All negotiation budget estimates per annum provided are actual spending costs.
- Negotiation budget for Mullewa Wadjari Group is assumed the same to that provided for the Wajarri Yamatji Group.
- No compensation was given to any native groups.

3.2.3 Aboriginal Heritage Protocol

The following assumptions were used in our assessment:

- All cost rates provided in the protocol schedule were actual rates utilised to carry out the heritage survey.
- For completion of the Section 18 application submission, it is assumed there was one discussion with the indigenous groups for each heritage survey.

- For heritage areas in the Weld Ranges and Wokatherra Gap, it was noted that numerous sites had been identified and discussions for Section 18 applications had commenced. Eleven discussions with indigenous groups have been assumed, which was based on the number of discussions with indigenous groups that had been done in other areas of OPR Project.

3.2.4 Environmental Approvals

The following assumptions were used in our assessment:

- A team of 25 environmental specialists were engaged, 2 engineers for each of the technical areas identified in Section 5 – BFS Environment, and 5 support technicians.
- 10 field works/models performed to gather sufficient data for the EIA study to identify impacts.
- No application fees are considered.
- The effort was equivalent to the full team of 25 specialists working for a period of 12 months.

4. Valuation Methodology

This section describes the methodology used in arriving at a value for the IPs in the OPR Project. The approach was to apply the Depreciated Optimised Replacement Cost (DORC) methodology, i.e. to assess the cost of replacing the IPs in the most efficient manner with modern production techniques on a single pass approval and review process. This process involved a spreadsheet database detailing the asset description, status, discipline, source, and assessment by Mott MacDonald engineers. The database was structured to allow identification of the quantity of documents and drawings as well as man-hours engaged in their production. Figure 1.1 shows the valuation process graphically.

Figure 1.1 Valuation Process

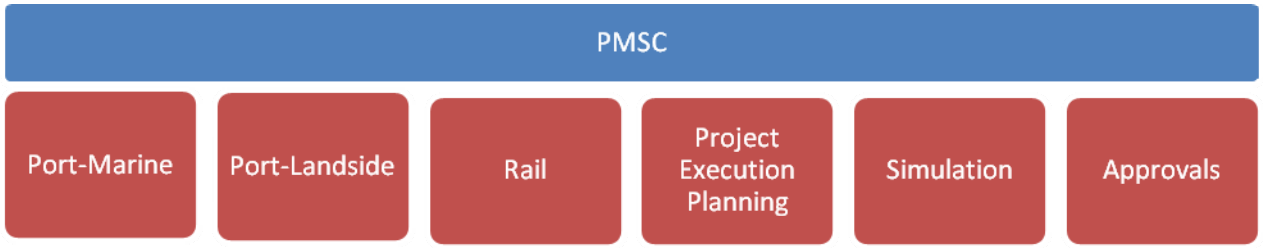
4.1 Review IPs

This phase identified the range of engineering IP assets needing to be assessed, as well as filtering the non-relevant information and the IPs that fell outside the assessment scope. A unique number was allocated to each IP asset based on the documentation control system utilised in the OPR Project.

4.2 Classify Asset Groups

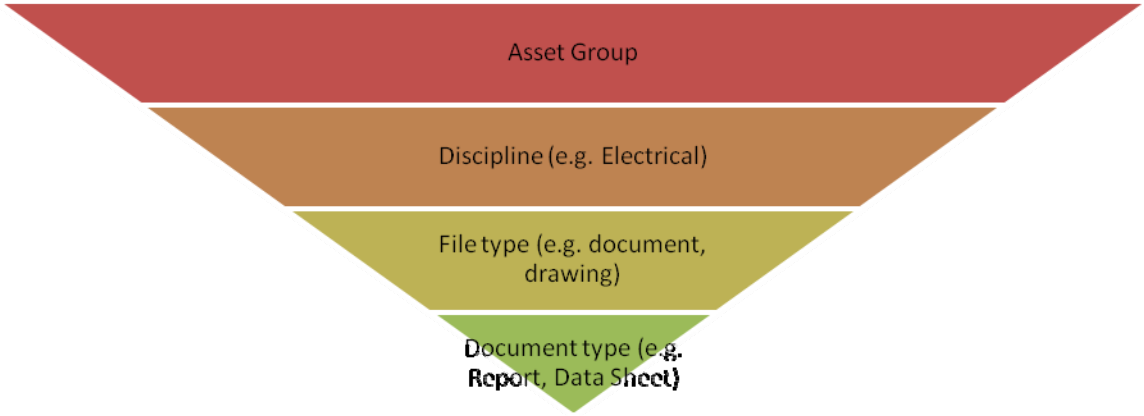
This phase classified assets into different asset groups. From the previous phase, we had identified the IP seven asset groups, namely Port-Marine, Port Landside, Rail, Project Execution Planning, Simulation, Approvals, and PMSC. Figure 1.2 shows their relationship.

Figure 1.2 Asset Breakdown



To accurately value an IP asset, each asset group was assigned to a domain expert for review. During the assessment, each asset group was further divided into technical area as demonstrated in Figure 1.3

Figure 1.3 Asset Group Breakdown



Details of the asset group breakdown are described in Appendix A.

4.3 Develop Cost Rating

In order to provide a consistent measure for the valuation of the IP assets, across the asset groups a series of costing ratings were developed defining the level of effort (LOE) measured in man-days and charge rate for producing each class of IP asset (i.e. document or drawing).

The cost ratings were created by sampling the pool of IP until a degree of consistency was found for high, medium, and low classifications. In order to provide sufficient granularity to value all of the IP assets an additional set of effort categories (i.e. ±Low, ±Medium, and ±High) were added to account for them. The final cost rating schedule is included in Appendix B.

For each rating a cost of production was calculated based upon a balanced production team of staff as identified in Table 1.1.

4.4 Assessment

This phase evaluated each piece of IP asset against the set of effort categories, and hence produced a cost rating. The assessment considered:

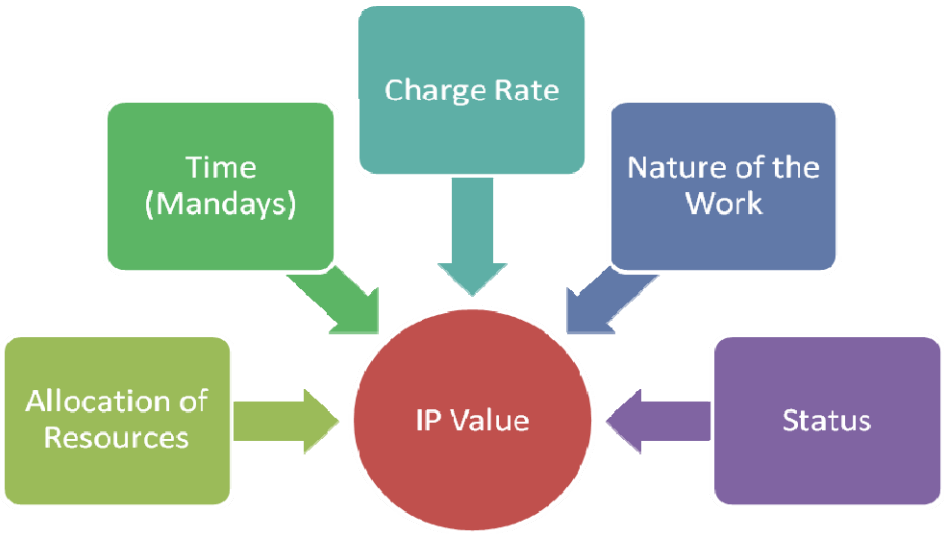
- The benefit of any knowledge previously gained for generating the assets has been ignored.
- The process included scoping out the goals and objective of the intellectual property (e.g. scoping of a study being replicated)
- Allowance for survey work.

The above process was used to value all IP with the exception of PMSC and approvals. As these were discrete packages of work and straightforward estimation of time input by staff grade was used to generate a ‘bottom-up’ costing.

An electronic valuation model was developed to provide a consistent measure on assessing the cost to generate each IP asset. It takes a pragmatic approach to measurement and provides evaluation that is consistent across asset groups.

This valuation model breakdowns each IP asset into a range of assessable components that can be individually measured. As such, the assessment is focused only on these components. Figure 1.4 demonstrates the structure of the valuation model:

Figure 1.4 Structure of the Valuation Model



4.5 Valuation

During this phase the various asset cost were reviewed for anomalous result and consolidated into asset group value where they were again benchmarked against equivalent projects to validation the overall model, result and approach.

5. Findings

The following are the main findings from our assessment.

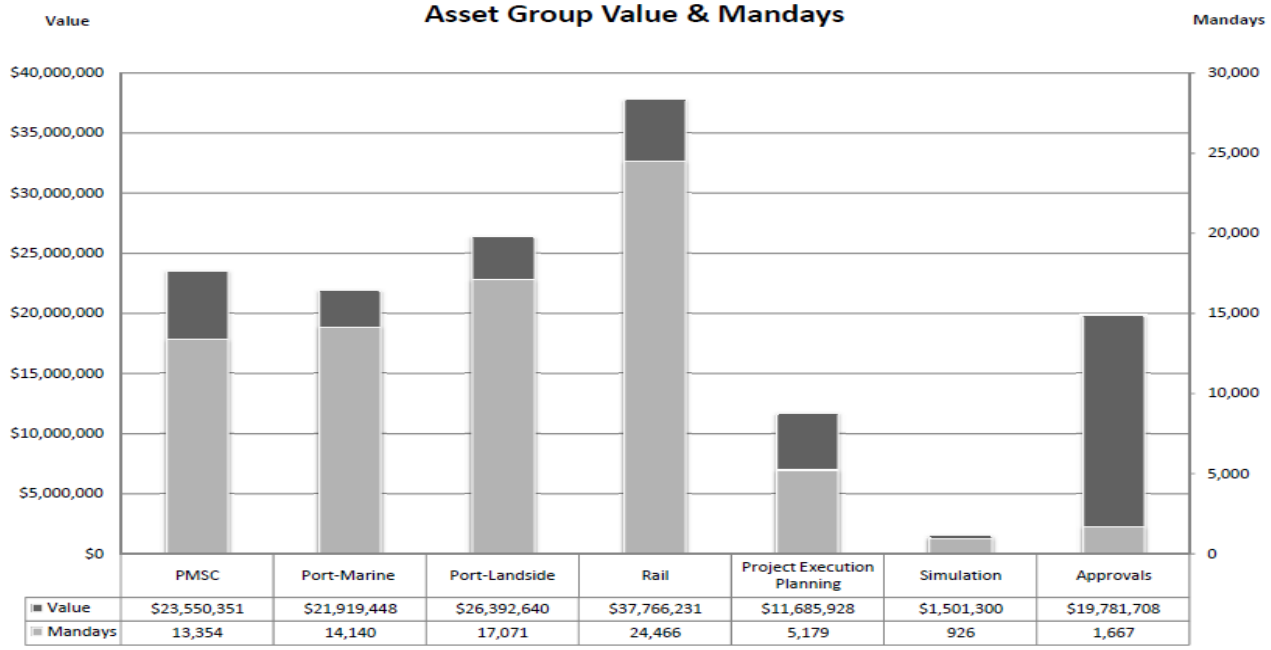
- The assessment has identified 3936 individual pieces of intellectual property, 885 documents and 3051 drawings.
- The assessment has identified 62 land access approvals being conducted, 56 land holders have agreed to give temporary land access for feasibility study purposes, 3 access approvals were declined and 3 are still outstanding.
- The assessment has identified OPR Pty Ltd had commenced negotiation with four Aboriginal Groups. All negotiations were suspended mid of 2011.
- The assessment has identified OPR Pty Ltd has completed 50% of the rail corridor survey to identify heritage sites.
- The assessment has identified OPR Pty Ltd has completed 95% of the environmental approvals for all components of the project.

Based on the above findings we have valued the BFS and assessed input document and plans at AUD$142.6 million. Given the independent nature of this assessment we recommended a ranging factor of ±10% be applied to this figure giving a range of:

	Low AUD$ million	High AUD$ million
Value of Intellectual Property	129.6	156.9

The following charts summarise the mandays and the value with respected to each different asset group:

Figure 1.5 Asset Group Value



Appendices

Appendix A. Asset Classification

A.1. Asset Groups

PROJECT MANAGEMENT STUDY CONTRACTOR (PMSC)
PORT - MARINE GENERAL
PORT - MARINE
PORT - MARINE - DREDGING AND RECLAMATION
PORT - MARINE - DREDGING AND RECLAMATION - DREDGING
PORT - MARINE - DREDGING AND RECLAMATION - RECLAMATION
PORT - MARINE - BREAKWATERS
PORT - MARINE - BREAKWATERS
PORT - MARINE - BREAKWATER - QUARRY HAUL ROAD
PORT - MARINE - BREAKWATER - QUARRY
PORT - MARINE - WHARF
PORT - MARINE - WHARF - WHARF
PORT - MARINE - WHARF - NAVIGATION & CHANNEL MARKERS
PORT - MARINE - WHARF - BREASTING AND MOORING DOLPHINS
PORT - MARINE - WHARF - ACCESS JETTY
PORT - MARINE - TUG AND PILOT BOAT FACILITIES
PORT - MARINE - GPA FACILITIES
PORT - MARINE CONSTRUCTION FACILITIES
PORT - MARINE CONSTRUCTION FACILITIES -TEMPORARY ROADS AND FENCES
PORT - MARINE CONSTRUCTION CAMP
PORT - LANDSIDE GENERAL
PORT - LANDSIDE 45 MTPA BALANCED MACHINE
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - STORAGE
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - STORAGE - TRAIN UNLOADING
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - STORAGE - STACKING
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - STORAGE - RECLAIMING
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - STORAGE - SAMPLE STATIONS
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - CONVEYORS - 1
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - INFRASTRUCTURE - SITE WIDE
PORT - LANDSIDE 45 MTPA BALANCED MACHINE -INFRASTRUCTURE - SITE WIDE - ROADS, DRAINAGE AND FENCES
PORT - LANDSIDE 45 MTPA BALANCED MACHINE -INFRASTRUCTURE - SITE WIDE - BUILDINGS
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - UTILITIES - SITE WIDE
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - UTILITIES - SITE WIDE - POWER
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - UTILITIES - SITE WIDE - COMMUNICATIONS
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - UTILITIES - SITE WIDE - SEWERAGE
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - UTILITIES - SITE WIDE - WATER
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - UTILITIES - SITE WIDE - DESALINATION PLANT
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - UTILITIES - SITE WIDE - POWER SUPPLY

PORT - LANDSIDE 45 MTPA BALANCED MACHINE - NORTH WEST COASTAL HIGHWAY - ROAD REALIGNMENT (NWHW ROADS)
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - NORTH WEST COASTAL HIGHWAY - BRIDGES
PORT - LANDSIDE 45 MTPA BALANCED MACHINE - NORTH WEST COASTAL HIGHWAY -TELSTRA RELOCATION
PORT - LANDSIDE BRIDGE RECLAIMER 45 MTPA (DUST MITIGATION STUDY)
PORT - LANDSIDE BRIDGE RECLAIMER 45 MTPA (DUST MITIGATION STUDY) - STORAGE - STOCKYARD
PORT - LANDSIDE BRIDGE RECLAIMER 45 MTPA (DUST MITIGATION STUDY) - CONVEYORS - 1
PORT - LANDSIDE BRIDGE RECLAIMER 45 MTPA (DUST MITIGATION STUDY) - UTILITIES - SITE WIDE - POWER
PORT - LANDSIDE BRIDGE RECLAIMER 45 MTPA (DUST MITIGATION STUDY) - CONVEYORS - 2
PORT - LANDSIDE BRIDGE RECLAIMER 45 MTPA (DUST MITIGATION STUDY) - TRANSFER STATION / BRIDGES
RAILWAY - GENERAL
RAILWAY - MAINLINE - YARD SECTION CH. 5.700 TO 14.300 KM
RAILWAY - MAINLINE - YARD SECTION CH. 5.700 TO 14.300 KM - FORMATION AND DRAINAGE
RAILWAY - MAINLINE - YARD SECTION CH. 5.700 TO 14.300 KM - TRACKWORK
RAILWAY - MAINLINE - YARD SECTION CH. 5.700 TO 14.300 KM - ROADS AND FENCES
RAILWAY - MAINLINE - WESTERN SECTION CH. 14.300 TO 88.400 KM
RAILWAY - MAINLINE - WESTERN SECTION CH. 14.300 TO 88.400 KM - FORMATION AND DRAINAGE
RAILWAY - MAINLINE – WESTERN SECTION CH 14.300 TO 88.400 KM - BRIDGES
RAILWAY - MAINLINE - WESTERN SECTION CH. 14.300 TO 88.400 KM - ROADS AND FENCES
RAILWAY - MAINLINE - WESTERN SECTION CH. 14.300 TO 88.400 KM - UTILITY CROSSINGS
RAILWAY - MAINLINE - INLAND SECTION CH. 88.460 TO 407.217 KM
RAILWAY - MAINLINE - INLAND SECTION CH. 88.460 TO 407.217 KM - FORMATION AND DRAINAGE
RAILWAY - MAINLINE - INLAND SECTION CH. 88.460 TO 407.217 KM - BRIDGES
RAILWAY - MAINLINE - INLAND SECTION CH. 88.460 TO 407.217 KM - ROADS AND FENCES
RAILWAY - MAINLINE - JACK HILLS SPUR AND LOOP CH. 407.217 TO 537.026
RAILWAY - MAINLINE - JACK HILLS SPUR AND LOOP CH. 407.217 TO 537.026 - FORMATION AND DRAINAGE
RAILWAY - MAINLINE - JACK HILLS SPUR AND LOOP CH. 407.217 TO 537.026 - ROADS AND FENCES
RAILWAY - MAINLINE - WELD RANGE SPUR AND LOOP CH 407.217 TO 437.927
RAILWAY - MAINLINE - WELD RANGE SPUR AND LOOP CH 407.217 TO 437.927 - FORMATION AND DRAINAGE
RAILWAY - OAKAJEE MAINTENANCE AND ADMINISTRATION - ROLLING STOCK WORKSHOP - BUILDINGS
RAILWAY - CONSTRUCTION
PROJECT EXECUTION PLANNING
SIMULATION
APPROVAL - LAND ACCESS
APPROVAL - NATIVE TITLE / HERITAGE AGREEMENT
APPROVAL - ENVIRONMENTAL

A.2. Discipline Identifier

No.	Discipline ID	Discipline Description
1	AD	Administration
2	AR	Architectural
3	CI	Civil
4	CM	Construction/Construction Management
5	CO	Commissioning
6	CR	Contracts
7	DC	Document Control
8	EL	Electrical
9	EN	Environmental
10	ES	Estimating
11	FA	Fabrication
12	FG	Fire and Gas
13	GE	General
14	GO	Geotechnical
15	HR	Human Resources
16	HS	Health and Safety
17	HV	HVAC
18	IF	Infrastructure
19	IN	Instrumentation
20	MA	Marine
21	ME	Mechanical
22	MG	Mining/Geological
23	PC	Project Controls - Cost/Schedule
24	PI	Piping/Layouts
25	PM	Project management
26	PO	Procurement
27	PR	Process
28	PT	Port
29	QA	QA/QC
30	RC	Restricted Confidential
31	RL	Rail
32	SI	Signalling
33	ST	Structural
34	TE	Telecommunications
35	WW	Water/Waste Water

A.3. File Type

No.	Cat.	Category Description	Quantity	No.	Cat.	Category Description	Quantity
1	AUD	Audit Report	**0**	46	DCD	Connection Diagram	**0**
2	RFP	REQUEST FOR PROPOSAL	**12**	47	DCE	Cause and Effect Diagram/Matrix	**0**
3	BOD	Basis of Design	**1**	48	DCN	Concrete	**0**
4	BOM	Bill of Materials	**0**	49	DCP	Cathodic Protection Equipment	**2**
5	CAL	Calculations	**8**	50	DCS	Cable Schedule	**0**
6	CHA	Chart	**3**	51	DDR	Drainage	**174**
7	CPK	Construction Work Pack	**0**	52	DEL	Elevation	**28**
8	DAS	Datasheet	**61**	53	DER	External Reference	**0**
9	DEG	Design Guide	**4**	54	DES	Earthing System	**2**
10	EEIP	Estimate Engineering Information	**0**	55	DFN	Foundation Drawing	**0**
11	EST	Cost Estimate	**0**	56	DGA	General Arrangement	**350**
12	FCA	Form Confidentiality Agreement	**0**	57	DGP	Grating and Plating	**0**
13	FCN	Field Change Notice	**0**	58	DHZ	Hazardous Area Classification	**0**
14	FRM	Form	**0**	59	DIC	Interconnection Diagram	**0**
15	GDL	Guidelines	**5**	60	DID	Installation Details	**20**
16	HMS	Hazardous Material Schedule	**0**	61	DIO	I/O Schedule and Index	**1**
17	IDX	Drawing/Document Index	**6**	62	DKP	Key Plan	**4**
18	ITP	Inspection and Test Plan	**0**	63	DLB	Label	**0**
19	ITR	Inspection and Test Report	**0**	64	DLD	Loop Diagram	**0**
20	JSA	Job Safety Analysis	**0**	65	DLP	Location Plan	**251**
21	LST	List	**15**	66	DLS	Light and Small Power	**0**
22	MAN	Manual	**1**	67	DPP	Plot Plan	**3**
23	MTO	Material Take-Off/Bill of Materials	**0**	68	DPS	Pipe Support	**0**
24	NCR	Non Conformance Report	**0**	69	DRD	Detail	**84**
25	PCR	Project Change Request	**0**	70	DRS	Drawing Schedule	**15**
26	PHL	Philosophy	**0**	71	DSD	Schematic Diagram	**88**
27	PLN	Plan	**79**	72	DSE	Section	**173**
28	POL	Policy	**0**	73	DSK	Sketch	**80**
29	PRE	Presentation	**0**	74	DSL	Single Line Diagram	**119**
30	PRO	Procedure	**4**	75	DST	OPR Standard Drawings	**255**
31	PRP	Proposal/Tender	**1**	76	DSU	Supplier Drawing	**0**
32	REG	Register	**35**	77	DSW	Site Work Drawing	**0**
33	REP	Report	**468**	78	DTD	Termination Diagram	**0**
34	SCH	Schedule (Project)	**26**	79	DTE	Steelwork	**0**

No.	Cat.	Category Description	Quantity	No.	Cat.	Category Description	Quantity
35	SOW	Scope of Work	**131**	80	DUS	Underground Services	**0**
36	SPC	Specification	**139**	81	DWD	Wiring Diagram	**0**
37	STD	Standard	**10**	82	FUN	Functional Design (Diagram)	**0**
38	SWO	Stop Work Order	**0**	83	HMD	Heat Material Balance Drawing	**0**
39	WIN	Work Instruction	**1**	84	ISO	Isometric	**0**
40	WRP	Work Release Package	**4**	85	PFD	Process Flow Diagram	**15**
41	CAD	CAD Design or Diagrams	**0**	86	PID	Piping & Instrumentation Diagram	**104**
42	DAG	Alignment Sheet	**576**	87	SFD	System Function Diagram	**0**
43	DAL	Layout	**680**	88	SPD	Safety Philosophy Diagram	**0**
44	DBD	Block Diagram	**27**	89	UFD	Utility Flow Diagram	**0**
45	DCC	Cycle Chart	**0**				

Appendix B. Basis of Valuation

B.1. Charge Rate

No.	Role ID	Role Description	Avg. Hourly Rate	Daily Rate
1	EX	EXECUTIVE	$320.00	$2,400.00
2	EN	ENGINEER	$230.00	$1,575.00
3	SC	SPECIAL CONSULTANT	$250.00	$1,725.00
4	PM	PROJECT MANAGER	$280.00	$1,800.00
5	SU	SURVEYOR	$190.00	$1,350.00
6	TO	TECHNICAL OFFICER	$200.00	$1,275.00
7	DF	DRAFTER	$180.00	$1,125.00
8	AD	ADMIN	$110.00	$675.00

B.2. Cost Rating

No.	*Level of Effort*	*Cost Rating (DOCUMENT)*	*Cost Rating (DRAWING)*	*Quantity (Documents)*	*Quantity (Drawings)*
1	Low- (L-)	$6,945.00	$7,882.50	*6*	*827*
2	Low(L)	$16,402.50	$11,677.50	*70*	*548*
3	Low+(L+)	$40,530.00	$15,472.50	*551*	*1033*
4	Medium-(M-)	$79,875.00	$34,500.00	*53*	*348*
5	Medium(M)	$116,175.00	$47,902.50	*25*	*227*
6	Medium+(M+)	$174,450.00	$61,305.00	*22*	*20*
7	High-(H-)	$240,675.00	$83,580.00	*4*	*15*
8	High(H)	$295,740.00	$103,725.00	*4*	*2*
9	High+(H+)	$332,265.00	$123,870.00	*1*	*3*

B.3. Allocation of Resource

LOE	Role	Document	Drawing	LOE	Role	Document	Drawing	LOE	Role	Document	Drawing
L-	EX	3.46%	3.04%	M-	EX	3.00%	1.39%	H-	EX	2.99%	2.01%
	EN	61.23%	25.98%		EN	59.15%	24.20%		EN	58.24%	24.50%
	SC	4.97%	4.38%		SC	6.48%	10.00%		SC	5.02%	8.26%
	PM	5.18%	6.85%		PM	7.89%	3.65%		PM	7.48%	4.31%
	SU	1.94%	-		SU	3.38%	3.91%		SU	3.37%	3.23%
	TO	18.36%	22.65%		TO	17.56%	20.33%		TO	15.89%	21.36%
	DF	-	32.83%		DF	-	32.61%		DF	-	32.30%
	AD	4.86%	4.28%		AD	2.54%	3.91%		AD	7.01%	4.04%
L	EX	2.93%	3.08%	M	EX	3.31%	1.75%	H	EX	2.92%	1.74%
	EN	61.45%	24.28%		EN	61.01%	23.51%		EN	58.05%	25.05%
	SC	5.26%	5.17%		SC	5.94%	9.00%		SC	5.25%	8.32%
	PM	6.58%	5.39%		PM	8.06%	4.32%		PM	7.30%	3.90%
	SU	4.12%	-		SU	2.32%	4.23%		SU	4.11%	2.60%
	TO	15.55%	24.02%		TO	16.46%	21.96%		TO	15.52%	21.51%
	DF	-	33.72%		DF	-	31.71%		DF	-	32.00%
	AD	4.12%	4.34%		AD	2.91%	3.52%		AD	6.85%	4.88%
L+	EX	2.96%	3.10%	M+	EX	3.03%	1.96%	H+	EX	2.96%	1.55%
	EN	62.18%	23.41%		EN	61.39%	23.12%		EN	59.25%	25.43%
	SC	8.51%	5.57%		SC	5.93%	8.44%		SC	7.79%	8.36%
	PM	7.11%	4.65%		PM	7.64%	4.70%		PM	7.04%	3.63%
	SU	3.33%	-		SU	2.32%	4.40%		SU	2.03%	2.18%
	TO	12.58%	24.72%		TO	13.89%	22.88%		TO	13.81%	21.62%
	DF	-	34.17%		DF	-	31.20%		DF	-	31.79%
	AD	3.33%	4.36%		AD	5.80%	3.30%		AD	7.11%	5.45%

Annexure B -
Tax treatment of distribution of Transaction proceeds to Shareholders

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The Directors
Murchison Metals Ltd
Level 1, 5 Ord Street
West Perth WA 6005

23 December 2011

Dear Sirs

Independent Tax Opinion

This tax opinion has been prepared for inclusion in the Notice of General Meeting and Explanatory Memorandum dated 23 December 2011 (**EM**) in relation to a potential distribution of the proceeds received by Murchison Metals Ltd (**Company**) from the sale of its 50% interest in Crosslands Resources Ltd and its 50% economic interest in the Oakajee Port and Rail project (**Potential Distribution**). The Company is considering whether to make a Potential Distribution, or to retain the proceeds.

In this regard, this tax opinion provides a general overview of certain Australian tax consequences for investors who hold shares in the Company at the time of a Potential Distribution.

Capitalised terms used in this tax opinion are as defined in the EM, unless otherwise indicated.

Deloitte Touche Tohmatsu Ltd (**Deloitte**), a registered tax agent, has prepared this tax opinion.

Disclaimer

This tax opinion is general in nature and is not intended to be an authoritative or complete statement of the Australian taxation laws. In particular, this tax opinion does not consider the actual circumstances of any particular shareholder in the Company, and all shareholders in the Company should seek professional tax advice on the specific tax consequences arising from the Potential Distribution.

This tax opinion is prepared for shareholders who hold their shares in the Company on capital account and does not consider the following matters or classes of shareholders in the Company:

(a) Shareholders who hold their shares in the Company on revenue account (such as share trading entities);

(b) Shareholders who acquired their shares in the Company under an employee share scheme;

(c) Shareholders who are partially or wholly exempt from Australian income tax;

(d) Shareholders who are temporary residents of Australia for Australian tax purposes;

(e) The application of the small business capital gains tax (**CGT**) concessions; and

(f) Any foreign tax implications.

This tax opinion is based on the Australian taxation laws and administrative practices applicable as at the date of this letter. These laws and practices may be subject to change at any time, including with retrospective effect.

1. Character of Potential Distribution for Australian tax purposes

We understand that the Company intends to account for the Potential Distribution by debiting the entire amount of the Potential Distribution to its share capital account. On this basis, the Potential Distribution should ordinarily be treated as a return of capital for Australian tax purposes with the tax consequences arising to the shareholders outlined at section 2 below.

However, a specific anti-avoidance rule (section 45B of the *Income Tax Assessment Act 1936*) may apply to deem some or all of the Potential Distribution as an unfranked dividend for Australian tax purposes.

The anti-avoidance rule allows the Australian Taxation Office (**ATO**) to deem some or all of the potential distribution to be an unfranked dividend (**Deemed Dividend**) for Australian tax purposes where, broadly, the ATO considers the Potential Distribution is made in substitution for the payment of dividends. The remaining part of the distribution (if any) will be treated as a return of capital (**Capital Component**) for Australian tax purposes.

The Company intends to apply for a class ruling from the ATO which should confirm whether the ATO will apply the anti-avoidance rule to the Potential Distribution.

Where the anti-avoidance rule applies, the tax consequences arising to shareholders are outlined at section 3 below.

2. Taxation consequences where Potential Distribution treated solely as a return of capital

2.1. Australian resident shareholders

To the extent that an Australian resident shareholder's (**Australian Investor**) tax cost base for their shares in the Company exceeds the amount of the Potential Distribution received by the Australian Investor, the Potential Distribution should not be assessable for Australian tax purposes.

However, the tax cost base of the Australian Investor's shares in the Company should be reduced by the amount of the Potential Distribution received by the Australian Investor. In this regard, an increased capital gain (or reduced capital loss) may arise to the Australian Investor if the Australian Investor subsequently disposes of their shares in the Company.

To the extent that an Australian Investor's tax cost base for their shares in the Company does not exceed the amount of the Potential Distribution received by the Australian Investor, the Australian Investor's tax cost base for their shares in the Company should be reduced to nil. In addition, a capital gain should arise to the Australian Investor, calculated as the difference between the amount of the Potential Distribution received by the Australian Investor and the Australian Investor's tax cost base for its shares in the Company immediately prior to the Potential Distribution being made.

An Australian Investor who is an individual, complying superannuation fund or a trust may be entitled to claim the CGT discount in respect of any capital gain, provided they have held their shares in the Company for at least 12 months at the time the Potential Distribution is made. The CGT discount is 50% for an individual and trust, and $33^{1}/_{3}$% for a complying superannuation fund. The CGT discount is not available to an Australian Investor who is a company.

Any capital gain arising to an Australian Investor as a result of the Potential Distribution may also be reduced by recouping current or prior year revenue and capital losses of the Australian Investor (subject to the satisfaction of certain loss integrity rules).

2.2. Non-resident shareholders

No Australian tax consequences should arise to a non-resident shareholder (**Foreign Investor**) from the Potential Distribution unless broadly:

(a) The Foreign Investor (together with their associates) holds at least 10% of the shares in the Company; and

(b) Greater than 50% of the market value of the Company's underlying assets consists of Australian real property or mining, quarrying and prospecting rights in relation to Australian minerals.

In this regard, the Australian tax consequences arising to a Foreign Investor who (together with their associates) holds at least 10% of the shares in the Company are outlined at section 2.1 above.

3. Taxation consequences where the Potential Distribution is not treated solely as a return of capital

3.1. Anti-avoidance rule

As discussed at section 1 above, to the extent that the specific anti-avoidance rule applies, the Potential Distribution may not be treated solely as a return of capital for Australian tax purposes.

3.2. Australian resident shareholders

Where the anti-avoidance rule is applied by the ATO, an Australian Investor should be assessed on the Deemed Dividend as follows:

(a) An Australian Investor who is an individual should be subject to tax on the Deemed Dividend at their marginal tax rate (which varies based on annual taxable income);

(b) An Australian Investor who is a complying superannuation fund should be subject to tax on the Deemed Dividend at a rate of 15%;

(c) An Australian Investor who is a trust will be required to include the Deemed Dividend in the net income of the trust for Australian tax purposes; and

(d) An Australian Investor who is a company should be subject to tax on the Deemed Dividend at a rate of 30%.

As the Deemed Dividend cannot be franked for Australian tax purposes, no tax offset (and no franking credits) should arise to an Australian investor as a result of the Potential Distribution. For completeness, we note that the Company does not currently have (and is not anticipated to have) franking credits which can be attached to any frankable distributions made by the Company.

The Australian tax consequences applying to receipt of the Capital Component by an Australian Investor are outlined at section 2.1 above.

3.3. Non-resident shareholders

A Foreign Investor should be subject to Australian dividend withholding tax at a rate of 30% in respect of the Deemed Dividend, unless an applicable double tax agreement (**DTA**) applies. Where a DTA applies, the rate of Australian dividend withholding tax may be reduced (usually to 15%) depending on the relevant DTA.

The Company will be required to withhold Australian dividend withholding tax in respect of the Deemed Dividend on behalf of a Foreign Investor.

As the Deemed Dividend cannot be franked for Australian tax purposes, no exemption from Australian dividend withholding tax in respect of the Deemed Dividend should generally be available to a Foreign Investor.

The Australian tax consequences applying to receipt of the Capital Component by a Foreign Investor are outlined at section 2.2 above.

* * * * *

Yours faithfully

Fiona Cahill
Director
Deloitte Touche Tohmatsu Ltd

Proxy Form

Murchison Metals Limited
ABN 38 078 257 799

LODGE YOUR VOTE

ONLINE www.linkmarketservices.com.au

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

By fax: +61 2 9287 0309

All enquiries to: Telephone: 1300 554 474 **Overseas:** +61 2 8280 7111

X99999999999

SECURITYHOLDER VOTING FORM

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

STEP 1 APPOINT A PROXY

☐ **the Chairman of the Meeting** ***(mark box)***

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

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at **10:00am (WST) on Monday, 13 February 2012, at The Sutherland Room, City West Receptions, 45 Plaistowe Mews, West Perth WA** and at any adjournment or postponement of the meeting.

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

STEP 2 VOTING DIRECTIONS

	For	Against	Abstain*
Resolution 1 Sale of Main Undertaking	☐	☐	☐

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

STEP 3 SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED

Securityholder 1 (Individual)	Joint Securityholder 2 (Individual)	Joint Securityholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

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

MMX PRX101

HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

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

Appointment of a Proxy

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

Votes on Items of Business – Proxy Appointment

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

Appointment of a Second Proxy

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

To appoint a second proxy you must:

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

(b) return both forms together.

Signing Instructions

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

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

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

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

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

Corporate Representatives

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

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (WST) on Saturday, 11 February 2012,** being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

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

ONLINE **www.linkmarketservices.com.au**

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

by mail:

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

by fax:

+61 2 9287 0309

by hand:

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

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