



ABN 38 078 257 799

**NOTICE OF ANNUAL GENERAL MEETING
AND EXPLANATORY MEMORANDUM**

A PROXY FORM IS ENCLOSED

**The Annual General Meeting of Shareholders of Murchison Metals Ltd
will be held at 10:00am (WST) on Wednesday 18 November 2009
at the Stirling Room, Parmelia Hilton, 14 Mill Street, Perth WA.**

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

These papers should be read in their entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional adviser without delay.

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CORPORATE DIRECTORY

Directors

Paul Kopejtka
Trevor Matthews
James McClements
SM Woo
Rod Baxter

Executive Chairman
Managing Director
Non-Executive Director
Non-Executive Director
Non-Executive Director

Company Secretary

Chris Foley

Home Stock Exchange

ASX Limited
Level 8, Exchange Plaza
2 The Esplanade
Perth WA 6000

Auditors

Ernst & Young
11 Mounts Bay Road
Perth WA 6000

Registered Office

Level 1
5 Ord Street
West Perth WA 6005

Telephone: +61 8 9492 2600

Facsimile: +61 8 9492 2650

Email: info@mml.net.au

Share Registry

Registries Limited
Level 7, 207 Kent Street
Sydney NSW 2000

ACTION REQUIRED BY SHAREHOLDERS

Step 1: Read the Notice and Explanatory Memorandum

The Explanatory Memorandum sets out details of the Resolutions to be voted on at the Annual General Meeting. This information is important. You should read this document carefully and if necessary seek independent advice on any aspects about which you are not certain.

Step 2: Vote on the Resolutions

Your vote is important. The Annual General Meeting is scheduled to be held at 10:00am (WST) on Wednesday 18 November 2009 at the Stirling Room, Parmelia Hilton, at 14 Mill Street, Perth, Western Australia.

If you cannot attend the Annual General Meeting in person and wish to vote on some or all of the Resolutions, you can appoint a proxy to vote on your behalf by completing the proxy form that accompanies this document and returning it to the office of the Company's share registry:

- by hand to Level 7, 207 Kent Street, Sydney NSW; or
- by post to Murchison Metals Ltd, c/- Registries Ltd, GPO Box 3993, Sydney NSW 2001; or
- by facsimile on +61 2 9279 0664,

by 10.00 am (WST) / (1:00pm AEDT) on Monday 16 November 2009.

For details on how to complete and lodge the proxy form, please refer to the instructions on the form.

Questions

If you have any questions about any matter contained in the Notice of Annual General Meeting or the attached Explanatory Memorandum, please contact Chris Foley (Company Secretary) on (08) 9492 2600.

Key Dates

<i>Details</i>	<i>Dates</i>
Last date for acceptance of proxy forms	10:00 am (WST) on 16 November 2009
Date for determining entitlement to vote at the Annual General Meeting	4:00pm (WST) on 16 November 2009
Date of Annual General Meeting	10:00 am (WST) on 18 November 2009

NOTICE OF ANNUAL GENERAL MEETING

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

Time: 10:00 am (WST)

Date: 18 November 2009

Place: Stirling Room
Parmelia Hilton
14 Mill Street
Perth WA 6000

AGENDA

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

1. Financial Statements and Reports

To receive and consider the annual Financial Report, together with the Directors' and Auditor's Reports, for the year ending 30 June 2009.

Note: An electronic copy of the 2009 Annual Report is available at www.mml.net.au

2. Resolution 1 – Approval of Remuneration Report (Non-binding)

To consider and, if thought fit, pass the following advisory only ordinary resolution:

That, for the purposes of section 250R(2) of the Corporations Act, the Company adopt the Remuneration Report as disclosed in the 2009 Annual Report.

Note: The vote on this Resolution is advisory only and does not bind the Directors of the Company.

3. Resolution 2 – Re-election of James McClements as a Non-Executive Director

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

That, for all purposes, Mr James McClements, being a Director of the Company who retires in accordance with rule 11.3 of the Company's Constitution and, being eligible, is re-elected as a Director of the Company.

4. Resolution 3 – Election of Rod Baxter as a Non-Executive Director

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

That, for all purposes, Mr Rod Baxter, being a Director of the Company who was appointed since the last Annual General Meeting, retires in accordance with rule 11.1 of the Company's Constitution and, being eligible, is elected as a Director of the Company.

Short Explanation: Mr Baxter was appointed as a Non-Executive Director of the Company by the Directors on 11 February 2009. Under rule 11.1 of the Company's Constitution Mr Baxter will cease to hold office at the next Annual General Meeting of the Company but is eligible for election at that meeting.

5. Resolution 4 – Amendment of Constitution

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

That pursuant to section 136 of the Corporations Act, the Company's Constitution be amended as detailed in the Explanatory Memorandum accompanying this Notice of Annual General Meeting.

Short Explanation: Shareholder approval is sought for the amendment of the Company's Constitution. Section 136 of the Corporations Act requires that Shareholders approve any modification of a company's constitution by way of a special resolution (that is, at least 75% of the votes cast by shareholders entitled to vote on the Resolution at the meeting must be voted in favour for the Resolution to be approved).

6. Resolution 5 – Issue of Options to Rod Baxter

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

That, for the purposes of Listing Rule 10.11 and Chapter 2E of the Corporations Act and for all other purposes, Mr Rod Baxter be issued 200,000 options to acquire fully paid ordinary shares in the capital of the Company on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Annual General Meeting.

Short Explanation: If Shareholders resolve to re-elect Mr Baxter as a Director of the Company, Mr Baxter will be a related party of the Company. For this reason the Company is seeking approval of the grant of options to Mr Baxter under Listing Rule 10.11 and Chapter 2E of the Corporations Act.

Voting Exclusion: In accordance with Listing Rule 10.13.6 and section 224 of the Corporations Act, the Company will disregard any votes cast by or on behalf of Mr Baxter and any of his associates in relation to Resolution 5. The Company however need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or the vote is cast by the 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.

7. Resolution 6 – Issue of Options to Paul Kopejtko

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

That, for the purposes of Listing Rule 10.11 and Chapter 2E of the Corporations Act and for all other purposes, Mr Paul Kopejtko be issued 4,500,000 options to acquire fully paid ordinary shares in the capital of the Company on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Annual General Meeting.

Short Explanation: Mr Kopejtko is a related party of the Company. For this

reason, the Company is seeking approval of the grant of options to Mr Kopejtka under Listing Rule 10.11 and Chapter 2E of the Corporations Act.

Voting Exclusion: In accordance with Listing Rule 10.13.6 and section 224 of the Corporations Act, the Company will disregard any votes cast by or on behalf of Mr Kopejtka and any of his associates in relation to Resolution 6. The Company however need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or the vote is cast by the 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.

8. Resolution 7 – Issue of Options to Trevor Matthews

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

That, for the purposes of Listing Rule 10.11 and Chapter 2E of the Corporations Act and for all other purposes, Mr Trevor Matthews be issued 4,500,000 options to acquire fully paid ordinary shares in the capital of the Company on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Annual General Meeting.

Short Explanation: Mr Matthews is a related party of the Company. For this reason, the Company is seeking approval of the grant of options to Mr Matthews under Listing Rule 10.11 and Chapter 2E of the Corporations Act.

Voting Exclusion: In accordance with Listing Rule 10.13.6 and section 224 of the Corporations Act, the Company will disregard any votes cast by or on behalf of Mr Matthews and any of his associates in relation to Resolution 7. The Company however need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or the vote is cast by the 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.

Shareholders are referred to the Explanatory Memorandum accompanying and forming part of this Notice of Annual General Meeting. Capitalised terms used in the Notice of Annual General Meeting have the same meaning as in the Explanatory Memorandum.

Determining who holds Shares for the purpose of the Annual General Meeting

It has been determined that under Corporations Regulation 7.11.37, for the purposes of this Annual General Meeting, Shares will be taken to be held by the persons who are the registered holders at 4.00 pm (WST) / (7pm AEDT) on 16 November 2009. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Annual General Meeting.

Proxies

In accordance with section 249L of the Corporations Act and rule 10.16 of the Company's Constitution, Shareholders are advised that:

- 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 2 proxies;
- if a Shareholder appoints 2 proxies, the Shareholder may specify the proportion or number of votes each proxy is appointed to exercise; and
- a proxy need not be a Shareholder of the Company.

In accordance with rule 10.16(d) of the Company's Constitution, Shareholders are advised that, 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.

In accordance with section 250BA of the Corporations Act, Shareholders are advised that the proxy forms must be received:

- by hand to Level 7, 207 Kent Street, Sydney NSW; or
- by post to Murchison Metals Ltd, c/- Registries Ltd, GPO Box 3993 Sydney, New South Wales, 2001: or
- by facsimile on +61 2 9279 0664,

by no later than 10.00 am (WST) / (1:00 pm AEDT) on Monday 16 November 2009.

Dated 9 October 2009

By Order of the Board

**Trevor Matthews
Managing Director**

EXPLANATORY MEMORANDUM

1. Introduction

This Explanatory Memorandum is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of Annual General Meeting of the Company.

This Explanatory Memorandum forms part of and should be read in conjunction with the Notice of Annual General Meeting.

The Directors of the Company recommend Shareholders read this Explanatory Memorandum in full before making any decision in relation to the Resolutions. If you have any questions regarding the matters set out in this Explanatory Memorandum or the preceding Notice, please contact your accountant, solicitor or other professional adviser.

2. Consideration of reports

The Corporations Act requires that the Financial Report, Directors' Report and the Auditor's Report be laid before the Annual General Meeting. In addition the Company's Constitution provides for such reports and statements to be received and considered at the meeting. Neither the Corporations Act nor the Company's Constitution requires a vote of Shareholders at the Annual General Meeting on such reports or statements, however Shareholders will be given the opportunity to raise questions with respect to these reports and statements at the Meeting.

As a Shareholder, you are entitled to submit a written question to the auditor prior to the Annual General Meeting provided that the question relates to:

- the content of the Auditor's Report; or
- the conduct of the audit in relation to the Financial Report.

All written questions must be received by the Company no later than Wednesday, 11 November 2009.

All questions must be sent to the Company and may not be sent direct to the auditor. The Company will then forward all questions to the auditor.

The Company's auditor will be present at the Meeting and Shareholders will have the opportunity to ask the auditor questions in relation to the conduct of the audit, the Auditor's Report, the company's accounting policies, and the independence of the auditor.

3. Resolution 1 – Approval of Remuneration Report

Section 298 of the Corporations Act requires that the annual Directors' Report contain a Remuneration Report prepared in accordance with section 300A of the Corporations Act.

By way of summary, the Remuneration Report:

- discusses the Company's policy and the process for determining remuneration of its executive officers and employees;
- addresses the relationship between the remuneration of the Company's executive officers and the performance of the Company; and
- sets out remuneration details for each Director and each of the executive

officers of the Company named in the Remuneration Report for the financial year ended 30 June 2009.

In accordance with section 250R(2) of the Corporations Act, the Company is required to put a resolution to its members that the Remuneration Report as disclosed in the 2009 Annual Report be adopted. Pursuant to section 250R(3) of the Corporations Act, Shareholders should note that Resolution 1 is advisory only and does not bind the Directors or the Company.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the Annual General Meeting.

4. Resolution 2 – Re-election of James McClements as a Non-Executive Director

Rule 11.3 of the Company's Constitution and Listing Rule 14.4 require that one-third of the Directors (other than any Managing Director) retire from office at every annual general meeting. Accordingly, Mr McClements retires by rotation in accordance with the Company's Constitution and the Listing Rules and, being eligible, seeks re-election.

Mr McClements was appointed as a Non-Executive Director of the Company on 1 May 2007 and re-elected at the Annual General Meeting of the Company held on 30 November 2007.

Mr McClements holds an honours degree in Economics from the University of Western Australia and has extensive experience in the resources industry. Mr McClements is the co-founder of Resource Capital Funds (**RCF**) and is currently responsible for the implementation of RCF's investment strategy.

Prior to founding RCF in 1998, he was Senior Vice President and Director of NM Rothschild & Sons (Denver) Limited responsible for North American resources banking. Prior to moving to North America, Mr McClements was with Rothschild Australia Limited in Sydney specialising in financing junior mining companies and other natural resource lending. He has also worked with Standard Chartered Bank Australia Limited as a resource industry credit analyst and with the Broken Hill Proprietary (BHP) mining company in its capital accounting division at Mt Newman.

5. Resolution 3 – Election of Rod Baxter as a Non-Executive Director

Mr Baxter was appointed by the Board as a Non-Executive Director of the Company on 11 February 2009. Under rule 11.1 of the Company's Constitution, Mr Baxter will cease to hold office at the next Annual General Meeting of the Company but is eligible for election at that meeting.

Mr Baxter holds a PhD in Physical Chemistry from Rhodes University and an MBA from the University of Witwatersrand. He has nearly 20 years experience in the resources sector, most recently as Managing Director of Consolidated Minerals Limited where he presided over the strategic transformation and ultimate sale of the company. Prior to Consolidated Minerals, Mr Baxter enjoyed a near 10 year career at Anglo American and Anglo Platinum in various senior executive and business development roles. Mr Baxter is currently Managing Director of Calibre Global.

6. Resolution 4 – Amendment of the Constitution

The Company wishes to update its Constitution so as to incorporate provisions that allow the Company to take advantage of technological advancements in communications with its Shareholders.

The proposed changes generally relate to the following matters:

- amending the general meeting provisions to facilitate voting by electronic means (as now permitted by the Corporations Act), as well as allowing the Company to implement direct voting in the future. Direct voting enables Shareholders to vote on resolutions to be considered at a meeting without the need to attend the meeting or to appoint a proxy. A direct vote would usually be submitted before the meeting, in any form approved by the Board (such as by fax, post or electronically). These amendments provide the Company with flexibility to expand the ways in which Shareholders can exercise their voting rights in the future if this is considered desirable and beneficial.
- the notice provisions be amended to clarify the time when notices are deemed to be received (particularly in relation to notices sent by electronic means).

A complete list of the proposed amendments to the Constitution is set out in Annexure A to this Explanatory Memorandum. A full copy of the Constitution, marked up to show the proposed modifications to the existing Constitution, can be obtained prior to the Meeting from the Company's website at www.mml.net.au. A copy of the marked-up Constitution will also be made available for inspection at the Meeting. The marked-up Constitution shows the modifications the subject of this Resolution 4.

The Directors believe that the proposed amendments to the Company's Constitution are in the best interests of the Company and unanimously recommend all Shareholders to vote in favour of Resolution 4.

7. Resolution 5 – Issue of Options to Rod Baxter

Resolution 5 considers the proposed issue of 200,000 Options to Mr Rod Baxter, a Non-Executive Director of the Company.

Key terms of the Options

Each Option provides a right to subscribe for one fully paid ordinary share in the capital of the Company on the payment of an exercise price of \$1.25. The Options must be exercised on or before 5.00pm (WST) on the third anniversary of the date on which the Options are granted, after which time the Options will lapse. The Options have no vesting restrictions.

The Options are to be issued for no consideration. The Options will not be listed and are only transferable in limited circumstances.

The full terms of the Options are set out in Annexure B to this Explanatory Memorandum.

Recommendation

For the reasons set out in more detail below, your Directors (excluding Mr Baxter who will not make a recommendation due to a material personal interest in the subject matter of the Resolution) recommend you vote in favour

of Resolution 5 as they intend to do so with the Shares they own or control.

Reasons for the issue of Options

The proposed issue of Options to Mr Baxter forms part of remuneration arrangements agreed with him. The proposed issue was announced when Mr Baxter was first appointed as a director of the Company by the Board on 22 January 2009 and again, when he was re-appointed on 11 February 2009. At the time that the proposed Option issue was first announced, the exercise price of the Options represented a 131% premium to the closing price of the Company's Shares on ASX on 21 January 2009.

The decision to issue Options to Mr Baxter follows an assessment by the Board of the remuneration payable to its Non-Executive Directors compared with that paid to non-executive directors with comparable expertise, experience and duties in companies of comparable size and stage of development as the Company.

Based on this assessment, it is the Board's view that the remuneration package (including the number of Options to be issued to Mr Baxter) is appropriate both to retain and attract persons of the quality and experience of Mr Baxter (a profile of Mr Baxter is set out in the explanation of Resolution 3). It is also considered to be generally below the remuneration paid to non-executive directors in comparable companies. These are considered by the Board to be important factors in determining remuneration given the current competitive market in the mining industry for appropriately qualified persons.

As the Options are only transferable in limited circumstances, it is unlikely any value can be obtained by the holders of the Options without exercising the Options, thereby providing a cash benefit to the Company.

Requirement for Shareholder approval

Listing Rule 10.11 provides that a listed company must obtain shareholder approval to the issue of equity securities to a "related party". Directors are considered to be related parties for the purposes of the Listing Rules. Therefore, the proposed issue of Options to Mr Baxter the subject of Resolution 5 requires Shareholder approval under Listing Rule 10.11.

Chapter 2E of the Corporations Act also requires Shareholder approval where a public company seeks to give a "financial benefit" to a "related party". Directors are considered to be related parties within the meaning of the Corporations Act. The Options to be issued to Mr Baxter will constitute a financial benefit for the purposes of Chapter 2E of the Corporations Act. Accordingly, Resolution 5 seeks Shareholder approval for the issue of the Options of Mr Baxter.

Remuneration

The remuneration package of Mr Baxter for the financial year ended 30 June 2009 includes:

- an annual salary of \$43,000;
- the issue of 200,000 Options (being the subject of Resolution 5);
- statutory superannuation; and
- reimbursement of business related expenses.

Mr Baxter is Chairman of the Company's audit and risk committee and is a

member of the remuneration committee. No additional fees are payable for the performance of these roles.

The Board considers that the proposed issue of Options to Mr Baxter as part of his remuneration package is appropriate as:

- the issue of Options in lieu of cash payments preserves the Company's cash resources and reduces ongoing costs (which is a significant aspect while the Company remains in development phase); and
- it aligns in part remuneration with the future growth and prospects of the Company.

Accordingly, it is considered to be both a cost effective and efficient reward for service.

Valuation of Options

Under the Corporations Act, the Company is required to attribute a value to the Options for the purposes of the approval sought from Shareholders.

The Options are not listed and so there is no readily ascertainable market value of the Options. ASIC has indicated that option values should be determined in accordance with accounting standard AASB 2 (Share Based Payments). The value of options can vary significantly depending on the methodology used and the assumptions made and any one particular valuation methodology is not necessarily representative of the actual value of the Options.

In accordance with the requirements of accounting standard AASB 2, BDO Kendalls Corporate Finance (WA) Pty Ltd (**BDO**), on behalf of the Directors, has calculated an indicative value of the Options using a binomial option pricing model. BDO considers a binomial option pricing model the most suited methodology for the valuation of the Options without market based vesting conditions.

BDO valued the Options at 1 October 2009, by reference to a binomial option pricing methodology, based on the following assumptions:

- the Options are issued on 18 November 2009, being the date of the Annual General Meeting.
- a Share price of \$1.55, being the closing Share price for the Company's Shares on the ASX on 1 October 2009, the date the valuation was conducted.
- a risk-free interest rate of 4.55%, based on the 2 year Australian Government bond rates as at 1 October 2009.
- an estimated future volatility of the Company's Share price of 80%, based on Hoadley's volatility calculator for numerous time periods using historical data extracted from Bloomberg.
- no dividend being paid during the life of the Options.
- an exercise price of the Options of \$1.25 per Option.
- an exercise date for the Options as the midpoint between the issue date and the expiry date of the Options on the basis that the options are currently "in the money". This equates to an effective life of 1.5 years.

Based on these assumptions, as at 1 October 2009, the theoretical value of an Option issued to Mr Baxter is approximately \$0.721. On this basis the value of all of the Options proposed to be issued to Mr Baxter pursuant to Resolution 5 is \$144,200.

It is important to note that any change in the variables applied in the binomial option pricing model between the date of valuation and the date the Options are granted will have an impact on their value.

Other implications for the Company

Corporate governance

The Listing Rules set out best practice recommendations for ASX listed companies, including a suggestion that non-executive directors should not receive options or bonus payments.

It is important to note that the guidelines are not prescriptions and do not require a “one size fits all” approach to corporate governance. In the Board’s view, the guidelines are inappropriate in the Company’s circumstances, where the preservation of the Company’s cash resources is paramount and the retention of non-executive directors of the quality and with the relevant expertise as Mr Baxter is considered important to the ongoing development of the Company and its projects.

Financial implications

Australian International Financial Reporting Standards require the Options to be expensed which is guided by AASB 2 – Share Based Payment. The period over which the Options have to be expensed depends on the vesting date. As these Options vest immediately, they are expected to be expensed in the financial year ended 30 June 2010.

Expensing the Options will have the effect of increasing both the expenses and contributed equity of the Company. Whilst there will be a reduction in profit, there will be no impact on the net assets or the cash position or financial resources of the Company as a result of expensing the Options.

There are no tax implications for the Company in issuing these Options.

Dilution

The issue of Options to Mr Baxter will have a diluting effect on the percentage interest of existing Shareholders’ holdings if the Options are exercised. The dilutionary effect if all the Options proposed to be issued to Mr Baxter are exercised would amount to approximately 0.05% of the Company’s current issued capital.

If the Options are exercised by Mr Baxter, the value of the Company’s Shares may be diluted. If the Share price is higher than the exercise price the value will be diluted as Mr Baxter will be paying a lower price for the Shares when he exercises the Options. In this regard, it is considered unlikely that the Options will be exercised if the Company’s Share price is lower than the exercise price.

Additional statutory and Listing Rule disclosures

In accordance with the requirements of Chapter 2E of the Corporations Act, and in particular, section 219 of the Corporations Act, the following information is provided to Shareholders to enable them to assess the proposed grant of Options to Mr Baxter:

- (a) As a director of the Company Mr Baxter is a related party of the Company to whom approval of proposed Resolution 5 would permit financial benefits to be given.
- (b) The nature of the financial benefit to be given to Mr Baxter is the granting of an aggregate of 200,000 Options for no issue price.
- (c) In respect of the proposed exercise prices of the Options, the last price which Shares in the Company traded on ASX on 8 October 2009 (being the last practicable date prior to the date of finalising this Explanatory Memorandum) was \$1.585. However, the Company first announced the proposed issue of Options to Mr Baxter as part of his appointment on 22 January 2009. The closing price of Shares traded on ASX on 21 January 2009 (being the day prior to the announcement of the proposed Option issue to Mr Baxter) was \$0.54
- (d) As at 8 October 2009, being the last practicable date before finalising this Explanatory Memorandum, Mr Baxter did not have any interest in securities in the Company.
- (e) The primary purpose of the grant of the Options to Mr Baxter is not to raise capital, but to form part of his remuneration package. No funds will be raised from the issue of the Options. Any funds raised from exercise of the Options will be used for general working capital purposes.
- (f) Mr Baxter must contribute his own money to the Company to fund the exercise price of the Options. The amount payable to the Company to exercise all of the Options is \$250,000.

Further, the following information is provided to Shareholders for the purposes of ASX Listing Rule 10.13:

- (a) 200,000 Options are proposed to be granted under Resolution 5;
- (b) The Options will be issued within one month of the date of the AGM or as modified by an ASX waiver;
- (c) The issue price of the Options is nil as the Options will be issued at no cost;
- (d) The proposed allottee of the Options is Mr Baxter, a Non-Executive Director of the Company or his nominee;
- (e) The terms and conditions of the Options are set out in Annexure B of this Explanatory Memorandum; and
- (f) No funds will be raised from the grant of the Options.

If approval is given for the issue of Options under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

Other information

The Directors are not aware of any information other than that set out in this Explanatory Memorandum that is reasonably required by Shareholders in order to decide whether or not it is in the Company's interests to pass the proposed Resolution 5.

8. Resolutions 6 and 7 – Issue of Options to Executive Directors – Paul Kopejtka and Trevor Matthews

The Company proposes to put in place an executive option package for its Executive Directors, Mr Paul Kopejtka and Mr Trevor Matthews, as part of their overall remuneration packages.

Resolutions 6 and 7 seek the approval of Shareholders to the grant of these Options to each Executive Director.

Key terms of the Options

The executive option package to be provided to each of Mr Kopejtka and Mr Matthews comprises the issue of an aggregate of 4,500,000 Options to each of them as follows:

- (a) the issue of 2,250,000 'Series 1' Options; and
 - (b) the issue of 2,250,000 'Series 2' Options,
- to each of Mr Kopejtka and Mr Matthews;

The material terms of each series of Options are as follows:

Series	Exercise Price	Vesting Condition	Expiry Date
'Series 1' Options	VWAP* x 1.20	Board approval of positive bankable feasibility studies in respect of: <ul style="list-style-type: none">• Stage 2 of the Jack Hills iron ore project; and• the Oakajee port and rail infrastructure project, by no later than 31 December 2010.	Two years after the date of grant
'Series 2' Options	VWAP* x 1.20	Achievement of financial close in respect of: <ul style="list-style-type: none">• Stage 2 of the Jack Hills iron ore project; and• the Oakajee port and rail infrastructure project, by no later than 31 December 2011.	Three years after the date of grant

* VWAP is the volume weighted average sale price of all of the Company's Shares sold on ASX in the 3 month period up to the trading day immediately prior to the date of grant of the Options. The exercise price will be rounded to the nearest tenth of a cent.

By way of example, assuming the VWAP is \$1.75 (being the VWAP of the Company's Shares assumed for the purposes of valuing the Options – see below), the exercise price of the 'Series 1' and 'Series 2' Options would be \$2.10.

The Options are to be issued for no consideration within one month of the Meeting to which this Explanatory Memorandum relates. The Options will not be listed and are only transferable in limited circumstances. Any unvested Options will immediately lapse if the holder ceases to be employed by the Company or any of its subsidiaries.

The terms of each series of Options are set out in full in Annexure C.

Recommendation

For the reasons set out in more detail below, the Directors (excluding Mr Kopejtka and Mr Matthews who will not make a recommendation due to an actual or perceived material personal interest) recommend you vote in favour of Resolutions 6 and 7 as they intend to do so with the Shares they own or control.

Reasons for the issue of Options

The proposed issue of Options to each of the Executive Directors is designed to provide a cost effective and efficient reward, incentive and retention mechanism for the Company's Executive Directors at a time when the Company is approaching critical milestones in the development of its key projects.

The primary responsibility of the Company's Executive Directors over the medium term is to:

- assist each of Crosslands Resources Ltd (**Crosslands**) and Oakajee Port and Rail (**OPR**) with the completion of their feasibility studies in relation to:
 - Stage 2 of the Jack Hills iron ore project, in which the Company has a 50% interest through its shareholding in Crosslands; and
 - the new Oakajee port and associated rail infrastructure, in which the Company has a 50% economic interest.

The successful completion of those studies, and the subsequent financing of the respective projects, will allow construction of the mine and associated port and rail infrastructure to commence;

- assist with the financing of the development of Stage 2 of the Jack Hills iron ore project and Oakajee port and rail infrastructure. In this regard, Murchison remains of the view that the deferred payment expected from Mitsubishi Development Pty Ltd (**Mitsubishi**) following successful completion of the feasibility studies will be sufficient to meet its equity contribution to the construction of the mine and the associated infrastructure. Mitsubishi has agreed with Murchison to manage the arranging of a limited recourse project debt finance package for Crosslands' Jack Hills mine expansion and OPR's infrastructure development and for Murchison to assist with the financing of the mine and infrastructure construction costs.

The proposed issue of Options to each of the Executive Directors, with the attaching vesting conditions on the ability of the Executive Directors to exercise those Options, is designed to better align the interests of the Executive Directors with other Shareholders of the Company, by entitling them to directly benefit from the successful completion of bankable feasibility studies and financial close in respect to these projects, within an acceptable timeframe.

The Board has assessed and taken advice on the remuneration packages payable to each of its Executive Directors (including both base salary and performance incentives) with those paid to executive directors with comparable expertise, experience and duties in companies of comparable size and stage of development as the Company.

Based on this assessment it is the Board's view that the base salaries of its Executive Directors are generally below that of comparable companies. However, due to the current economic climate, the Board does not believe it is

appropriate to increase the base salaries of its Executive Directors at this time. However, the Board is of the view that its Executive Directors should be provided with appropriate performance incentives which are comparable with the Company's peers. Accordingly, the Board believes that the proposed issue of Options to each of the Executive Directors as part of their remuneration package is appropriate to retain persons of the quality and experience of the Executive Directors and is within acceptable remuneration levels for executive directors.

All of the Options will be issued at a premium to the volume weighted average sale price of all of the Company's Shares sold on ASX in the 3 month period up to the trading day immediately prior to the date of grant of the Options. Accordingly, to benefit from the issue of these Options, the Company's Share price must exceed the exercise price before the Options expire. The Options are only transferable in limited circumstances and so it is unlikely any value can be obtained by the holders of the Options without exercising the Options.

Requirement for Shareholder approval

As set out in respect of Resolution 5 above, Mr Kopejtka and Mr Matthews, as Executive Directors, are considered related parties of the Company under both the Listing Rules and the Corporations Act. Accordingly, the proposed issue of Options to Mr Kopejtka and Mr Matthews under Resolutions 6 and 7 requires Shareholder approval under Listing Rule 10.11 and Chapter 2E of the Corporations Act.

Remuneration packages of Executive Directors

The remuneration package of Mr Kopejtka and Mr Matthews for the financial year ended 30 June 2010 includes:

- an annual salary of \$460,000 for Mr Kopejtka and \$500,000 for Mr Matthews;
- the proposed issue of 4,500,000 Options to each of Mr Kopejtka and Mr Matthews (being the subject of Resolutions 6 and 7);
- statutory superannuation; and
- reimbursement of business related expenses.

The proposed Option issue to Mr Kopejtka and Mr Matthews is designed to provide an additional incentive for their ongoing performance and commitment to the Company.

Valuation of Options

The exercise price of the various series of Options proposed to be issued to the Executive Directors is to be determined on the date of issue of the Options using the formula described in the summary of key terms (see above).

The table below shows the exercise price of the Options based on a range of different volume weighted average sale prices for the Company's Shares (**VWAP**), which will only be known at the date of issue – after the Annual General Meeting.

3 month VWAP (\$)	'Series 1' and 'Series 2' Options Exercise Price
1.40	\$1.68
1.50	\$1.80

1.60	\$2.00
1.70	\$2.125
1.80	\$2.25

As the exercise price cannot be determined until after Shareholder approval is obtained and the Options are issued, the information set out below to facilitate an assessment of the value of the Options is by way of example only. It has been prepared by BDO and is based on the information available at the time of finalising this Explanatory Memorandum.

Under the Corporations Act, the Company is required to attribute a value to the Options for the purposes of the approval sought from Shareholders.

The Options are not listed and so there is no readily ascertainable market value of the Options. ASIC has indicated that option values should be determined in accordance with accounting standard AASB 2 (Share Based Payments). The value of options can vary significantly depending on the methodology used and the assumptions made and any one particular valuation methodology is not necessarily representative of the actual value of the Options.

In accordance with the requirements of accounting standard AASB 2, BDO on behalf of the Directors has calculated an indicative value of the Options using a binomial option pricing model. BDO considers a binomial option pricing model the most suited methodology for the valuation of the Options without market based vesting conditions.

BDO valued the Options at 8 October 2009, by reference to a binomial option pricing methodology, based on the following assumptions:

- the Options are issued on 18 November 2009, being the date of the Annual General Meeting.
- a Share price of \$1.51, being the latest available Share price for the Company's Shares on the ASX on 8 October 2009 prior to conducting the valuation.
- for the purposes of the valuation, the assumed probability of achieving the exercise conditions in respect of the 'Series 1' and 'Series 2' Options is 90% and 60% respectively. In making this assumption, the probability assigned to the achievement of the exercise conditions is highly subjective and ultimately impacted by a broad range of factors, some of which are beyond the Company's control.
- a risk-free interest rate of 4.54% for Series 1 and Series 2 Options, based on the 2 year Australian Government bond rates as at 8 October 2009.
- an estimated future volatility of the Company's Share price of 80%, based on Hoadley's volatility calculator for numerous time periods using historical data extracted from Bloomberg.
- no dividend being paid during the life of the Options.

- an exercise price and term of the Options as follows:

Series	Exercise Price*	Expiry Date*
'Series 1' Options	\$2.104	18 November 2011
'Series 2' Options	\$2.104	18 November 2012

* Note" The exercise price of the 'Series 1' and 'Series 2' Options will depend on the date that they are issued. The 'Series 1' and 'Series 2' Options will expire earlier if the exercise conditions are not satisfied.

Based on these assumptions, as at 8 October 2009:

- the theoretical value of a 'Series 1' Option is approximately \$0.544; and
- the theoretical value of a 'Series 2' Option is approximately \$0.70.

On this basis:

- the theoretical value of the 2,250,000 'Series 1' Options proposed to be issued to each of Mr Kopejtka and Mr Matthews under Resolutions 6 and 7 is \$1,101,600; and
- the theoretical value of the 2,250,000 'Series 2' Options proposed to be issued to each of Mr Kopejtka and Mr Matthews under Resolutions 6 and 7 is \$945,000.

It is important to note that any change in the variables applied in the binomial option pricing model between the date of valuation and the date the Options are granted will have an impact on their value.

Other implications for the Company

Financial implications

Australian International Financial Reporting Standards require the Options to be expensed, which is guided by AASB 2 – Share Based Payment. In accordance with that accounting standard, the 'Series 1' and 'Series 2' Options will be expensed over their vesting period, but taking into account the probability that the relevant exercise conditions attaching to those Options will be satisfied.

Expensing the Options will have the effect of increasing both the expenses and contributed equity of the Company. Whilst there will be a reduction in profit, there will be no impact on the net assets or the cash position or financial resources of the Company as a result of expensing the Options.

There are no tax implications for the Company in issuing these Options.

Dilution

The issue of Options to either or both of Mr Kopejtka and Mr Matthews will have a diluting effect on the percentage interest of existing Shareholders' holdings if the Options are exercised. The dilutionary effect of Resolutions 6 and 7 is set out below:

- The dilutionary effect if all the Options issued to Mr Kopejtka are exercised would amount to approximately 1.07% of the Company's issued capital as at 8 October 2009.
- The dilutionary effect if all the Options issued to Mr Matthews are exercised would amount to approximately 1.07% of the Company's issued capital as at 8 October 2009.

If the Options are exercised by Mr Kopejtka or Mr Matthews or both of them, the

value of the Company's Shares may be diluted. If the Share price is higher than the exercise price the value will be diluted as Mr Kopejtka and/or Mr Matthews will be paying a lower price for the Shares when they exercise the Options. However, the Options are unlikely to be exercised if the Company's Share price is lower than the exercise price.

Additional statutory and Listing Rule disclosures

In accordance with the requirements of Chapter 2E of the Corporations Act, and in particular, section 219 of the Corporations Act, the following information is provided to Shareholders to enable them to assess the proposed grant of Options to the Directors:

- (a) As directors of the Company, Messrs Paul Kopejtka and Trevor Matthews are each related parties of the Company to whom approval of proposed Resolutions 6 and 7 would permit financial benefits to be given.
- (b) The nature of the financial benefit to be given to each of the Executive Directors is the granting of an aggregate of 4,500,000 Options to each Executive Director for no issue price.
- (c) In respect of the proposed exercise prices of the Options, the last price which Shares in the Company traded on ASX on 8 October 2009 (being the last practicable date prior to the date of finalising this Explanatory Memorandum) was \$1.585. The highest and lowest price which the Company's Shares traded on ASX over the past 12 months ending on 8 October 2009 was \$2.18 and \$0.48 respectively.
- (d) As at 8 October 2009, being the last practicable date before finalising this Explanatory Memorandum:
 - Mr Kopejtka had an interest (directly and indirectly) in 20,780,000 Shares and 2,000,000 Options;
 - Mr Matthews had an interest (directly and indirectly) in 1,200,000 Shares and 2,000,000 Options;
- (e) The primary purpose of the grant of the Options to the Executive Directors is not to raise capital, but to provide a performance and retention incentive to both of them. No funds will be raised from the issue of the Options. Any funds raised from exercise of the Options will be used for general working capital purposes.
- (f) Mr Kopejtka and Mr Matthews must contribute their own money to the Company to fund the exercise price of the Options. The amount payable to the Company to exercise all of the Options depends upon the final exercise price of each series of Options.

Further, the following information is provided to Shareholders for the purposes of ASX Listing Rule 10.13:

- (a) 4,500,000 Options are proposed to be granted under Resolution 6 and 4,500,000 Options are proposed to be granted under Resolution 7;
- (b) The Options will be issued within one month of the date of the AGM or as modified by an ASX waiver;
- (c) The issue price of the Options is nil as the Options will be issued at no cost;

- (d) The proposed allottees are Mr Paul Kopejtko and Mr Trevor Matthews or their nominees;
- (e) The terms and conditions of the Options are set out in Annexure C of this Explanatory Memorandum; and
- (f) No funds will be raised from the grant of the Options.

If approval is given for the issue of Options under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

Other information

The Directors are not aware of any information other than that set out in this Explanatory Memorandum that is reasonably required by Shareholders in order to decide whether or not it is in the Company's interests to pass the proposed Resolutions 6 and 7.

Additional Information

Shareholders are advised to contact the Company Secretary on +61 8 9492 2600 if they have any queries in respect of the matters set out in these documents.

Glossary

\$ means Australian dollars, unless otherwise stated.

AEDT means Australian Eastern Daylight Time.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited.

Board means the Company's board of directors.

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

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

Corporations Regulation means a regulation under the *Corporations Regulations 2001 (Commonwealth)*.

Director means a director of Murchison from time to time.

Listing Rules means the Official Listing Rules of ASX.

Meeting or **Annual General Meeting** means the annual general meeting convened by the Notice.

Notice or **Notice of Annual General Meeting** means the notice of meeting to which this Explanatory Memorandum relates.

Option means an option to acquire a Share.

Resolutions means the resolutions set out in the Notice, or any one of them, as the context requires.

Shareholder means a holder of Shares.

Share means a fully paid ordinary share in Murchison.

WST means Western Standard Time, Australia

Murchison Metals Ltd

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Annexure A – Proposed amendments to Constitution

It is proposed that the constitution of Murchison Metals Ltd be amended in the following manner:

- (a) Amending the definition of 'Member Present' in rule 1.1 as follows:
- “Member Present means, in connection with a meeting, the Member being present in person or by proxy, by attorney ~~and/or~~, where the Member is a body corporate, by Representative, or (except in any rule that specifies a quorum or except in any other rule prescribed by the Directors) a Member who has lodged a valid direct vote in relation to a general meeting under rule 10.8(f), and includes being present at a different venue from the venue at which other Members are participating in the same meeting, providing the pre-requisites for a valid meeting at different venues are observed.”*
- (b) Inserting the following definition of 'URL' in rule 1.1:
- “**URL** means Uniform Resource Locator, the address that specifies the location of a file on the internet.”*
- (c) Inserting a new rule 10.8(f):
- “The Directors may decide that, at any general meeting or class meeting, a member who is entitled to attend and vote on a resolution at that meeting is entitled to a direct vote in respect of that resolution. A “direct vote” includes a vote delivered to the Company by post, fax or other electronic means approved by the Directors. The Directors may prescribe regulations, rules and procedures in relation to direct voting, including specifying the form, method and timing of giving a direct vote at a meeting in order for the vote to be valid.”*
- (d) Amending rule 10.11(a) as follows:
- “at meetings of Members or classes of Members each Member entitled to attend and vote may attend and vote in person or by proxy, or attorney ~~and/or~~ (where the Member is a body corporate) by representative or by lodging a valid direct vote in accordance with rule 10.8(f).”*
- (e) Amending rule 10.17(a) as follows:
- (a) *“An instrument appointing a proxy is valid if it is in accordance with the Act or in any the form approved specified by the Directors from time to time, ~~and is:~~*
- (i) ~~signed by or on behalf of the Member of the Company making the appointment; and~~
- (ii) ~~contains the following information:~~
- (A) ~~the Member's name and address;~~
- (B) ~~the Company's name;~~
- (C) ~~the proxy's name or the name of the office held by the proxy; and~~
- (D) ~~the meetings at which the appointment may be used.”~~
- (f) Inserting a new rule 10.17(g) as follows:
- (g) *For the purposes of rules 10.17 and 10.18, an instrument appointing a proxy received at an electronic address specified in the notice of general meeting for the receipt of proxy appointment or otherwise received by the Company in accordance with the Act or in a way specified in the notice of general meeting is taken to have been signed or executed if the appointment:*
- (i) *includes or is accompanied by a personal identification code allocated by the company to the Member making the appointment;*

- (ii) *has been authorised by the Member in another manner approved by the Directors and specified in or with the notice of meeting; or*
 - (iii) *is otherwise authenticated in accordance with the Act.*
- (g) Amending rule 10.18(b) as follows:
 - (b) *“An instrument appointing a Representative to act for a Member at all meetings of the Company or at all meetings for a specified period is not treated as valid unless:*
 - (i) *the instrument of appointment or a certified copy of it, duly signed by hand or electronic signature or otherwise authenticated in accordance with rule 10.17(g); and*
 - (ii) *any evidence as to the validity and non-revocation of that authority as may be required by the Directors,*

~~are lodged received by the Company not less than 48 hours (or any shorter period as the Directors may permit) before the time for holding the meeting at the place specified for that purpose in the notice of the meeting or, if none, at the Registered Office.~~
- (h) Replacing rule 10.18(c) with the following rule:
 - “(c) *A document is received by the Company under rule 10.18(b) when it is received in accordance with the Act or in a way specified in the notice of the meeting.*”
- (i) Replacing rule 21.2(b)(v) with the following rule:
 - “(v) *sending it by email or any other electronic means (including providing a URL link to any document or attachment) to the email address or other electronic address nominated by the Member for the giving of notices;*”
- (j) Replacing rule 21.3 with the following rule:

“A notice is deemed to be given by the Company and received by the Member:

 - (a) *if delivered in person, when delivered to the Member;*
 - (b) *if posted:*
 - (i) *if it is a notice concerning a general meeting, at 9:00 am on the day after the date it is posted; or*
 - (ii) *in any other case at the time the letter would be delivered in the ordinary course of post,*

whether delivered or not;
 - (c) *if sent by facsimile transmission, on the date and time shown on the transmission report by the machine from which the facsimile was sent which indicates that the facsimile was sent in its entirety and in legible form to the facsimile number of the Member nominated for the purposes of this clause; or*
 - (d) *if sent by email or other electronic means, on the date and time the electronic transmission is sent; or*
 - (e) *where the Company gives a notice to a Member by any other means permitted by the Act relating to the giving of notices and electronic means of access to them, the notice is taken as given at 10.00am on the day after the date on which the member is notified that the notice is available. “*

(k) Inserting a new rule 21.6 as follows:

“21.6 Written Notices

(a) A reference in this Constitution to a written notice includes a notice given by fax or other electronic means. A signature to a written notice need not be handwritten.

(b) A certificate signed by a secretary or officer of the Company to the effect that a notice was duly posted under this Constitution is conclusive evidence of that fact.”

Annexure B

Unlisted Non-Executive Director Option Terms

The Options will be issued on the terms and conditions set out below:

1. The Options will be issued for nil consideration.
2. Each Option entitles the holder to subscribe for and be allotted one fully paid ordinary share in the capital of the Company on exercise of the Option.
3. The exercise price (**Exercise Price**) of an Option is \$1.25.
4. The Options are exercisable by notice in writing to the Company Secretary accompanied by payment of the exercise price and the Certificate for the Option at any time prior to 5.00pm WST on the third anniversary of the Grant Date (**Expiry Date**). Options may only be exercised in multiples of 1000.
5. The Options will not be quoted on the ASX.
6. The Options are not transferable other than where during the life of the Option:
 - (a) a takeover bid is made to the Company's shareholders to acquire their shares and a bidder who did not have a relevant interest (as that term is defined in the Corporations Act) in more than 50% of the Company's issued Shares (**Bidder**) has acquired (or become entitled to acquire) a relevant interest in more than 50% of the Company's issued Shares, then each option may be transferable to that Bidder or its nominee; or
 - (b) the Board in its discretion resolves otherwise.
7. Shares allotted and issued pursuant to the exercise of an Option will be allotted and issued not more than 10 business days after receipt of a properly executed notice of exercise of the Option and payment of the requisite application moneys.
8. All shares issued upon exercise of the Options will rank pari passu in all respects with ordinary shares issued upon exercise of the Options within three business days after the date of allotment of those shares.
9. The Options will not entitle the holder to any dividends (or shares or rights in lieu of dividends) declared or issued by the Company.
10. The Option does not give the holder the right to participate in a new issue of securities or rights to be issued securities without exercising the Option.
11. In the event of a pro rata issue (other than a bonus issue) prior to the Expiry Date the Exercise Price will be adjusted in accordance with Listing Rule 6.22.
12. If, before the expiry of any Options, the Company makes an issue of shares to the holders of shares by way of capitalisation of profits or reserves (**bonus issue**) other than in lieu of a dividend payment, then upon exercise of an Option, the holder will be entitled to have issued to him (in addition to the shares which he is otherwise entitled to have issued to him upon such exercise) additional shares in the Company. The number of additional shares is the number of shares which would have been issued to him under that bonus issue (**bonus shares**) if on the date on which entitlements were calculated he had been registered as the holder of the number of shares which he would have been registered as holder if immediately before that date he had exercised his Options. The bonus shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue will rank pari passu in all respects with the other shares allotted upon exercise of an Option.
13. In the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of a holder of Options will be changed to the extent necessary to comply with the applicable Listing Rules at the time of the reorganisation. Unless the Listing Rules require a change to the Exercise Price of the option, or a change to the number of underlying securities over which the option can be exercised, the holder of

Options has no right to a change in the Exercise Price of the Options or a change to the number of underlying securities over which the Options can be exercised.

14. The Company will, at least 20 business days before the Expiry Date, send notices to the holders stating the name of the holder, the number of Options held and the number of securities to be issued on exercise of the Options, the Exercise Price, the due date for payment and the consequences of non-payment.

Annexure C

Unlisted Executive Director Option Terms

Definitions and interpretation

1. In these terms:

ASX means ASX Limited ACN 008 624 691.

Board means the board of the Company.

Change of Control means:

- (a) in the case of a Takeover Bid, an offeror who previously had voting power of less than 50% in the Company obtains voting power of more than 50%;
- (b) shareholders of the Company approve a proposed compromise or arrangement for the reconstruction of the Company or its amalgamation with any other company or companies at a meeting convened by the Court pursuant to section 411(4)(a) of the Corporations Act;
- (c) any person becomes bound or entitled to acquire shares in the Company under:
 - (i) section 414 of the Corporations Act (compulsory acquisition following a scheme or contract); or
 - (ii) Chapter 6A of the Corporations Act (compulsory acquisition of securities);
- (d) a selective capital reduction is approved by shareholders of the Company pursuant to section 256C(2) of the Corporations Act which results in a person who previously had voting power of less than 50% in the Company obtaining voting power of more than 50%; or
- (e) in any other case, a person obtains voting power in the Company which the Board (which for the avoidance of doubt will comprise those directors immediately prior to the person acquiring that voting power) determines, acting in good faith and in accordance with their fiduciary duties, is sufficient to control the composition of the Board.

Company means Murchison Metals Ltd ABN 38 078 257 799.

Corporations Act means the Corporations Act 2001 (Cth).

Exercise Notice means a written notice in the form prescribed by the Company from time to time.

Exercise Price has the meaning given to that term in paragraph 4 of these terms.

Expiry Date has the meaning given to that term in paragraph 5 of these terms.

Group Company means the Company and each of its subsidiaries (as that term is defined in section 9 of the Corporations Act).

Listing Rules means the official Listing Rules of the ASX as they apply to the Company from time to time.

Option means an option granted in accordance with these terms.

Option Certificate means a certificate specifying the number of Options held by the holder (attaching a copy of these terms).

Option Terms means these Unlisted Option Terms.

Redundant means any situation where the requirements of the relevant Group Company for the Option holder to carry out a particular kind of work (given his or her particular skills) or to carry out certain work in a particular place, have ceased or diminished (or are likely to do so), but does not extend to the dismissal of the Option holder for personal or disciplinary reasons, including for reasons of misconduct or unsatisfactory performance, or where the Option holder leaves of his or her own accord.

Separation means the termination of an the holder's employment with a Group Company by

the volition of the holder and with the written consent of the Board expressly given for the purposes of these Option Terms;

Share means an ordinary fully paid share in the capital of the Company.

Takeover Bid has the meaning given to that term in section 9 of the Corporations Act.

Vesting Conditions means any applicable conditions which must be satisfied before the Options can be exercised, as specified in paragraph 6 of these terms.

voting power has the meaning given to that term in Section 9 of the Corporations Act.

VWAP is the volume weighted average sale price of all of the Company's Shares sold on ASX in the 3 month period up to the trading day immediately prior to the date of issue of the Options.

WST means Western Standard Time, Australia

In these terms, headings and boldings are inserted for convenience and do not affect the interpretation of these terms and unless the contrary intention appears, words defined in the Corporations Act will have the same meaning in these terms.

The issue of the Options

2. The Options are issued for nil consideration.
3. Subject to these Option Terms, each Option entitles the holder to subscribe for and be allotted one Share on exercise of the Option.
4. The exercise price payable upon exercise of each Option is calculated by applying the following formula in respect to each series of Option, and rounded to the nearest tenth of a cent:
 - 'Series 1' Options - $VWAP \times 1.20$
 - 'Series 2' Options - $VWAP \times 1.20$
5. The expiry date for each series of Option is as follows:
 - 'Series 1' Options - 5.00pm (WST) on the date that is two years after the date of issue of the Option.
 - 'Series 2' Options - 5.00pm (WST) on the date that is three years after the date of issue of the Option.

Vesting Condition(s)

6. The Options vest upon the following performance conditions being satisfied:
 - 'Series 1' Options - Board approval of positive bankable feasibility studies in respect of:
 - Stage 2 of the Jack Hills iron ore project; and
 - the Oakajee port and rail infrastructure project,by no later than 31 December 2010.
 - 'Series 2' Options - Achievement of financial close in respect of:
 - Stage 2 of the Jack Hills iron ore project; and
 - the Oakajee port and rail infrastructure project,by no later than 31 December 2011.

The Board will advise the holder of the achievement, satisfaction or waiver of a performance hurdle. The Board's decision as to satisfaction, achievement or waiver of a performance hurdle may be made in the Board's absolute discretion and a determination as to the interpretation, effect, application, achievement, satisfaction or waiver of a performance hurdle is final and conclusive.

Transferability

7. The Options will not be quoted on ASX.
8. The Options are only transferable:
 - (a) by force of law upon death to the holder's legal personal representative or upon bankruptcy to the holder's trustee in bankruptcy;
 - (b) where a Takeover Bid is made to acquire all or some of the Shares in the Company in circumstances where:
 - (1) the offer is for all Shares;
 - (2) the offer is declared unconditional; and
 - (3) holders of at least half of the Shares the subject of the Takeover Bid have accepted that offer,and the Options are transferred by the holder to the party making the Takeover Bid for the Company; or
 - (c) where a scheme of arrangement pursuant to Part 5.1 of the Corporations Act between the Company and the holders of Shares becomes effective in accordance with section 411(10) of the Corporations Act and the Options are transferred by the holder to the party acquiring all of the Shares pursuant to the scheme of arrangement;or otherwise with the prior written consent of the Board.

Where the holder purports to transfer an Option other than in accordance with this paragraph 8, the Option immediately lapses.

Exercise – process

9. Subject to paragraphs 10, 11 and 22 below, the Options are not exercisable unless and until the Board has notified the holder that all of the Vesting Conditions have been satisfied or otherwise waived by the Board (in its sole discretion).
10. If before an Option has been exercised:
 - (a) the holder's employment with a Group Company is terminated as a result of ill health; or
 - (b) an holder dies and at that time the holder was an employee of a Group Company,then:
 - (c) if any relevant Vesting Condition has been met, the Option may be exercised (in the case of ill health) by the Optionholder, or (in the case of death) by the Optionholder's personal representative, until the Option lapses in accordance with paragraph 12 below. If not exercised within that period, the Options lapse;
 - (d) if any relevant Vesting Condition has not been met, then the Option will automatically lapse.
11. If the holder ceases to be an employee of any Group Company before the Option has been exercised:
 - (a) in circumstances where:
 - (i) the holder's employment has been terminated by the relevant Group Company for reasons other than fraud, dishonesty or the holder being in material breach of their obligations to any Group Company; or
 - (ii) the holder has been made Redundant or otherwise constructively dismissed by the relevant Group Company,then any unvested Options automatically vest and the Options continue and may be exercised by the holder until the date which is 30 days after cessation of employment or any longer period permitted by the Board. If not exercised within that period, the

Options lapse;

- (b) in circumstances where the cessation or termination of employment is due to fraud or dishonesty on the part of the holder, or the holder being in material breach of their obligations to any Group Company, then:
 - (i) if any relevant Vesting Condition has been met, the Board may deem any unexercised Options held by the holder to have lapsed (for the avoidance of doubt, the failure to make such a determination results in the Option continuing and being able to be exercised by the holder the date which is 30 days after cessation of employment or any longer period permitted by the Board); or
 - (ii) if any relevant Vesting Condition has not been met, the Option will automatically lapse on the date of cessation of employment, unless the Board determines otherwise;
- (c) in circumstances where the cessation or termination of employment is for any other reason not specified in paragraphs 11(a) and 11(b) above, including Separation, but otherwise than by reason of his or her death or ill health (which is dealt with in paragraph 10), then:
 - (i) if any relevant Vesting Condition has been met or if no Vesting Condition is imposed, the Option continues and may be exercised by the holder until the date which is 30 days after cessation of employment or any longer period permitted by the Board; or
 - (ii) if any relevant Vesting Condition has not been met, the Option will automatically lapse on the date of cessation of employment, unless the Board determines otherwise.

A holder will not be treated for the purposes of this paragraph as ceasing to be an employee of a Group Company until such time as the holder is no longer an employee of any of the Group Companies. Subject to applicable laws, at the discretion of the Board, a holder who is granted an approved leave of absence and who exercises their right to return to work under any applicable award, enterprise agreement, other agreement, statute or regulation before the exercise of an Option will be treated for those purposes as not having ceased to be such an employee.

- 12. Unless the Board determines otherwise in its absolute discretion, an unexercised Option will lapse upon the earliest to occur of:
 - (a) the Option lapsing in accordance with paragraph 8 (unauthorised transfer);
 - (b) the Option lapsing in accordance with any of paragraphs 10 and 11 (cessation of employment);
 - (c) (subject always to any automatic vesting of unvested Options in accordance with paragraphs 10 and 11) failure to meet the Option's Vesting Condition in the prescribed period; or
 - (d) the Expiry Date.

Issue of Shares

- 13. Options must be exercised in accordance with these Option Terms by the holder giving the Company an Exercise Notice accompanied by payment of the Exercise Price and the Option Certificate. Options may only be exercised in multiples of 100 (or of less than 100 if less than 100 Options are held or would remain after exercise of the other Options held).
- 14. Shares allotted and issued pursuant to the exercise of an Option will be allotted and issued not more than 10 business days after receipt of a properly executed Exercise Notice and payment of the Exercise Price in freely available funds.

In the event that the issue of Shares on exercise of an Option would require the Company to prepare a disclosure document in the absence of appropriate arrangements with the holder, then the Company may require the holder (as a pre-condition to the issue of the underlying Shares on exercise of the Options) to enter into such arrangements with the Company as the Company considers appropriate to ensure that the issue of such Shares without disclosure does not contravene the fundraising provisions of the Corporations Act.

15. All Shares issued upon exercise of the Options will rank pari passu in all respects with Shares then on issue. If the Shares are quoted, the Company will apply for official quotation of all Shares issued upon exercise of the Options within a reasonable period of time after the date of allotment of those Shares. For the avoidance of doubt, if the holder has not entered into the appropriate arrangements referred to in paragraph 14 above, then the Company may delay applying for official quotation of any Shares issued upon exercise of the Options for the period that it is unable to issue a notice under section 708A(5) of the Corporations Act.
16. If after the exercise of Options in accordance with these Option Terms, there are still Options on an Option Certificate that remain unexercised, the Company will issue a new certificate for the balance of the Options held by the holder and not yet exercised.

Rights to participate in dividends, new issues of Shares etc

17. The Options will not entitle the holder to any dividends (or Shares or rights in lieu of dividends) declared or issued by the Company.
18.
 - (a) If Shares are issued pro rata to the Company's shareholders generally by way of bonus issue (other than an issue in lieu of dividends or by way of dividend reinvestment) involving capitalisation of reserves or distributable profits, the holder of Options is entitled, upon exercise of the Options, to receive, in addition to the Shares in respect of which the Options are exercised and without the payment of any further consideration, an allotment of as many additional Shares as would have been issued to a shareholder who, on the date for determining entitlements under the bonus issue, held Shares equal in number to the Shares in respect of which the Options are exercised.
 - (b) Additional Shares to which the holder of Options becomes so entitled will, as from the time Shares are issued pursuant to the bonus issue and until those additional Shares are allotted, be regarded as Shares comprised in the relevant Options and in respect of which the Options are exercised for the purposes of subsequent applications of paragraph 18(a), and any adjustments which, after the time just mentioned, are made under paragraph 21 to the number of Shares will also be made to the additional Shares.
19. Subject to clause 20, holders of Options cannot participate in new issues of capital by the Company offered to shareholders without exercising the Options.
20. If Shares are offered pro rata for subscription by the Company's shareholders generally by way of a rights issue during the currency of and prior to exercise of any Options, the Exercise Price of each Option will be adjusted in the manner provided for in the Listing Rules.
21. In the event of any reorganisation (including consolidation, subdivision, reduction or return) of the issued capital of the Company, the number of Options to which the holder is entitled or the Exercise Price of the Options, or both as appropriate, will be adjusted in the manner provided for in the Listing Rules.

Takeovers, schemes of arrangement etc

22. If a Change of Control occurs, then the Board must (unless any Takeover Bid to which the Change of Control relates also includes an equivalent offer to the holder to acquire all or a substantial portion of their Options) notify the holder of the Change of Control. The notice will also inform the holder that any Options held which remain subject to a Vesting Condition will immediately vest and may be exercised by the holder until the Option lapses on the Expiry Date.
23. The Board may also, in its absolute discretion, permit the exercise of Options (irrespective of whether the relevant Vesting Conditions have been met) during such period as the Board determines where:
 - (a) the Company passes a resolution for voluntary winding up;
 - (b) an order is made for the compulsory winding up of the Company; or
 - (c) the Company passes a resolution in accordance with Listing Rule 11.2 to dispose of its main undertaking.

24. If a company (**Acquiring Company**) obtains control of the Company as a result of:

- (a) a Takeover Bid;
- (b) a scheme of arrangement between the Company and its shareholders; or
- (c) a selective capital reduction,

and both the Company and the Acquiring Company agree, the holder may, upon exercise of his or her Options, elect to acquire and the Company may provide shares of the Acquiring Company or its parent in lieu of Shares, on substantially the same terms and subject to substantially the same conditions as the holder may exercise Options to acquire Shares, but with appropriate adjustments to the number and kind of shares subject to the Options, as well as to the Exercise Price.

FOR ALL ENQUIRIES CALL:
(within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

FACSIMILE
+61 2 9290 9655

ALL CORRESPONDENCE TO:
Registries Limited
GPO Box 3993
Sydney NSW 2001
Australia

Your Address

This is your address as it appears on the Company's share register. If this is incorrect, please mark the box with an "X" and make the correction on the form. Securityholders sponsored by a broker should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

YOUR VOTE IS IMPORTANT

FOR YOUR VOTE TO BE EFFECTIVE IT MUST BE RECORDED BEFORE 10.00AM (WST)
MONDAY 16 NOVEMBER 2009

<HIN/SRN>

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 Appointment of Proxy

Indicate here who you want to appoint as your Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. 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 security holder of the Company. Do not write the name of the issuer company or the registered Securityholder in the space.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the Company's securities registry.

Appointment of a Second Proxy

You are entitled to appoint up to two 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 securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the 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 in the same envelope.

STEP 2 Voting Directions to your Proxy

You can tell your Proxy how to vote

To direct your proxy how to vote, place 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 a given item, 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.

STEP 3 Sign the Form

The form **must** be signed

In the spaces provided you must sign this form as follows:

Individual: This form is to be signed by the Securityholder.

Joint Holding: Where the holding is in more than one name, all the Securityholders must sign.

Power of Attorney: To sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: This form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting at 10.00am (WST) on Wednesday, 18 November 2009. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxies may be lodged using the reply paid envelope or:

BY MAIL - Share Registry – Registries Limited, GPO Box 3993, Sydney NSW 2001 Australia

BY FAX - + 61 2 9290 9655

IN PERSON - Share Registry – Registries Limited, Level 7, 207 Kent Street, Sydney NSW 2000 Australia

Murchison Metals Limited

<Co Name>
 <Address 1>
 <Address 2>
 <Address 3>
 <Address 4>
 <Address 5>

<BARCODE>

STEP 1 - Appointment of Proxy

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

the Chairman of the Meeting (mark with an 'X') **OR**

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy at the **Annual General Meeting of Murchison Metals Limited to be held at the Stirling Room, Parmelia Hilton Hotel, 14 Mill Street, Perth WA 6000 on Wednesday the 18th of November 2009 at 10.00am (WST)** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

Voting exclusion: In respect of resolutions 6 and 7, if the Chairman of the Meeting is appointed as your proxy or may be appointed by default, and you do not wish to direct your proxy how to vote in respect of resolution 6 or 7, please mark this box. By marking this box, you acknowledge that the Chairman of the Meeting may vote as your proxy even if he has an interest in the outcome of resolution 6 or 7 and votes cast by the Chairman of the Meeting on the relevant resolution, other than as proxy holder, will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on resolution 6 or 7 and in both instances your votes will not be counted in calculating the required majority if a poll is called in respect of those resolutions.

STEP 2 - Voting directions to your Proxy – please mark to indicate your directions

Ordinary Business	Resolution		For	Against	Abstain*
Item 2	1	Approval of Remuneration Report (Non Binding)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 3	2	To re-elect Mr James McClements as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 4	3	To re-elect Mr Rod Baxter as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 5	4	Amendment of Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 6	5	Issue of options to Rod Baxter	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 7	6	Issue of options to Paul Kopejtka	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 8	7	Issue of options to Trevor Matthews	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

In addition to the intentions advised above. Subject to the voting exclusion referred to in respect of resolutions 6 and 7 above, the Chairman of the Meeting intends to vote undirected proxies in favour of each of the items of business.

*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 - PLEASE SIGN HERE This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name Contact Daytime Telephone Date / /2009