

ASX ANNOUNCEMENT

ASX Code: MMX

17 September 2010

MURCHISON METALS FULL YEAR RESULTS 2010

Murchison Metals Limited ("Murchison") is pleased to present its financial report for the year ended 30 June 2010.

The 2010 financial year presented a number of significant challenges for the global economy. Murchison recorded an overall loss of \$21.5 million for the 2010 year, however, has continued to meet its milestones and objectives as it progresses its mid-west development strategy.

Stage 1 operations at Jack Hills saw a significant increase in operating cash flow over the final three months of the year, in line with iron ore price increases flowing from the switch to quarterly index based pricing. As a result, stage 1 operations recorded a significant improvement from the December half profit result and were strongly profitable for the final quarter of the year.

The financial year has seen excellent progress made in developing the Jack Hills Expansion Project and the Oakajee Port and Rail infrastructure solution. Murchison holds an interest in these projects through its 50% interest in each of Crosslands Resources Ltd (Crosslands) and Oakajee Port and Rail (OPR).

During the year Crosslands entered into non-binding letters of intent with potential customers of the Jack Hills Expansion Project for more than 50 million tonnes per annum of iron ore concentrates, an amount significantly exceeding potential initial production.

In March 2010, OPR presented a draft feasibility study to the State Government, demonstrating technical feasibility and has increased the planned initial capacity of the port to 45 million tonnes of iron ore product per annum. This progress was further consolidated with the signing of Memoranda of Understanding with each of the three potential foundation customers for the project.

Murchison Metals Executive Chairman, Mr Paul Kopejtko, said he was pleased with the progress to date of Murchison's two flagship assets.

"This has been a significant year of building and consolidation for Murchison and our partners, as we enter the pivotal end stages of final feasibility studies for both our key projects," said Mr Kopejtko.

"Murchison has a strong strategic vision for the mid-west, first started in 2004 when we began looking to develop an integrated iron ore and infrastructure business built on the extensive iron ore deposits of the mid-west region," said Mr Kopejtko.

"The actions we take now in the final feasibility stages will set in place the foundations for the generation of significant future value for our Company. We are committed to seeing these projects developed in a way which will maximise this value for our shareholders.

"I look forward to the coming year ahead, as we continue to advance development of the Jack Hills and OPR projects and ultimately realise our strategic vision for the mid-west iron ore province."

For further information, please contact:

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Executive Chairman
Murchison Metals Ltd
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Director
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About Murchison

Murchison Metals Limited ("Murchison") is an Australian ASX listed company. Murchison is included in the S&P/ASX 200 Index.

Murchison is a 50% shareholder in Crosslands Resources Ltd ("Crosslands") which is the owner of the Jack Hills iron ore project located in the mid-west region of Western Australia. The remaining 50% of Crosslands is held by Mitsubishi Development Pty Ltd ("Mitsubishi"), a subsidiary of Mitsubishi Corporation, Japan's largest general trading company.

Murchison also has a 50% economic interest in an independent infrastructure business, Oakajee Port and Rail ("OPR"). 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 region of WA. The remaining 50% economic interest in OPR is held by Mitsubishi.

In addition to its investments in Crosslands and OPR, Murchison owns the Rocklea iron ore project in the Pilbara region of WA.

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MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES
ABN 38 078 257 799

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2010

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES
ABN 38 078 257 799**

DIRECTORY

DIRECTORS

Paul Kopejtko	Executive Chairman
Trevor Matthews	Managing Director
James McClements	Non-Executive Director
Rodney Baxter	Non-Executive Director
Sun Moon Woo	Non-Executive Director

COMPANY SECRETARY

Chris Foley

REGISTERED OFFICE

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WEBSITE

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SHARE REGISTRY

Registries Ltd
Level 7
207 Kent Street
Sydney NSW 2000

HOME STOCK EXCHANGE

Australian Stock Exchange Ltd
Level 8 Exchange Plaza
2 The Esplanade
Perth WA 6000
ASX Code: MMX

AUDITORS

Ernst and Young
11 Mounts Bay Road
Perth WA 6000

SOLICITORS

Freehills
QV.1 Building
250 St George's Terrace
Perth WA 6000

Corrs Chambers Westgarth
Woodside Plaza
240 St George's Terrace
Perth WA 6000

BANKERS

Commonwealth Bank of Australia

MURCHISON METALS LTD
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FINANCIAL REPORT

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**MURCHISON METALS LTD
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DIRECTORS' REPORT

The Directors present their report on Murchison Metals Ltd ("the Company") for the financial year ended 30 June 2010.

DIRECTORS

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

Paul Kopejtko
Trevor Matthews
James McClements
Rodney Baxter
Sun Moon Woo

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

COMPANY SECRETARY

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

Chris Foley

PRINCIPAL ACTIVITIES

The principal activities of the Company were mineral exploration and evaluation activities and project development.

During the financial year the Company undertook the following activities:

- Exploration at the Rocklea project and completion of a scoping study;
- Participated in the management of Crosslands Resources Ltd which is undertaking:
 - exploration and mining operations at the Jack Hills iron ore project; and
 - a feasibility study for the expansion of the Jack Hills project;
- Participated in the management of Oakajee Port and Rail Pty Ltd which is undertaking a feasibility study for the construction of the new port and rail infrastructure in the mid-west region of WA; and
- Assessment of opportunities in the bulk commodities sector.

CHANGES IN STATE OF AFFAIRS

There was no significant change in the state of affairs of the Consolidated Entity during the financial year.

OPERATING RESULT

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

Consolidated	
30 June 2010	30 June 2009
\$'000	\$'000
(21,597)	732

No dividends have been paid or declared by the Company during the year (2009: Nil).

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DIRECTORS' REPORT

REVIEW OF OPERATIONS

Murchison Metals Ltd ("Murchison") is an Australian ASX listed company. Murchison is included in the S&P/ASX 200 Index. Murchison aims to create shareholder wealth through mining and exporting high quality iron ore to world markets.

Murchison is a 50% shareholder in Crosslands Resources Ltd ("Crosslands"), the owner of the Jack Hills iron ore project located in the mid-west region of Western Australia. The remaining 50% of Crosslands is held by Mitsubishi Development Pty Ltd ("Mitsubishi"), a subsidiary of Mitsubishi Corporation, Japan's largest general trading company.

Murchison also has a 50% economic interest in an independent infrastructure business, Oakajee Port and Rail ("OPR"). OPR was established to construct new port and rail infrastructure to provide logistic services to miners (including Crosslands) and other potential customers in the mid-west region of WA. The remaining 50% economic interest in OPR is held by Mitsubishi.

Further details of the activities of Crosslands and OPR undertaken during the year ended 30 June 2010 appear below.

In addition to its investments in Crosslands and OPR, Murchison owns the Rocklea iron ore project located in the Pilbara.

CORPORATE

As at 30 June 2010, Murchison was debt free and had cash and liquid investments of \$73,410,000, a decrease of \$52,129,000 since 30 June 2009. Included in this cash outflow are amounts paid to Crosslands and OPR of \$57,200,000 to finance feasibility studies and exploration costs. Interest earned on investments for the year amounted to \$4,149,000. Proceeds from issue of shares for the year amounted to \$15,213,000.

Subsequent to year end, POSCO Australia Pty Ltd ("POSCO Australia") advised that it has increased its shareholding in Murchison to 13.91%, making it Murchison's largest shareholder. POSCO Australia is a wholly owned subsidiary of Korean steel giant POSCO, a core customer of Crosslands.

During the year, the iron ore market experienced a significant shift from the annual benchmark pricing mechanism to a short term, market based quarterly pricing mechanism. Volume demand for iron ore remains robust with a number of major iron ore producers reporting strong shipping volumes towards the end of the financial year.

Settlement of Evans and Koh Litigation

During the year, the Company settled the legal proceedings brought against the Company by David Evans and SH Koh, former Directors of Chameleon Mining NL ("Chameleon").

The litigation, which commenced in March 2005, concerned an agreement made in 2004 between the plaintiffs and Nicu Metals Ltd (now Murchison) before the current Murchison Board and senior management group were appointed. The plaintiffs had claimed a 5% interest in the Jack Hills iron ore project and a quantity of Murchison shares.

Chameleon, which claimed to have an interest in the litigation under an agreement with the plaintiffs, had estimated the value of the claim to be in the order of \$150 million - \$250 million.

Under the terms of the settlement, Murchison issued 3.5 million shares, made a payment of \$350,000 and paid the plaintiff's legal costs.

Chameleon Litigation

On 29 November 2007, Chameleon commenced legal proceedings against Murchison, Crosslands and several other parties. Chameleon is claiming an interest in the Jack Hills and Weld Range projects and/or Murchison's shares in Crosslands, arising out of a series of transactions that occurred in 2004.

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Following a four week hearing in October 2009, closing oral submissions were completed on 5 February 2010 and Justice Jacobsen reserved his decision. A number of outstanding issues remain to be resolved, although this process is not expected to delay Justice Jacobsen's decision which is expected before the end of 2010.

EXPLORATION

Rocklea Project (Murchison 100% interest)

Murchison's Rocklea Channel Iron Deposit is located in the heart of the Pilbara iron ore province between the towns of Tom Price and Paraburdoo and is situated near existing and planned rail infrastructure.

Since announcing a maiden resource in February 2009, Murchison has conducted a comprehensive infill RC drilling program with a focus on the eastern part of the project and a higher grade zone identified as part of previous drilling campaigns. A 14-hole diamond drilling program targeting samples for metallurgical testwork was also completed in July 2009.

In September 2009, Murchison announced a revised Mineral Resource estimate of 89Mt at 59.9% CaFe at a 50% Fe cut-off including a higher grade portion of 46Mt at 61.5% CaFe at a 53% Fe cut-off that may be suitable for direct shipping. At a 50% Fe cut-off, the Mineral Resource comprises an Indicated Resource of 15Mt and an Inferred Resource of 74Mt¹.

In February 2010, Murchison released the results of a scoping study for Rocklea which showed that an economically robust project is possible at Rocklea with resources sufficient to support potential production rates of up to 10Mtpa².

Highlights of the study included:

- Test work confirming that the Mineral Resource can be upgraded by simple scrubbing and jigging;
- Marketable product specifications of 55% Fe for both lump and fines being targeted;
- Low mining stripping ratios of 2.4:1 are envisaged;
- Initial capital expenditure estimate of \$370,000,000 including \$44,000,000 contingency; and
- Delivered mine gate operating cost estimate of \$21/t.

Murchison will continue to explore infrastructure options for the project to secure a viable transportation solution that would take product to port for export.

CROSSLANDS RESOURCES LTD (MURCHISON 50% INTEREST)

Crosslands is employing a two-stage strategy to develop its Jack Hills Project.

Stage 1 operations utilise contract mining, crushing and screening. Iron ore is transported to Geraldton by contract road haulage to ore storage and transfer facilities at the Port of Geraldton, ahead of shipment to customers.

The Jack Hills Mine Expansion Project (JHEP) is targeting a substantial expansion of annual production capacity. OPR plans to develop new port and rail infrastructure in the mid-west region of Western Australia that will enable ore from Crosslands' Jack Hills mine to be transported by rail for shipment from the new Oakajee port.

¹ Refer to ASX Announcement 30 September 2009 for full details of the Rocklea Mineral Resource. Tonnes are wet metric tonnes and grades are dry mass percent.

² Refer to ASX Announcement 12 February 2010 for full details of the Rocklea Scoping Study. Production tonnes and operating costs are for dry metric tonnes. Production tonnes are conceptual in nature and further work is required for an Ore Reserve.

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DIRECTORS' REPORT

STAGE 1 OPERATIONS

Ore mined for the year ended 30 June 2010 was 1.72Mt compared to the previous year of 1.66Mt. A total of 1.75Mt was shipped in the year ending 30 June 2010 compared to a total of 1.47Mt in the previous year.

JACK HILLS EXPANSION PROJECT

In the year end 30 June 2010 Crosslands continued to progress its feasibility study for the JHEP. Milestones achieved include:

- A major drilling program that led to an increase in the Jack Hills Mineral Resource estimate to 3.01 billion tonnes grading 31.7% Fe³; and
- Securing non-binding letters of intent for planned offtake from the JHEP from potential customers totalling over 50mtpa of concentrate.

OAKAJEE PORT & RAIL (MURCHISON 50% ECONOMIC INTEREST)

In March 2010 OPR executed a State Development Agreement with the Government of Western Australia pursuant to which OPR was granted exclusive rights to develop a new deepwater port at Oakajee, north of Geraldton and the associated northern rail infrastructure.

In the year ended 30 June 2010 OPR was principally focused on progressing feasibility studies for the Port and Rail projects. Major milestones included:

- WorleyParsons appointment as Project Management Study Contractor for the Oakajee Port and Rail project;
- Delivery of a draft feasibility study to Government in 2010 which demonstrated the technical and operational feasibility of the Oakajee project;
- Increase in initial target capacity of the Oakajee port from 35mtpa to 45mtpa; and
- Subsequent to year end, execution of MOUs with foundation customers.

FINANCIAL POSITION

The net assets of the Group have increased from \$236,547,000 (Parent Entity: \$161,014,000) at 30 June 2009 to \$240,153,000 (Parent Entity: \$170,958,000) at 30 June 2010. This increase is due to the increase in investments accounted for using the equity method, which was offset to an extent by the decrease in cash and cash equivalents.

Cash and cash equivalents from continuing operations decreased by \$52,129,000 to \$73,410,000 in the current year (2009: \$125,539,000). Cash outflows for the year consisted of corporate expenditure and the cash calls paid to the joint ventures.

Property, plant and equipment has increased to \$1,140,000 (Parent Entity: \$920,000) in the current year compared to the prior year of \$599,000 (Parent Entity: \$541,000). Additions for the year amounted to \$945,000 (Parent Entity: \$737,000) and depreciation expense amounted to \$273,000 (Parent Entity: \$238,000).

Investments accounted for using the equity method amounted to \$125,960,000 and represents the Group's 50% interest in Crosslands Resources Ltd, a jointly controlled entity and 25% direct interest in Oakajee Port and Rail Pty Ltd.

³ Refer to ASX Announcement 22 December 2009 for full details of the Jack Hills Mineral Resource. The DSO Mineral Resource comprises of 41.7Mt of Measured, 43.5Mt of Indicated, and 25.3Mt of Inferred, the BFO Mineral Resource comprises 635.3Mt of Measured, 1,289.6Mt of Indicated and 940.1Mt of Inferred and the Near DSO comprises 6.6Mt of Measured, 19.1Mt of Indicated and 13.6Mt of Inferred. The DSO is Massive Iron Mineralisation above 50% Fe. The Near DSO is Massive Iron Mineralisation below 50% Fe. The BFO is Banded Iron Formation above 22% Fe. Jack Hills tonnes are dry metric tonnes.

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DIRECTORS' REPORT

Exploration and evaluation amounts to \$45,667,000 (Parent Entity: \$12,104,000) for the current year, compared to the prior year of \$29,326,000 (Parent Entity: \$11,229,000). Additions to exploration and evaluation expenditure for the year related to the exploration activities at the Rocklea tenements and the Group's share of jointly controlled assets.

Trade and other payables decreased by \$2,511,000 to \$8,819,000 in the current year (2009: \$11,330,000). Included in the payables in the prior year was an amount of \$5,460,000 attributed to the Evans and Koh settlement which was settled during the year.

Contributed equity increased by \$20,673,000 to \$242,252,000 in the current year (2009: \$221,579,000). This increase was due to option conversions during the year.

SUBSEQUENT EVENTS

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 21 and forms part of this report.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

To further improve the Company's financial performance and financial position and thereby shareholder value, the following strategies and developments are intended to continue in the near future:

- (i) Continue to evaluate the Company's Rocklea iron ore project and opportunities for acquisition of other properties in the region;
- (ii) Continue participation in the management of Crosslands Resources Ltd, specifically with regards to:
 - Exploration and mining at the Jack Hills iron ore project;
 - Work on the feasibility study for the expansion of the Jack Hills iron ore project;
- (iii) Continue participation in the management of Oakajee Port and Rail Pty Ltd which is managing the feasibility study for the construction of the new port and rail infrastructure in the mid-west region of WA; and
- (iv) Investigate opportunities in the bulk commodities sector.

These strategies and developments are expected to assist in the achievement of the Company's long-term goals and development of new business opportunities.

ENVIRONMENT REGULATIONS

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

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

The Company has registered to report energy consumption and greenhouse gas emissions as required under the National Greenhouse and Energy Reporting Act ("NGER"). The Company will report for the Consolidated Group which, for the purposes of NGER, includes Crosslands.

**MURCHISON METALS LTD
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DIRECTORS' REPORT

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

The names and particulars of the Directors of the Company during the financial year are:

Paul Kopejtka

Executive Chairman

Qualifications:

B Eng (Chemical)

Experience:

Mr Kopejtka has over 20 years experience in the mining industry as an engineer and consultant in the areas of green and brown fields project evaluation and feasibility study management, plant design and engineering and commissioning. This experience extends to both the Australian and overseas mining industry.

Throughout the 1990s he held tenure as a technical consultant with the Minproc and Bateman engineering groups before branching out in a similar capacity working with a number of major publicly listed companies.

Interest in Shares and Options at the date of this report:

22,280,000 Ordinary Fully Paid Shares

4,500,000 Unlisted Options

Directorships held in other listed entities in the past three years:

Indo Mines Limited (Appointed: 25 May 2010)

Trevor Matthews

Managing Director

Qualifications:

B Comm, GradDip (App Fin & Inv), CPA, FFin

Experience:

Mr Matthews has worked in the resources industry for over 25 years and held executive positions with North Limited, WMC Resources Limited and other listed entities in both operational and corporate roles. Mr Matthews has significant experience in corporate governance, project development and finance.

Interest in Shares and Options at the date of this report:

1,500,000 Ordinary Fully Paid Shares

4,500,000 Unlisted Options

Directorships held in other listed entities in the past three years:

Kalgoorlie-Boulder Resources Ltd

(Appointed: 14 January 2005; Resigned: 23 December 2008)

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DIRECTORS' REPORT

INFORMATION ON DIRECTORS AND COMPANY SECRETARY (CONTINUED)

James McClements

Non-Executive Director

Qualifications:

B. Econ (Hons)

Experience:

Mr McClements has more than 25 years experience in the resources industry and investment banking and he is a co-founder of Resource Capital Fund a mining-focused private equity firm based in Denver, Colorado and Perth, Australia. James has experience in the resources industry, particularly in the field of resource financing and investing in junior mining companies globally. During his career, James was Senior Vice President and Director of N.M. Rothschild & Sons (Denver), responsible for the North American Resources banking. Prior to this, James worked with Rothschild Australia Limited, specialising in the financing of mining companies.

Interest in Shares and Options at the
date of this report:

Nil

Directorships held in other listed entities
in the past three years:

Rey Resources Ltd (Appointed: 29 August 2007)
Bannerman Resources Limited (Appointed: 17 December 2008)

Rodney Baxter

Non-Executive Director

Qualifications:

PhD, MBA

Experience:

Mr Baxter has over 20 years experience in the resource sector. He was the Managing Director of Consolidated Minerals where he presided over its strategic transformation and sale. Prior to Consolidated Minerals, Mr Baxter enjoyed a near 10 year career at Anglo American and Anglo Platinum in various Executive and business development roles. He is currently the Managing Director of Calibre Global Pty Ltd.

Interest in Shares and Options at the
date of this report:

200,000 Ordinary Fully Paid Shares

Directorships held in other listed entities
in the past three years:

None

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DIRECTORS' REPORT

INFORMATION ON DIRECTORS AND COMPANY SECRETARY (CONTINUED)

Sun Moon Woo

Non-Executive Director

Qualifications:

MME

Experience:

Mr Woo joined POSCO in 1983 and has worked in the Raw Material Purchasing Division and Investment Division for 25 years. He has extensive experience in the natural resources industry and has managed POSCO investments in iron ore and coal projects globally including Australia and Brazil. Mr Woo is currently Managing Director of POSCO Australia Pty Ltd which is a 100% subsidiary of POSCO.

Interest in Shares and Options at the
date of this report:

Nil

Directorships held in other listed entities
in the past three years:

Cockatoo Coal Limited (Appointed: 25 September 2007)

Jupiter Mines Limited (Appointed: 21 September 2009)

Chris Foley

Company Secretary and Alternate Director for Trevor Matthews

Qualifications:

BJuris, LLB

Experience:

Mr Foley holds a Bachelor of Jurisprudence and Bachelor of Laws from the University of Western Australia and a Graduate Diploma in Applied Corporate Governance. He has over 20 years experience in the resources sector in private practice and various corporate roles.

Interest in Shares and Options at the
date of this report:

100,000 Ordinary Fully Paid Shares

664,000 Unlisted Options

**MURCHISON METALS LTD
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DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

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

For purposes of this report, the terms 'Executive' encompasses the Executives, general managers and secretaries of the Company and the Group.

KEY MANAGEMENT PERSONNEL (INCLUDING THE FIVE HIGHEST PAID EXECUTIVES OF THE COMPANY AND THE GROUP)

Directors

Paul Kopejtka	Executive Chairman
Trevor Matthews	Managing Director
James McClements	Non-Executive Director
Rodney Baxter	Non-Executive Director
Sun Moon Woo	Non-Executive Director

Executives

Chris Foley	Company Secretary/Legal Counsel
Sean Gregory	Chief Geologist
Luca Rocchi	Chief Mining Engineer
John Westdorp	Chief Financial Officer
Jamie Wright	Manager – Corporate Development

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

Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for Directors and Executives.

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

On the basis of a recommendation from the Remuneration Committee, the Board of Directors opted to continue the freeze on base salaries for Executives for the financial year. Executive base salaries were frozen at 1 July 2008 levels during the 2010 financial year in response to the global financial crisis and the difficult market conditions that subsequently ensued.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration Philosophy

The performance of the Company depends upon the quality of its Directors, Executives and staff. To meet the significant challenges inherent in the successful development of its projects, the Company must attract, motivate and retain highly skilled Directors, Executives and staff.

To this end, the Company applies the following principles in its remuneration framework:

- Motivate Directors and Executives to pursue the long term growth and success of the Company within an appropriate control framework; and
- Align the interest of key leadership with long-term interests of the Company's shareholders through the use of appropriate incentive structures.

Remuneration Structure

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

Non-Executive Directors' Remuneration

Objective

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

Structure

The Company's constitution and the ASX listing rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a General Meeting. The latest determination was at the Annual General Meeting held on 21 November 2008 when shareholders approved an aggregate remuneration of \$500,000 per year.

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

The Company has entered into contracts with the Non-Executive Directors. Details of these contracts are provided below.

Each Non-Executive Director receives a base fee of \$43,000 per annum. An additional 9% is paid on the base fee for superannuation contribution. There were no changes to the base fee paid to Non-Executive Directors during the financial year.

The remuneration of Non-Executive Directors for the year ended 30 June 2010 is detailed in Table 1 in this report.

Long term incentives may be provided to Non-Executive Directors in the form of share options. If provided, the share options vest immediately. There are no performance conditions attached to these options. The Company is currently seeking independent advice on remuneration structures and levels. Share options are issued at the discretion of the Board and approved by shareholders in a General Meeting. Non-Executive Directors are able to exercise the share options after vesting until the set expiry date.

In relation to the options issued to Rod Baxter, the Board agreed to issue options when Mr Baxter was appointed to the Board in January 2009, subject to shareholder approval. Shareholders approved the issue of options to Mr Baxter at the Company's Annual General Meeting in November 2009. There were no other options issued to Non-Executive Directors during the year ended 30 June 2010.

Details of shares or options issued to Non-Executive Directors for the year ended 30 June 2010 are provided in Table 1 in this report.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive Remuneration

Objective

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

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

Structure

In determining the level and make up of Executive remuneration, the Remuneration Committee obtains independent advice and benchmarking reports from external consultants. These consultants are engaged by and provide advice directly to the Remuneration Committee.

Remuneration consists of the following key elements:

- Fixed remuneration (base salary, superannuation and non-monetary benefits);
- Variable remuneration - Long term incentives; and
- Variable remuneration - Short term incentives. Payments of short term incentives were suspended during the year ended 30 June 2010 due to prevailing market conditions.

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

The Company has entered into contracts of employment with the Executive Chairman, Managing Director and Executives. Details of these contracts are provided below.

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

Fixed remuneration

Objective

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

Structure

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

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

Variable remuneration – Long term incentives

Objective and structure

Executive Directors

The objective in providing long term incentives is to reward Executive Directors in a manner that aligns remuneration with the creation of shareholder value. Long term incentives may be provided to Executive Directors in the form of share options. Share options vest upon the achievement of performance targets. Executive Directors are able to exercise the share options after vesting until the set expiry date.

Details of shares or options issued to Executive Directors for the year ended 30 June 2010 are provided in Table 1 in this report.

Executives

The objective in providing long term incentives is to reward Executives in a manner that aligns remuneration with the creation of shareholder wealth and ensures continuity of the experienced Executive team is maintained during the critical phases of project development and financing. Long term incentives have been provided to Executives in the form of share options under an Employee Share Option Plan. Under the plan, the share options vest over periods of up to 2 years subject to meeting continuity of employment provisions and subject to the Board's discretion. Executives are able to exercise the share options after vesting until a set expiry date. No options were issued to Executives during the year ended 30 June 2010 due to the implementation of a revised taxation regime and as a result of difficult market conditions for much of the year.

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

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

For the year ended 30 June 2010, the Company does not have a policy that prohibits Executives and Directors from entering into arrangements to protect the value of unvested share options.

Refer to Table 2 below for details relating to options granted and the value of options granted, exercised and lapsed during the year.

Variable remuneration – Short term incentives

Executive Bonuses

No bonuses were paid to Executives during the year ended 30 June 2010 in respect of the year ended 30 June 2009.

In June 2010, the Remuneration Committee considered the payment of a cash bonus for the financial year ended 30 June 2010 and decided to defer any consideration of bonus payments until a sustained economic improvement was evident.

Refer to Table 1 in this report.

Group Performance

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

Year	2006	2007	2008	2009	2010
EPS (cents/share)	(0.02)	(0.14)	14.30	0.18	(5.06)

**MURCHISON METALS LTD
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DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

Table 1: Remuneration of Key Management Personnel and the five highest paid Executives of the Company and the Group

	Short-term			Post-employment		Share-based payments	Total	% Performance related
	Salary and fees	Cash Bonus #	Other +	Super-annuation	Other	Options		
2010								
Directors								
Paul Kopejka	460,000	-	57,617	41,400	-	1,489,805	2,048,822	72.7
Trevor Matthews	500,000	-	61,082	45,000	-	1,489,805	2,095,887	71.1
Rodney Baxter	43,000	-	-	3,870	-	219,000	265,870	-
James McClements	43,000	-	-	3,870	-	-	46,870	-
Sun Moon Woo	43,000	-	-	3,870	-	-	46,870	-
Executives								
Chris Foley	280,000	-	42,936	25,200	-	305,638	653,774	-
John Westdorp	300,000	-	45,630	27,000	-	322,204	694,834	-
Sean Gregory	220,000	-	37,430	19,800	-	236,283	513,513	-
Jamie Wright	180,000	-	33,733	16,200	-	149,521	379,454	-
Luca Rocchi	245,000	-	40,434	25,050	-	182,353	492,837	-
	2,314,000	-	318,862	211,260	-	4,394,609	7,238,731	
2009								
Directors								
Paul Kopejka	460,000	-	-	41,400	-	-	501,400	-
Trevor Matthews	500,000	-	-	45,000	-	-	545,000	-
Robert Vagnoni *	44,768	-	-	-	180,000	-	224,768	-
Rodney Baxter ^	18,992	-	-	1,709	-	-	20,701	-
James McClements	43,000	-	-	3,870	-	-	46,870	-
Sun Moon Woo	43,000	-	-	3,870	-	-	46,870	-
Executives								
Chris Foley	280,000	70,000	-	25,200	-	429,600	804,800	-
John Westdorp	300,000	70,000	-	27,000	-	234,585	631,585	-
Sean Gregory	220,000	30,000	-	19,800	-	440,231	710,031	-
Jamie Wright ^	45,000	-	-	4,050	-	50,219	99,269	-
Luca Rocchi ^	42,327	-	-	4,438	-	21,453	68,218	-
	1,997,087	170,000		176,337	180,000	1,176,088	3,699,512	

Cash bonuses were paid in respect of the year ended 30 June 2008 during the 2009 financial year.

* Denotes Key Management Personnel that resigned during the 2009 financial year.

^ Denotes Key Management Personnel that were appointed during the 2009 financial year.

+ Included in Other short-term remuneration are insurance premiums paid in respect of Directors and Executives.

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DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

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

	Granted 2010		Granted prior years		Terms and conditions for each Grant					Vested during year	
	No.	Grant Date	No.	Grant Date	Fair Value per option at grant date \$ (note 29)	Exercise price per option \$ (note 29)	Expiry Date	First Exercise Date	Last Exercise Date	No.	%
2010											
Directors											
Paul Kopejka	2,250,000	18 Nov 09			0.73	2.00	18 Nov 11	31 Dec 10	18 Nov 11	-	-
	2,250,000	18 Nov 09			0.90	2.00	18 Nov 12	31 Dec 11	18 Nov 12	-	-
Trevor Matthews	2,250,000	18 Nov 09			0.73	2.00	18 Nov 11	31 Dec 10	18 Nov 11	-	-
	2,250,000	18 Nov 09			0.90	2.00	18 Nov 12	31 Dec 11	18 Nov 12	-	-
Rod Baxter	200,000	18 Nov 09			1.10	1.25	18 Nov 12	18 Nov 09	18 Nov 12	200,000	100%
Executives											
Chris Foley	-	-	364,000	25 Jun 09	0.87	1.56	26 Jun 12	30 Jun 10	26 Jun 12	182,000	50%
	-	-	150,000	22 Aug 08	0.95	2.34	22 Aug 11	30 Jun 10	22 Aug 11	150,000	100%
Sean Gregory	-	-	286,000	25 Jun 09	0.87	1.56	26 Jun 12	30 Jun 10	26 Jun 12	143,000	50%
	-	-	110,000	22 Aug 08	0.95	2.34	22 Aug 11	30 Jun 10	22 Aug 11	110,000	100%
	-	-	100,000	11 Apr 08	2.31	2.70	30 Jun 11	23 Jul 09	30 Jun 11	100,000	100%
Luca Rocchi	-	-	245,000	25 Jun 09	0.87	1.56	26 Jun 12	30 Jun 10	26 Jun 12	122,500	50%
	-	-	47,000	29 Jun 09	0.97	0.94	22 Aug 11	01 Jul 09	22 Aug 11	23,500	50%
John Westdorp	-	-	390,000	25 Jun 09	0.87	1.56	26 Jun 12	30 Jun 10	26 Jun 12	195,000	50%
	-	-	150,000	22 Aug 08	0.95	2.34	22 Aug 11	30 Jun 10	22 Aug 11	150,000	100%
Jamie Wright	-	-	100,000	29 Jun 09	1.16	0.68	30 Jun 12	01 Jul 09	30 Jun 12	50,000	50%
	-	-	130,000	25 Jun 09	0.87	1.56	26 Jun 12	30 Jun 10	26 Jun 12	65,000	50%
Total	9,200,000		2,072,000							1,491,000	

Note:

Options granted on 22 August 2008 relate to the 2008 allocation made under the Employee Share Option Plan.

Options granted on 25 June 2009 relate to the 2009 allocation made under the Employee Share Option Plan.

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DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

Table 3: Options granted as part of remuneration ¹

	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
30 June 2010				
Directors				
Paul Kopejtka	3,669,750	2,370,000	-	72.7
Trevor Matthews	3,669,750	2,020,000	-	71.1
Rod Baxter	219,000	88,000	-	82.4
Executives				
Chris Foley	-	66,500	-	46.7
John Westdorp	-	-	-	46.4
Sean Gregory	-	-	-	46.0
Jamie Wright	-	-	-	39.4
Luca Rocchi	-	-	-	37.0
	7,558,500	4,544,500		

¹ For details on the valuation of the options, including models and assumptions used, please refer to Note 29.

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

Table 4: Shares issued on exercise of compensation options (Consolidated)

	Shares Issued No.	Paid per share \$	Unpaid per share \$
30 June 2010			
Directors			
Paul Kopejtka	2,000,000	1.25	-
Trevor Matthews	2,000,000	1.25	-
Rod Baxter	200,000	1.25	-
Executives			
Chris Foley	50,000	0.05	-
Total	4,250,000		

REMUNERATION REPORT (AUDITED) (CONTINUED)

No other shares were issued to Key Management Personnel on the exercise of compensation options. Each option converts into one ordinary share of Murchison Metals Ltd.

Employment Contracts

The Group has contracts for services with Key Management Personnel or their related entities. Key terms of these contracts are as follows:

Executive Directors

Mr Kopejtka is employed under a rolling contract. The current employment contract commenced on 1 July 2008. Under the terms of the contract:

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DIRECTORS' REPORT

- Mr Kopejtka receives fixed remuneration of \$460,000 plus 9% superannuation.
- Mr Kopejtka may resign from his position and thus terminate the contract by giving three months written notice. On termination, Mr Kopejtka is only entitled to that portion of remuneration that is fixed, and only up to the date of the termination. Any unvested options at the date of termination are forfeited.
- The Company may terminate the contract by providing not less than 7 days and not more than 3 months notice. If the Company terminates the contract (without cause), the Company shall pay Mr Kopejtka an amount equivalent to 12 months salary and superannuation.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, Mr Kopejtka is only entitled to that portion of remuneration that is fixed, and only up to the date of the termination.

Mr Matthews is employed under a rolling contract. The current employment contract commenced on 1 July 2008. Under the terms of the contract:

- Mr Matthews receives fixed remuneration of \$500,000 plus 9% superannuation.
- Mr Matthews may resign from his position and thus terminate the contract by giving three months written notice. On termination, Mr Matthews is only entitled to that portion of remuneration that is fixed, and only up to the date of the termination. Any unvested options at the date of termination are forfeited.
- The Company may terminate the contract by providing not less than 7 days and not more than 3 months notice. If the Company terminates the contract (without cause), the Company shall pay Mr Matthews an amount equivalent to 12 months salary and superannuation.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs Mr Matthews is only entitled to that portion of remuneration that is fixed, and only up to the date of the termination.

Executives

All Executives have rolling employment contracts with the Company. The Company may terminate the Executive's employment agreement by providing not less than 7 days and not more than 3 months written notice. If the Company terminates the contract (without cause), the Company shall pay the Executive an amount equivalent to between 3 to 12 months salary and superannuation. On termination on notice by the Company, any share options that have not yet vested will vest immediately. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Executive is only entitled to that portion of remuneration that is fixed and only up to the date of termination.

End of the Remuneration Report.

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DIRECTORS' REPORT

MEETINGS OF DIRECTORS

During the financial year, 11 meetings of Directors were held. Attendances by each Director during the year were as follows:

	Directors' Meetings		Audit And Risk Committee Meetings		Remuneration Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr Paul Kopejtko	11	9	-	-	-	-
Mr Trevor Matthews	11	11	-	-	-	-
Mr Rodney Baxter	11	11	3	3	3	3
Mr James McClements	11	10	3	2	3	3
Mr Sun Moon Woo	11	5	3	1	-	-

Committee Membership

As at the date of this report, the Company had an Audit and Risk Committee and a Remuneration Committee. Members acting on the committees of the Board during the year were:

Audit and Risk Committee

Mr Rodney Baxter - Chair

Mr James McClements

Mr Sun Moon Woo

Remuneration Committee

Mr James McClements - Chair

Mr Rodney Baxter

INDEMNIFYING OFFICERS

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

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company (Murchison Metals Ltd), the Company Secretary and all Executive Officers of the Company and of any related body corporate against a liability incurred as such a Director, Company Secretary or Executive Officer to the extent permitted by the Corporations Act 2001.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

**MURCHISON METALS LTD
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DIRECTORS' REPORT

OPTIONS

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

Date of Expiry	Exercise Price	Class of Shares	Number under Option
30 Nov 10	5.19	Ordinary	100,000
30 Jun 11	2.70	Ordinary	100,000
30 Jun 11	3.96	Ordinary	100,000
22 Aug 11	0.94	Ordinary	47,000
31 Aug 11	2.34	Ordinary	968,000
15 Oct 11	0.81	Ordinary	21,000
18 Nov 11	2.00	Ordinary	4,500,000
26 Jun 12	1.56	Ordinary	1,562,000
30 Jun 12	0.68	Ordinary	100,000
18 Nov 12	2.00	Ordinary	4,500,000
			11,998,000

Details of shares issued during the financial year as a result of exercise of an option are:

Issuing entity	Number of shares issued	Class of Shares	Amount paid per share	Amount unpaid for shares
Murchison Metals Ltd	22,367,000	Ordinary	\$0.05-\$1.25	Nil

PROCEEDINGS ON BEHALF OF COMPANY

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

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

NON-AUDIT SERVICES

There were no non-audit services provided by the Company's auditors Ernst & Young during the year.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 21 of the financial report and forms part of this Directors' Report.

MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES
ABN 38 078 257 799

DIRECTORS' REPORT

ROUNDING OFF OF AMOUNTS

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

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



Mr Trevor Matthews

Managing Director

Perth, 16 September 2010

Competent Persons' Statement

The information in this report that relates to data collection and geological interpretations for the Mineral Resources 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 report that relates to data collection and geological interpretations for the Mineral Resources of the Jack Hills Project is based on information compiled by Mr Roland Bartsch, who is a member of The Australasian Institute of Mining and Metallurgy and a full time employee of Crosslands Resources Limited.

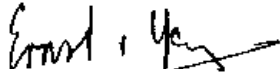
The information in this report that relates to the grade estimation of the Mineral Resources for the Jack Hills and Rocklea Project is based on information compiled by Mr Bruce Sommerville, who is a member of The Australasian Institute of Mining and Metallurgy and a full time employee of SRK Consulting.

Messrs Gregory, Bartsch and Sommerville 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 Sommerville consent or have previously consented to the inclusion in the report of the matters based on their information in the form and context in which it appears.

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

In relation to our audit of the financial report of Murchison Metals Ltd for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'R A Kirkby'.

R A Kirkby
Partner
16 September 2010

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES**

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED
30 JUNE 2010**

	Note	Consolidated	
		2010 \$'000	2009 \$'000
Continuing operations			
Revenue	2	4,198	6,067
Other income	3	-	25,919
Revenue		4,198	31,986
Administration expenses	4	(8,180)	(4,735)
Depreciation and amortisation expense		(238)	(134)
Employee and director expenses	4	(8,331)	(5,308)
Finance costs	4	-	(2)
Hired services expenses	4	(2,026)	(2,073)
Other expenses	4	(21)	(6,471)
Travel expenses		(612)	(382)
Share of expenses from jointly controlled assets	14	(2,095)	(746)
Share of loss from a jointly controlled entity	12	(4,292)	(3,250)
(Loss) / profit from continuing operations before income tax		(21,597)	8,885
Income tax expense	5	-	(8,153)
(Loss) / profit from continuing operations after income tax		(21,597)	732
Other comprehensive loss for the year			
Net loss on available-for-sale financial assets		-	(1,275)
Transfer to profit or loss on sale of available-for-sale asset		-	(25,902)
Income tax on items of other comprehensive income	5	-	8,153
Other comprehensive loss for the year, net of tax		-	(19,024)
Total comprehensive loss for the year		(21,597)	(18,292)
(Loss) / profit for the year is attributed to:			
Owners of the parent		(21,597)	732
Total comprehensive loss for the year is attributable to:			
Owners of the parent		(21,597)	(18,292)
Earnings / (loss) per share attributable to ordinary equity holders from continuing operations			
- basic (cents per share)		(5.06)	0.18
- diluted (cents per share)		(5.06)	0.17
Earnings / (loss) per share attributable to ordinary equity holders			
- basic (cents per share)		(5.06)	0.18
- diluted (cents per share)		(5.06)	0.17

The accompanying notes form part of these financial statements

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL POSITION
AS AT
30 JUNE 2010**

	Note	Consolidated 2010 \$'000	2009 \$'000
Current Assets			
Cash and cash equivalents	24(c)	73,410	125,539
Receivables	9	782	1,487
Prepayments		214	193
Total Current Assets		<u>74,406</u>	<u>127,219</u>
Non Current Assets			
Exploration and evaluation expenditure	10	45,667	29,326
Property, plant and equipment	11	1,140	599
Investments accounted for using the equity method	12	125,960	88,853
Available-for-sale financial assets	13	2,000	2,000
Total Non-Current Assets		<u>174,767</u>	<u>120,778</u>
Total Assets		<u>249,173</u>	<u>247,997</u>
Current Liabilities			
Trade and other payables	15	8,819	11,330
Provisions	16	201	120
Total Current Liabilities		<u>9,020</u>	<u>11,450</u>
Total Liabilities		<u>9,020</u>	<u>11,450</u>
Net Assets		<u>240,153</u>	<u>236,547</u>
Equity			
Contributed equity	17	242,252	221,579
Reserves	18	19,307	14,777
(Accumulated losses)/ Retained earnings	19	(21,406)	191
Total Equity		<u>240,153</u>	<u>236,547</u>

The accompanying notes form part of these financial statements

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED
30 JUNE 2010**

	Fully paid ordinary shares	Employee Equity Benefits Reserve	Investment Revaluation Reserve	Accumulated Losses	Total Equity
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2009	221,579	14,777	-	191	236,547
Other comprehensive loss for the year	-	-	-	-	-
Loss for the year	-	-	-	(21,597)	(21,597)
Total comprehensive loss for the year	-	-	-	(21,597)	(21,597)
Transactions with owners in their capacity as owners:					
Issue of shares	20,673	-	-	-	20,673
Share based payments	-	4,530	-	-	4,530
Balance at 30 June 2010	242,252	19,307	-	(21,406)	240,153
Balance at 1 July 2008	221,470	13,454	19,024	(541)	253,407
Other comprehensive (loss) / income for the year	-	-	(19,024)	-	(19,024)
Profit for the year	-	-	-	732	732
Total income / (expense) for the year	-	-	(19,024)	732	(18,292)
Transactions with owners in their capacity as owners:					
Issue of shares	109	-	-	-	109
Share based payments	-	1,323	-	-	1,323
Balance at 30 June 2009	221,579	14,777	-	191	236,547

The accompanying notes form part of these financial statements

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
30 JUNE 2010**

		Consolidated	
	Note	2010	2009
		\$'000	\$'000
Cash Flows From Operating Activities			
Payments to suppliers and employees		(13,074)	(13,919)
Interest received		4,181	5,430
Finance costs		-	(2)
GST received		236	914
Net cash used in operating activities	24(a)	<u>(8,657)</u>	<u>(7,577)</u>
Cash Flows From Investing Activities			
Purchase of plant and equipment		(945)	(275)
Additions to exploration and evaluation		(16,341)	(19,019)
Proceeds on sale of plant and equipment		-	4
Proceeds on sale of available-for-sale financial asset		-	135,684
Increase in investment in joint venture		(41,399)	(25,450)
Net cash (used in)/provided by investing activities		<u>(58,685)</u>	<u>90,944</u>
Cash Flows From Financing Activities			
Proceeds from issue of shares		15,213	109
Net cash provided by financing activities		<u>15,213</u>	<u>109</u>
Net (decrease)/increase in cash and cash equivalents		(52,129)	83,476
Cash and cash equivalents at the beginning of the year		125,539	42,063
Cash and cash equivalents at the end of the year	24(c)	<u><u>73,410</u></u>	<u><u>125,539</u></u>

The accompanying notes form part of these financial statements

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

The financial report of the Group for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 16 September 2010.

Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Consolidated Entity generated a net loss after income tax of \$21,597,000 for the year ended 30 June 2010 (2009: net profit after tax \$732,000) and a net cash outflow of \$52,129,000 (2009: net cash inflow of \$83,476,000). As at 30 June 2010 the Consolidated Entity had cash and cash equivalents of \$73,410,000 (2009: \$125,539,000) and net current assets of \$65,386,000 (2009: \$115,769,000).

The ability of the Group to continue its project evaluation and development activities is dependent on the Group raising additional funding when required.

A number of significant milestones are expected to be reached in the coming 12 months including the completion of project feasibility studies. Upon completion of the studies and the associated approvals, the process to determine the payment by Mitsubishi for its 50% interest in the project will commence. As these milestones are progressively achieved, the Board is confident that when necessary, the Company will be in a strong position to raise any additional required funding. Sources of funding include capital raisings, with which the Company has a demonstrated past record of success and standby bridging facilities. A proposal for a standby bridging facility has been received by the Company and is currently being considered. These potential sources of funding are supported by the expectation of positive cash flows from continued Stage 1 Operations at Jack Hills.

On this basis, it is the opinion of the Board of Directors that the Consolidated Entity will be able to continue as a going concern and that therefore, the basis of preparation is appropriate.

Should the Group not achieve the matters set out above, the Group 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. No adjustments related to the recoverability and classification of recorded assets or liabilities related to the above have been made in the financial report.

Statement of compliance

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

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

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The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009:

- AASB 2008-1 Amendments to Australian Accounting Standard - Share based Payments: Vesting Conditions and Cancellations effective 1 July 2009;
- AASB 7 Financial Instruments: Disclosures effective 1 July 2009;
- AASB 8 Operating Segments effective 1 July 2009;
- AASB 101 Presentation of Financial Statements (revised 2007) effective 1 July 2009;
- AASB 123 Borrowing Costs (revised 2007) effective 1 July 2009;
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 July 2009;
- AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate effective 1 July 2009;
- AASB 2009-6 Amendments to Australian Accounting Standards operative for periods beginning on or after 1 January 2009 that end on or after 30 June 2009;
- AASB 3 Business Combinations (revised 2008) effective 1 July 2009;
- AASB 127 Consolidated and Separate Financial Statements (revised 2008) effective 1 July 2009;
- AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 effective 1 July 2009; and
- AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 July 2009.

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 3 Business Combinations (revised 2008) and AASB 127 Consolidated and Separate Financial Statements (revised 2008)

The Group adopted the revised Standards from 1 July 2009. AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously "minority interests"), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the Statement of Comprehensive Income. Furthermore, the revised Standard changes the accounting for losses incurred by a partially owned subsidiary, as well as the loss of control of a subsidiary. The changes in AASB 3 (revised 2008) and AASB 127 (revised 2008) will affect future acquisitions, changes in and loss of control of subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

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AASB 7 Financial Instruments: Disclosures

The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 28. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 28.

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114.

AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The Statement of Changes in Equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new Statement of Comprehensive Income. The Statement of Comprehensive Income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

AASB 123 Borrowing Costs

The revised AASB 123 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended AASB 123, the Group has adopted the Standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 July 2009. The Group did not capitalise any borrowing costs in the current year.

Annual Improvements Project

In May 2008 and April 2009 the AASB issued omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view of removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- AASB 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in AASB 5. The disclosure requirements of other Accounting Standards only apply if specifically required for such non-current assets or discontinued operations. No disclosures were required to be amended as a result of this amendment.
- AASB 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information. Refer to Note 23 for details.
- AASB 101 Presentation of Financial Statements: assets and liabilities classified as held for trading in accordance with AASB 139 Financial Instruments: Recognition and Measurement are not

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automatically classified as current in the Statement of Financial Position. The Group amended its accounting policy accordingly and analysed whether management's expectation of the period of realisation of financial assets and liabilities is in accordance with AASB 101. This did not result in any re-classification of financial instruments between current and non-current in the Statement of Financial Position.

- AASB 123 Borrowing Costs: the definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one - the interest expense calculated using the effective interest rate method calculated in accordance with AASB 139. The Group has amended its accounting policy accordingly which did not result in any change in its Statement of Financial Position.
- AASB 136 Impairment of Assets: when discounted cash flows are used to estimate "fair value less cost to sell" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". The amendment did not result in any change to the Group's disclosures.

The amendment also clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

- AASB 138 Intangible Assets: expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

The following Australian Accounting Standards that are relevant to the Group have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2010:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 8, 101, 107, 117, 118, 136 & 139)	<p>The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting for the Group except for the following:</p> <ul style="list-style-type: none"> • The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification; • The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities; 	1 January 2010	The impact of the standard on the Group has not yet been assessed.	1 July 2010

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Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
		<ul style="list-style-type: none"> The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. 			
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share based Payment Transactions (AASB 2)	<p>This Standard makes amendments to Australian Accounting Standard AASB 2 <i>Share based Payment</i> and supersedes Interpretation 8 <i>Scope of AASB 2</i> and Interpretation 11 <i>AASB 2 – Group and Treasury Share Transactions</i>.</p> <p>The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share based payment arrangement to account for those goods or services no matter which entity in the Group settles the transaction and no matter whether the transaction is settled in shares or cash.</p>	1 January 2010	The impact of the standard on the Group has not yet been assessed.	1 July 2010
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12)	<p>The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which are relevant to the Group include:</p> <ul style="list-style-type: none"> two categories for financial assets being amortised cost or fair value; removal of the requirement to separate embedded derivatives in financial assets; strict requirements to determine which financial assets can be classified as amortised cost or fair value; an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition; reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes; and changes to the accounting and additional disclosures for equity instruments classified as fair value 	1 January 2013	The impact of the standard on the Group has not yet been assessed.	1 July 2013

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Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
		through other comprehensive income.			
AASB 2009-12	Amendments to Australian Accounting Standards (AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052)	<p>This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>The amendment to AASB 124 clarifies and simplifies the definition of a related party.</p>	1 January 2011	The impact of the standard on the Group has not yet been assessed.	1 July 2011
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.	1 July 2010	The impact of the standard on the Group has not yet been assessed.	1 July 2010
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139)	<p>Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value.</p> <p>Requires an entity (in a business combination) to account for the replacement of the acquiree's share based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses.</p> <p>Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated.</p> <p>Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.</p>	1 July 2010	The impact of the standard on the Group has not yet been assessed	1 July 2010
	Further Amendments to	Emphasises the interaction between	1 January	The impact of	

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Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2010-4	Australian Accounting Standards arising from the Annual Improvements Project (AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13)	<p>quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the Statement of Changes in Equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.</p> <p>Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.</p>	2011	the standard on the Group has not yet been assessed	1 July 2011
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <ul style="list-style-type: none"> Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be 	1 January 2013	The impact of the standard on the Group has not yet been assessed	1 July 2013

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Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
		<p>recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <ul style="list-style-type: none"> Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. 			

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2010 and the comparative information presented in these financial statements for the year ended 30 June 2009.

a) Basis of consolidation

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

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

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

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

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

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

b) Foreign currency translation

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

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

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

c) Cash and cash equivalents

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

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

d) Investments and other financial assets

Investments and financial assets in the scope of AASB139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or available for sale financial assets, as appropriate. The classification depends on the purpose for which the investments were acquired or originated. When financial assets are recognised initially they are measured at fair value plus, in the case of investments, not at fair value through profit or loss directly attributable

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

transaction costs. The Group determines the classification of its financial assets after initial recognition and when allowed and appropriate, re-evaluates this designation at each financial year-end.

Available-for-sale investments

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

Loans and receivables

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

e) Joint ventures

Jointly controlled entities

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

Jointly controlled assets

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

f) Property, plant and equipment

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

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

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

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

Derecognition

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

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

g) Leases

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

Group as a lessee

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

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

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

h) Impairment of non-financial assets other than goodwill

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

i) Trade and other payables

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

j) Interest-bearing loans and borrowings

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

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

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

Borrowing costs

Borrowing costs are recognised as an expense when incurred except for qualifying assets. The Group does not currently hold qualifying assets. In the event that a qualifying asset is acquired, the Group's accounting policy

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

requires borrowing costs directly associated with this asset to be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

k) Provisions

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

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

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

Employee benefits

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

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

l) Share based payment transactions

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

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

- (i) the grant date fair value of the award;
- (ii) the current best estimates of the awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

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

Equity-settled awards granted by the Group to employees of subsidiaries are recognised in the Parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. These

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amounts are eliminated on consolidation. As a result, the expense recognised by the Group in relation to equity-settled awards only represents the expense associated with grants to employees of the Parent. The expense recognised by the Group is the total expense associated with all such awards.

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

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

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

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

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

m) Earnings per share

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

- Diluted earnings per share is calculated as net profit attributable to members of the Parent, adjusted for:
 - costs of servicing equity (other than dividends);
 - the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
 - other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares.

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

n) Pensions and other post employment expenditure

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

o) Contributed equity

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

p) Revenue recognition

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sale of goods

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

Interest revenue

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

q) Income tax and other taxes

Current and deferred income taxes

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

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

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

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

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

- when the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to an extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Tax consolidation legislation

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

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

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

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

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

Goods and services tax

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

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

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

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

r) Exploration and evaluation expenditure

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

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

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Impairment

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

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

s) Mine development expenditure

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

Impairment

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

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

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

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

t) Provisions for decommissioning and restoration costs

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

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

u) Operating segments

The Group is mining and processing iron ore in Western Australia. Each area of operation has been aggregated and therefore the operations of the Group present one operating segment under AASB 8 *Operating Segments*.

MURCHISON METALS LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

v) Significant accounting judgements, estimates and assumptions

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

i. Significant accounting judgements

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

Recoverability of potential deferred income tax assets

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

Determination of mineral resources and ore reserves

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

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

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

ii. Significant accounting estimates and assumptions

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

Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decide to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

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

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Impairment of capitalised mine development expenditure

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

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

Impairment of property, plant and equipment

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

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

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

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

Provisions for decommissioning and restoration costs

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

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

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

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model with the assumptions detailed in Note 29. The accounting estimates and assumptions relating to equity-settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010**

NOTE 2: REVENUE

	Consolidated	
	2010	2009
	\$'000	\$'000
Continuing operations		
Other income	-	166
Interest – Banks	4,149	5,882
Share of revenue from jointly controlled assets	49	19
	<u>4,198</u>	<u>6,067</u>

NOTE 3: OTHER INCOME

Continuing operations		
Profit on sale of Midwest Corporation Ltd shares classified as available-for-sale	-	25,902
Net gain on foreign exchange	-	17
	<u>-</u>	<u>25,919</u>

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
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NOTE 4: PROFIT/(LOSS) FOR THE YEAR

Profit/(Loss) for the year has been arrived at after (crediting)/charging the following gains and losses:

	Consolidated	
	2010	2009
	\$'000	\$'000
Administration expenses		
Accounting and audit fees	322	371
Bank charges	7	8
Compliance and secretarial	322	336
Insurance	121	78
Legal expenses	6,264	2,666
Loss on disposal of property plant and equipment	129	-
Office rental	482	352
Other general administration expenses	431	815
Printing and stationery	102	103
Registration and stamp duty fees	-	7
	<u>8,180</u>	<u>4,736</u>
Employee and director expenses		
Salaries and wages	1,999	1,843
Defined contribution superannuation expense	321	210
Directors' fees	1,280	1,412
Share based payment expense	4,530	1,323
Payroll tax	(22)	324
Recruitment	36	102
Other	187	94
	<u>8,331</u>	<u>5,308</u>
Finance costs		
Bank loans and overdrafts	-	2
	<u>-</u>	<u>2</u>

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010**

NOTE 4: PROFIT/(LOSS) FOR THE YEAR (CONTINUED)

	Consolidated	
	2010	2009
	\$'000	\$'000
Hired services expenses		
Air charter	22	23
Cartage and freight	1	3
Consultants	1,970	2,035
Equipment hire	10	10
General	-	1
Other	23	1
	<u>2,026</u>	<u>2,073</u>
Other Expenses		
Settlement of litigation	-	6,461
Net loss on foreign exchange	10	-
Other	11	10
	<u>21</u>	<u>6,471</u>

NOTE 5: INCOME TAX

Income tax expense

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

	Consolidated	
	2010	2009
	\$'000	\$'000
<i>Current income tax</i>		
Current income tax (benefit)/charge before recoupment of tax losses	(3,640)	3,309
Adjustments in respect of current income tax of previous years	4	(3,005)
<i>Deferred income tax</i>		
Relating to the origination and reversal of temporary differences	(529)	2,727
Derecognition of temporary differences previously booked	-	5,123
Tax losses not recognised	4,165	-
Income tax expense / (benefit) reported in the income statement	<u>-</u>	<u>8,154</u>
<i>Attributable to:</i>		
Continuing operations	-	8,154
	<u>-</u>	<u>8,154</u>
<i>Amounts charged or credited directly to equity</i>		
<i>Deferred income tax related to items charged or credited directly to equity</i>		
Revaluation reserve	-	(8,154)
Income tax (expense) / benefit reported directly in equity	<u>-</u>	<u>(8,154)</u>

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5: INCOME TAX (CONTINUED)

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

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

	Consolidated	
	2010	2009
	\$'000	\$'000
Accounting profit/ (loss) from continuing operations	(21,597)	8,885
Total accounting profit/ (loss) before income tax	<u>(21,597)</u>	<u>8,885</u>
Tax payable/ (benefit) at the statutory income tax rate (30%)	(6,479)	2,666
Share based payments	1,359	397
Non-deductible legal expenditure	946	1,938
Prior year R&D Claim	-	(347)
Under/(over) provision for income tax return	4	(1,628)
Non-deductible expenditure	5	4
Derecognition of temporary differences and tax losses previously booked	-	5,123
Tax losses not recognised	<u>4,165</u>	<u>-</u>
Aggregate income tax expense / (benefit)	<u><u>-</u></u>	<u><u>8,153</u></u>

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5: INCOME TAX (CONTINUED)

	Statement of Financial Position		Statement of Comprehensive Income	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
<i>Deferred income tax liabilities</i>				
Business costs capitalised in investments	-	-	-	111
Exploration	(3,631)	(3,744)	113	(724)
Gross deferred income tax liabilities	<u>(3,631)</u>	<u>(3,744)</u>		
<i>Deferred income tax assets</i>				
Provisions	60	36	24	17
Accruals	944	27	917	(22)
Financing costs	-	-	-	(2)
Share raising costs	-	1,383	(1,383)	(368)
OPR bid costs	-	39	(39)	(10)
Unrealised foreign exchange loss	41	39	2	(6)
Other business related costs	893	-	893	(1,724)
Tangible Fixed Assets	3	1	2	1
Tax losses	<u>1,690</u>	<u>2,219</u>	-	-
Gross deferred income tax assets	<u>3,631</u>	<u>3,744</u>		
Net deferred income tax asset	<u>-</u>	<u>-</u>		
Deferred income tax charge			<u>529</u>	<u>(2,727)</u>

**MURCHISON METALS LTD
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NOTE 5: INCOME TAX (CONTINUED)

Potential tax on disposal of Crosslands

In the event that the Group disposes of its remaining interest in Crosslands, the potential tax that may arise upon the disposal is \$3,580,000 (being 30% of \$11,933,000).

The Directors of the Group have chosen not to book a deferred tax liability in relation to this amount on the basis that it is not planning to dispose of its interest in Crosslands.

Tax Losses

The Group has revenue losses for which no deferred tax asset is recognised on the Statement of Financial Position of \$16,815,000 (2009: \$10,751,000) which are available for offset against future taxable income subject to continuing to meet relevant statutory tests.

Tax consolidation

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

Tax effect accounting by members of the Tax Consolidated Group

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

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

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

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

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

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010**

NOTE 6: KEY MANAGEMENT PERSONNEL

(a) Compensation of Key Management Personnel

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

	Consolidated	
	2010	2009
	\$	\$
Short term employee benefits and fees	2,579,613	2,167,087
Post-employment benefits	211,260	356,337
Share-based payments	4,394,609	1,176,088
Total compensation	7,185,482	3,699,512

(b) Option holdings of Key Management Personnel

	Balance at beginning of year No.	Granted as remuneration No.	Options exercised No.	Net change other No.	Balance at end of year No.	Vested as at the end of the year		
Total						Exercisable	Not exercisable	
No.						No.	No.	
30 June 2010								
Directors								
Paul Kopejka	2,000,000	4,500,000	(2,000,000)	-	4,500,000	-	-	-
Trevor Matthews	2,000,000	4,500,000	(2,000,000)	-	4,500,000	-	-	-
Rodney Baxter	-	200,000	(200,000)	-	-	-	-	-
James McClement	100,000	-	-	-	100,000	100,000	100,000	-
Sun Moon Woo	-	-	-	-	-	-	-	-
Executives								
Chris Foley [#]	964,000	-	(50,000)	(250,000)	664,000	482,000	482,000	-
John Westdorp	690,000	-	-	-	690,000	495,000	495,000	-
Sean Gregory	706,000	-	-	-	706,000	563,000	563,000	-
Jamie Wright	230,000	-	-	-	230,000	115,000	115,000	-
Luca Rocchi	292,000	-	-	-	292,000	146,000	146,000	-

[#] Net change relates to options which lapsed during the year.

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
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30 JUNE 2010**

NOTE 6: KEY MANAGEMENT PERSONNEL (CONTINUED)

	Balance at beginning of year	Granted as remuneration	Options exercised	Net change other	Balance at end of year	Vested as at the end of the year		
						Total	Exercisable	Not exercisable
	No.	No.	No.	No.	No.	No.	No.	No.
30 June 2009								
Directors								
Paul Kopejka [#]	4,000,000	-	-	(2,000,000)	2,000,000	2,000,000	2,000,000	-
Trevor Matthews [#]	4,000,000	-	-	(2,000,000)	2,000,000	2,000,000	2,000,000	-
Robert Vagnoni [*]	7,500,000	-	-	(7,500,000)	-	-	-	-
Rodney Baxter	-	-	-	-	-	-	-	-
James McClement	100,000	-	-	-	100,000	100,000	100,000	-
Sun Moon Woo	-	-	-	-	-	-	-	-
Executives								
Chris Foley	350,000	664,000	(50,000)	-	964,000	400,000	400,000	-
John Westdorp	137,500	690,000	(137,500)	-	690,000	150,000	150,000	-
Sean Gregory	200,000	506,000	-	-	706,000	210,000	210,000	-
Jamie Wright	-	230,000	-	-	230,000	-	-	-
Luca Rocchi	-	292,000	-	-	292,000	-	-	-

[#] Net change other include options which lapsed during the year

^{*} Denotes Key Management Personnel that ceased meeting the definition of a key management person under AASB 124 on 10 October 2008, and hence whose option holdings are no longer discloseable.

No other Key Management Personnel held options during the year ended 30 June 2010 or 30 June 2009.

**MURCHISON METALS LTD
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30 JUNE 2010**

NOTE 6: KEY MANAGEMENT PERSONNEL (CONTINUED)

(c) Share holdings of Key Management Personnel

Shares held in Murchison Metals Limited (number)

	Balance at beginning of year	Granted as Remuneration	On Exercise of Options	(Sale) / Purchase of shares	Net change other	Balance at end of year
	No.	No.	No.	No.	No.	No.
2010						
Directors						
Paul Kopejka	20,780,000	-	2,000,000	(500,000)	-	22,280,000
Trevor Matthews	1,200,000	-	2,000,000	(1,700,000)	-	1,500,000
Rodney Baxter	-	-	200,000	-	-	200,000
James McClements	-	-	-	-	-	-
Sun Moon Woo	-	-	-	-	-	-
Executives						
Chris Foley	50,000	-	50,000	-	-	100,000
John Westdorp	67,500	-	-	-	-	67,500
Sean Gregory	-	-	-	-	-	-
Jamie Wright	-	-	-	-	-	-
Luca Rocchi	-	-	-	-	-	-
	<u>22,097,500</u>	<u>-</u>	<u>4,250,000</u>	<u>(2,200,000)</u>	<u>-</u>	<u>24,147,500</u>

	Balance at beginning of year	Granted as Remuneration	On Exercise of Options	(Sale) / Purchase of shares	Net change other	Balance at end of year
2009						
Directors						
Paul Kopejka	20,600,000	-	-	180,000	-	20,780,000
Trevor Matthews	1,700,000	-	-	(500,000)	-	1,200,000
Robert Vagnoni*	6,830,000	-	-	-	(6,830,000)	-
Rodney Baxter	-	-	-	-	-	-
James McClements	-	-	-	-	-	-
Sun Moon Woo	-	-	-	-	-	-
Executives						
Chris Foley	-	-	50,000	-	-	50,000
John Westdorp	-	-	137,500	(70,000)	-	67,500
Sean Gregory	-	-	-	-	-	-
Jamie Wright	-	-	-	-	-	-
Luca Rocchi	-	-	-	-	-	-
	<u>29,130,000</u>	<u>-</u>	<u>187,500</u>	<u>(390,000)</u>	<u>(6,830,000)</u>	<u>22,097,500</u>

* Denotes Key Management Personnel that ceased meeting the definition of a key management person under AASB 124 on 10 October 2008, and hence whose option holdings are no longer discloseable.

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NOTE 6: KEY MANAGEMENT PERSONNEL (CONTINUED)

No other Key Management Personnel held shares during the year ended 30 June 2010 or 30 June 2009.

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

(d) Loans to Key Management Personnel

There were no loans made to Key Management Personnel during the financial year (2009: Nil).

(e) Other transactions and balances with Key Management Personnel

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

NOTE 7: AUDITOR'S REMUNERATION

	Consolidated 2010	2009
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The auditor of Murchison Metals Ltd is Ernst & Young.

Amounts received or due and receivable by Ernst & Young (Australia) for:

Audit or review of the financial report of the entity and any other entity in the Group	175,615	128,750
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No non-audit services were provided by the auditor for the year ended 30 June 2010 (2009: Nil).

NOTE 8: EARNINGS PER SHARE

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

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

The following reflects the income and share data used in the basic and diluted earnings per share computations:

(a) Earnings used in calculating earnings per share

	Consolidated 2010	2009
	\$'000	\$'000

For basic and diluted earnings per share:

Net profit from continuing operations attributable to ordinary equity holders of the parent	(21,597)	732
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NOTE 8: EARNINGS PER SHARE (CONTINUED)

(b) Weighted average number of shares

	2010	2009
	No.	No.
	'000	'000
Weighted average number of ordinary shares for basic earnings per share	427,187	412,623
Effect of dilution:		
- Share options	-	7,034
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>427,187</u>	<u>419,657</u>

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

(c) Information on the classification of securities

(i) Options

Options granted to employees (including Key Management Personnel) as described in Note 29 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These shares have not been included in the determination of basic earnings per share.

The following ordinary shares could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the period presented. Consequently, the diluted earnings per share is the same as basic earnings per share.

	2010
	No.
Share options not included in diluted earnings per share calculation	11,998,000

NOTE 9: RECEIVABLES

	Consolidated	
	2010	2009
	\$'000	\$'000
Current		
Interest receivable	310	364
Amounts receivable from Australian Taxation Authorities	100	402
Sundry debtors	367	717
Other receivables	5	4
	<u>782</u>	<u>1,487</u>

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NOTE 9: RECEIVABLES (CONTINUED)

(a) Ageing

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

(b) Fair value and credit risk

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

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

NOTE 10: EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	2010	2009
	\$'000	\$'000
Exploration and evaluation expenditure in respect of areas of interest:		
Balance at the beginning of the year	29,326	19,227
Additions	16,341	10,099
Balance at the end of the year	45,667	29,326

- (i) 2010 includes an amount of \$32,313,000 (2009: \$16,846,000) relating to Murchison's share of jointly controlled assets. Refer to Note 27.

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

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NOTE 11: PROPERTY, PLANT AND EQUIPMENT

Consolidated	Plant & Equipment	Buildings	IT equipment	Capital work in progress	Furniture and Fittings	Mobile equipment	Total
2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost							
As at 1 July 2009	48	219	268	26	195	5	761
Additions	-	689	95	46	103	12	945
Disposals	-	(124)	(2)	-	(44)	-	(170)
Transfer	-	-	-	-	-	-	-
As at 30 June 2010	48	784	361	72	254	17	1,536
Accumulated Depreciation							
As at 1 July 2009	8	27	85	-	42	-	162
Current year depreciation	6	117	108	-	39	3	273
Eliminated on disposal of assets	-	(28)	-	-	(11)	-	(39)
As at 30 June 2010	14	116	193	-	70	3	396
Net Carrying Value							
As at 1 July 2009	40	192	183	26	153	5	599
As at 30 June 2010	34	668	168	72	184	14	1,140
2009	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost							
As at 1 July 2008	21	66	164	149	90	-	490
Additions				275			275
Disposals			(4)				(4)
Transfer	27	153	108	(398)	105	5	-
As at 30 June 2009	48	219	268	26	195	5	761
Accumulated Depreciation							
As at 1 July 2008	1	3	18	-	3	-	25
Current year depreciation	7	24	67	-	39	-	137
As at 30 June 2009	8	27	85	-	42	-	162
Net Carrying Value							
As at 1 July 2008	20	63	146	149	87	-	465
As at 30 June 2009	40	192	183	26	153	5	599

Property, plant and equipment pledged as security for liabilities

No assets for the Group were pledged as securities for non-current liabilities in the current year (2009: Nil).

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NOTE 12: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated	
	2010	2009
	\$'000	\$'000
Investments in jointly controlled entities	125,960	88,853
<i>Reconciliation of movement in investments accounted for using the equity method</i>		
Balance at 1 July	88,853	66,653
Investments during the year	41,399	25,450
Share of loss for the year	(4,292)	(3,250)
Balance at 30 June	125,960	88,853

Name of entity	Country of incorporation	Principal activity	Ownership interest (%)	
			2010	2009
Crosslands Resources Limited	Australia	Mining	50	50
Oakajee Port and Rail Pty Ltd	Australia	Construction	50*	50*

* The Group holds a 25% interest in Oakajee Port and Rail Pty Ltd through MMX Port Holdings Pty Ltd and an additional 25% indirect interest through Murchison's 50% interest in Crosslands Resources Ltd.

(a) Jointly controlled entities' contingent liabilities and capital commitments

The Group's share of the capital commitments and other expenditure commitments of the jointly entities are disclosed in Note 21.

**MURCHISON METALS LTD
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NOTE 12: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Jointly controlled entities' financial information

Summarised financial information in respect of the Group's jointly controlled entities is set out below:

	Consolidated	
	2010	2009
	\$'000	\$'000
Financial position:		
Cash and cash equivalents	22,851	18,541
Trade and other receivables	26,466	16,834
Other financial assets	25	-
Inventory	27,957	23,153
<i>Current assets</i>	<u>77,299</u>	<u>58,528</u>
Exploration and evaluation expenditure	175,104	93,221
Property, plant and equipment	47,022	62,316
<i>Non-current assets</i>	<u>222,126</u>	<u>155,537</u>
Total assets	<u>299,425</u>	<u>214,065</u>
Trade and other payables	39,433	27,588
Other current liabilities	6,289	2,051
Provisions	2,380	2,026
Interest bearing loans and borrowings	-	1,297
<i>Current liabilities</i>	<u>48,102</u>	<u>32,962</u>
Intercompany payables	3,915	4,505
Deferred tax liability	-	3,696
<i>Non-current liabilities</i>	<u>3,915</u>	<u>8,201</u>
Total liabilities	<u>52,017</u>	<u>41,163</u>
Net assets	247,408	172,902
Group's share of jointly controlled entity's net assets	<u>123,704</u>	<u>86,451</u>

**MURCHISON METALS LTD
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NOTE 12: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Jointly controlled entities' financial information (continued)

	Consolidated	
	2010	2009
	\$'000	\$'000
Financial performance:		
Revenue	165,299	152,947
Other income	363	1,310
<i>Total revenue</i>	<u>165,662</u>	<u>154,257</u>
Changes in inventory	4,695	2,367
Administration expenses	(3,079)	(2,533)
Employee expenses	(8,940)	(6,195)
Hired services expenses		
- accommodation, catering and air charter	(3,172)	(3,142)
- cartage, freight and transport	(75,127)	(66,764)
- consultants	(2,227)	(1,721)
- equipment hire	(445)	(431)
- general	(300)	(475)
- mining	(32,916)	(37,685)
- port charges	(9,014)	(8,072)
- other	(7,766)	(2,999)
Royalties	(14,257)	(14,021)
Finance costs	(281)	(259)
Depreciation and amortisation expense	(16,450)	(15,138)
Other expenses	(4,641)	(5,450)
Share of joint venture expenses	(4,022)	(1,444)
<i>Total expenses</i>	<u>(177,942)</u>	<u>(163,962)</u>
Income tax	3,696	3,204
Loss attributable to members of parent entity	(8,584)	(6,501)
Group's share of jointly controlled entity's loss	<u>(4,292)</u>	<u>(3,250)</u>

Cost of sales

Cost of goods sold for the period amounted to \$149,190,000 (2009: \$131,267,000).

The difference between Group's Share of Jointly Controlled Entity's Net Assets as shown in the Financial Position table above and Investments Accounted for Using the Equity Method as shown in the Statement of Financial Position is due to share options issued by Murchison to Crosslands employees prior to the sale of 50% of Crosslands to Mitsubishi on 27 September 2007.

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NOTE 13: AVAILABLE FOR SALE FINANCIAL ASSETS

	Consolidated	
	2010	2009
	\$'000	\$'000
<i>Non-Current</i>		
Shares – unlisted (i)	2,000	2,000
	2,000	2,000

Available for sale investments consist of investments in ordinary shares and therefore have no fixed maturity date or coupon rate.

(i) Unlisted shares

Unlisted shares are carried at cost as their fair value cannot be measured reliably. The Directors' are satisfied that the carrying value of the shares are recoverable.

NOTE 14: SHARE OF EXPENSES FROM JOINTLY CONTROLLED ASSETS

The following expenses relate to Murchison's 25% interest in OPR Port and OPR Rail unincorporated joint ventures through MMX Port Holdings Pty Ltd and MMX Rail Holdings Pty Ltd:

	2010	2009
	\$'000	\$'000
Administration expenses	(259)	(87)
Depreciation and amortisation expense	(35)	(3)
Employee and director expenses	(1,390)	(274)
Finance costs	-	(2)
Hired services expenses	(326)	(360)
Other expenses	(13)	-
Travel expenses	(72)	(20)
Group's share of expenses from jointly controlled assets	(2,095)	(746)

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NOTE 15: TRADE AND OTHER PAYABLES

	Consolidated	
	2010	2009
	\$'000	\$'000
Current		
Trade payables (i)	6,027	8,511
Other payables (ii)	181	148
Related party payable (iii)	2,611	2,671
	<u>8,819</u>	<u>11,330</u>

- (i) Trade payables are non-interest bearing and are normally settled on 30 day terms.
(ii) Other payables are non-trade payables, are non-interest bearing and have an average term of 3 months.
(iii) Related party payables' terms and conditions are detailed in Note 26(e).

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

NOTE 16: PROVISIONS

	Consolidated	
	2010	2009
	\$'000	\$'000
Provision for annual leave	201	120

(a) Movement in provisions

	Consolidated	
	2010	2009
	\$'000	\$'000
<i>Annual leave</i>		
Balance at 1 July	120	64
Arising during the year	275	324
Utilised	(194)	(268)
Balance at 30 June	<u>201</u>	<u>120</u>

(b) Employee Numbers

	Consolidated	
	2010	2009
	No.	No.
Average number of employees	17	16

**MURCHISON METALS LTD
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NOTE 16: PROVISIONS (CONTINUED)

(c) Superannuation

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

	Consolidated	
	2010	2009
	\$'000	\$'000
Superannuation contributions for the year	284	222

NOTE 17: CONTRIBUTED EQUITY

	Consolidated	
	2010	2009
	\$'000	\$'000
Ordinary shares		
Issued and fully paid	242,252	221,579

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

(a) Movements in ordinary shares on issue: Fully paid ordinary shares

	2010		2009	
	No.	\$	No.	\$
	'000	'000	'000	'000
Balance at beginning of financial year	413,017	221,579	412,111	221,470
Issue on conversion of share options	22,367	20,673	906	109
Balance at end of financial year	435,384	242,252	413,017	221,579

Share options granted under the employee share option plan

In accordance with the provisions of the employee share option plan, as at 30 June 2010, Executives and senior employees (including former employees) have options over 11,998,000 ordinary shares (of which 9,865,000 are unvested) (2009: 20,413,400 of which 2,385,400 are unvested), in aggregate with various expiry dates.

Share options granted under the employee share option plan carry no rights to dividends and no voting rights. Further details of the employee share option plan are contained in Note 29.

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NOTE 18: RESERVES

	Consolidated	
	2010	2009
	\$'000	\$'000
Share based payment reserve	19,307	14,777
Available-for-sale revaluation reserve	-	-
	<u>19,307</u>	<u>14,777</u>

Share Based Payment Reserve

Balance at the beginning of the financial year	14,777	13,454
Share based payment	4,530	1,323
Balance at the end of the financial year	<u>19,307</u>	<u>14,777</u>

This reserve is used to record the value of equity benefits provided to employees and Directors as remuneration.

	Consolidated	
	2010	2009
	\$'000	\$'000
Available-for-sale Revaluation Reserve		
Balance at the beginning of the financial year	-	19,024
Revaluation during the current year	-	(1,276)
Transfer to profit on sale of available for sale investments	-	(25,902)
Related income tax	-	8,154
Balance at the end of the financial year	<u>-</u>	<u>-</u>

This reserve is used to record fair value changes on available-for-sale investments.

NOTE 19: RETAINED EARNINGS / (ACCUMULATED LOSSES)

	Consolidated	
	2010	2009
	\$'000	\$'000
Retained earnings/(accumulated loss) at the beginning of the financial year	191	(541)
Net (loss)/profit attributable to the members of the company	<u>(21,597)</u>	<u>732</u>
(Accumulated loss)/retained earnings at the end of the financial year	<u><u>(21,406)</u></u>	<u><u>191</u></u>

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NOTE 20: PARENT ENTITY

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

	Parent	
	2010	2009
	\$'000	\$'000
Financial Performance		
Loss for the year	(15,259)	(5,797)
Other comprehensive loss	-	-
Total comprehensive loss	<u>(15,259)</u>	<u>(5,797)</u>
Financial Position		
Assets		
Current Assets	74,038	126,484
Non-Current Assets	143,274	84,794
Total Assets	<u>217,312</u>	<u>211,278</u>
Liabilities		
Current Liabilities	46,353	50,264
Total Liabilities	<u>46,353</u>	<u>50,264</u>
Net Assets	<u>170,959</u>	<u>161,014</u>
Equity		
Contributed equity	242,252	221,579
Accumulated losses	(90,601)	(75,342)
Reserves		
Employee equity benefits reserve	19,307	14,777
Total Equity	<u>170,958</u>	<u>161,014</u>

(a) Guarantees

No guarantees were entered into by the Parent in relation to the debts of its subsidiaries in respect of the year ended 30 June 2010 (2009: Nil).

(b) Subsidiaries of Murchison Metals Ltd

	Country of Incorporation	Percentage Owned (%)	
		2010	2009
ATL Exploration Pty Ltd	Australia	100	100
MMX Investments Pty Ltd	Australia	100	100
Jack Hills Holdings Pty Ltd	Australia	100	100
MMX Port Holdings Pty Ltd	Australia	100	100
MMX Rail Holdings Pty Ltd	Australia	100	100
Weld Range Holdings Pty Ltd	Australia	100	100

(c) Commitments

Refer to Note 21 for commitments in respect of the Parent Entity.

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NOTE 21: COMMITMENTS

(a) Capital expenditure commitments

	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Plant and Equipment				
<i>Continuing operations:</i>				
Within one year	3	688	3	688
After one year but no longer than five years	-	-	-	-
Longer than five years	-	-	-	-
	<u>3</u>	<u>688</u>	<u>3</u>	<u>688</u>
<i>Joint venture:</i>				
Within one year				
- exploration	-	15		
- corporate	27	-		
- mining	12	10		
- port	7	-		
- transport	-	13		
After one year but no longer than five years	-	-		
Longer than five years	-	-		
	<u>46</u>	<u>38</u>		
Infrastructure				
<i>Joint venture:</i>				
Within one year				
- exploration	-	10		
- corporate	4	-		
- mining	5	31		
- road	-	2		
- port	-	3		
After one year but no longer than five years	-	-		
Longer than five years	-	-		
	<u>9</u>	<u>46</u>		

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NOTE 21: COMMITMENTS (CONTINUED)

(b) Operating commitments

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

	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<i>Continuing operations:</i>				
Within one year	274	324	274	324
After one year but no longer than five years	833	1,116	833	1,116
Longer than five years	-	-	-	-
	<u>1,107</u>	<u>1,440</u>	<u>1,107</u>	<u>1,440</u>
<i>Joint venture:</i>				
Within one year	379	562	-	-
After one year but no longer than five years	81	657	-	-
Longer than five years	-	13	-	-
	<u>460</u>	<u>1,232</u>	<u>-</u>	<u>-</u>

(c) Tenement commitments

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

	Consolidated		Parent	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<i>Continuing operations</i>				
Within one year	181	181	181	181
After one year but no longer than five years	149	329	149	329
Longer than five years	12	12	12	12
	<u>342</u>	<u>522</u>	<u>342</u>	<u>522</u>
<i>Joint venture</i>				
Within one year	218	194	-	-
After one year but no longer than five years	478	575	-	-
Longer than five years	947	1,011	-	-
	<u>1,643</u>	<u>1,780</u>	<u>-</u>	<u>-</u>

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NOTE 21: COMMITMENTS (CONTINUED)

(d) Other expenditure commitments

Mining operations

Commitments for the mining operations contractors and the haulage contractors under long-term contracts in existence at the reporting date but not recognised as liabilities payable:

	Consolidated	
	2010	2009
	\$'000	\$'000
<i>Joint venture</i>		
Within one year	994	1,610
After one year but no longer than five years	1	-
Longer than five years	-	-
	<u>995</u>	<u>1,610</u>

Port operations

<i>Joint venture</i>		
Within one year	196	197
After one year but no longer than five years	743	1,485
Longer than five years	-	-
	<u>939</u>	<u>1,682</u>

Exploration commitments

<i>Joint venture</i>		
Within one year	8	-
After one year but no longer than five years	-	-
Longer than five years	-	-
	<u>8</u>	<u>-</u>

Remuneration

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities payable:

<i>Joint venture</i>		
Within one year	-	16
After one year but no longer than five years	-	-
Longer than five years	-	-
	<u>-</u>	<u>16</u>

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NOTE 22: CONTINGENT LIABILITIES

Contingent liabilities at balance date include:

Litigation

On 29 November 2007, Chameleon Mining NL ("Chameleon") commenced legal proceedings in the Federal Court against Murchison, Crosslands and several other parties. Chameleon is claiming an interest in the Jack Hills and Weld Range projects and/or Murchison's shares in Crosslands, arising out of a series of transactions that occurred in 2004 before the current Board and management of Murchison were appointed. Murchison maintains its previously announced view that there is no sustainable factual basis for the Chameleon claim so far as it constitutes a claim for a substantial interest in the Jack Hills or Weld Range tenements and/or Murchison's shares in Crosslands. Until a decision is handed down and a number of outstanding issues have been resolved, Murchison is unable to determine what obligations may arise from the proceedings.

Crosslands Resources Ltd is currently engaged in arbitration with Tyson Resources Pty Ltd and Michael Ruane (50%), Zeedam Enterprises Pty Ltd & Karl William Wolzak (25%) and William Staverton Hitch (25%) (referred to as the "vendors") in relation to the method of calculating a contractual royalty payable to them. Crosslands strongly considers that it has paid or accrued all royalties due. The Board of Murchison Metals Ltd (which has a 50% interest in Crosslands) agrees with the view expressed by Crosslands. Depending on the results of arbitration, there may be a possible further obligation for Crosslands to pay an amount in addition to the amount accrued. The maximum additional amount calculated by Crosslands is \$4,200,000 of which Murchison's 50% share would be \$2,100,000. 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.

NOTE 23: SEGMENT REPORTING

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

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

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 24: CASH FLOW INFORMATION

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

	Consolidated	
	2010	2009
	\$'000	\$'000
(Loss)/profit from ordinary activities	(21,597)	732
<i>Non-cash flows in loss from ordinary activities:</i>		
Depreciation	238	137
Loss on disposal of assets	130	-
Share based payment	4,530	1,323
Unrealised foreign exchange loss	9	-
Profit on sale of available for sale assets	-	(25,902)
Share of loss from jointly controlled entities accounted for using the equity method	4,292	3,250
<i>Changes in assets and liabilities:</i>		
Decrease/(increase) in trade and other receivables	686	(519)
Increase in deferred tax	-	8,154
Increase in trade and other creditors	2,974	5,192
Increase in provisions	81	56
Net Cash flow used in operations	<u>(8,657)</u>	<u>(7,577)</u>

(b) Non-cash financing and investing activities

	Consolidated	
	2010	2009
	\$'000	\$'000
Settlement of Litigation	5,460	-
Share-based payments	4,530	1,323

(c) Reconciliation of Cash

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

	2010	2009
	\$'000	\$'000
Cash at bank and in hand	1,801	1,883
Short term deposits	71,609	123,656
	<u>73,410</u>	<u>125,539</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is \$73,410,000 (2009: \$125,539,000).

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
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NOTE 24: CASH FLOW INFORMATION (Continued)

d) Financing facilities available

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

	Consolidated	
	2010	2009
	\$'000	\$'000
Total Facilities		
- Bank	750	750
- Equity line of credit	-	10,000
	<u>750</u>	<u>10,750</u>
Total Facilities used at reporting date		
- Bank	369	409
- Equity line of credit	-	-
	<u>369</u>	<u>409</u>
Total Facilities unused at reporting date		
- Bank	381	341
- Equity line of credit	-	10,000
	<u>381</u>	<u>10,341</u>

NOTE 25: EVENTS SUBSEQUENT TO REPORTING DATE

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

NOTE 26: RELATED PARTY TRANSACTIONS

(a) Equity interest in related parties

Equity interest in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 20 to the financial statements.

Interest in joint ventures

Details of interests in joint ventures are disclosed in Note 27 to the financial statements.

(b) Key Management Personnel compensation

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

(c) Key Management Personnel equity holdings

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

**MURCHISON METALS LTD
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NOTE 26: RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

(e) Loans to and from related parties

- (i) During the financial year, Murchison Metals Ltd, as the Parent Entity, recognised the following loans to / from related parties:

	2010 \$'000	2009 \$'000
Loans to related parties		
Jack Hills Holdings Pty Ltd	72,600	31,200
MMX Port Holdings Pty Ltd	17,814	9,877
MMX Rail Holdings Pty Ltd	15,681	7,783
MMX Investments Pty Ltd	-	-
	106,095	48,860

These receivables are repayable on demand, do not attract interest and are unsecured.

	2010 \$'000	2009 \$'000
Loans from related parties		
MMX Investments Pty Ltd	39,302	39,302

This loan is repayable on demand, does not attract interest and is unsecured.

- (ii) Murchison Metals Ltd recognised the following payable to Crosslands Resources Ltd.

	2010 \$'000	2009 \$'000
Payable to joint venture		
Crosslands Resources Ltd	2,611	2,671

This payable is repayable on demand, does not attract interest and is unsecured.

NOTE 27: INTEREST IN JOINTLY CONTROLLED OPERATIONS AND ASSETS

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

Name of Operation	Principal Activity	Output Interest	
		2010	2009
Oakajee Port	Infrastructure	50% *	50%
Oakajee Rail	Infrastructure	50% *	50%
Tarraj	Mineral Exploration	10%	10%
Duck Hill	Mineral Exploration	50%	50%
Turtle	Mineral Exploration	65%	65%
Halls Creek	Mineral Exploration	10%	10%
Christmas Creek	Mineral Exploration	10%	10%

* The Group holds a 25% interest in Oakajee Port and Rail operations through MMX Port Holdings Pty Ltd and an additional 25% indirect interest through Murchison's 50% interest in Crosslands Resources Ltd.

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 27: INTEREST IN JOINTLY CONTROLLED OPERATIONS AND ASSETS (CONTINUED)

Mineral exploration joint ventures

These joint ventures are of the type where initially one party contributes tenements with the other party earning a specified percentage by funding exploration activities; thereafter the parties often share exploration and development costs and output in proportion to their ownership of joint venture assets. There has been no activity in these tenements in the last financial year (2009: Nil) and there are no significant assets or liabilities to be disclosed for the year ended 30 June 2010 (2009: Nil).

Infrastructure joint ventures

The joint ventures are not separate legal entities. They are contractual arrangements between participants for the sharing of costs and outputs and do not in themselves generate revenue and profit.

Joint venture net assets

The Consolidated Entity's share of assets and liabilities in jointly controlled operations is detailed below. The amounts are included in the consolidated financial statements in their respective categories:

	Consolidated	
	2010	2009
	\$'000	\$'000
Non-current assets		
Exploration and Evaluation Expenditure	32,313	16,846

Capital commitments and contingent liabilities

Capital commitments and contingent liabilities arising from the Group's interest in the joint ventures are disclosed in Note 21.

NOTE 28: FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

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

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

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

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

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management

The Company and Group manage its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Company and Group's overall strategy remains unchanged from 2009.

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

b) Significant accounting policies

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

c) Categories of financial instruments

	Consolidated	
	2010	2009
	\$'000	\$'000
Financial assets		
Receivables	995	1,680
Available-for-sale financial assets	2,000	2,000
Cash and cash equivalents	73,410	125,539
	<u>76,405</u>	<u>129,219</u>
Financial Liabilities		
Trade and other payables	8,819	11,330

d) Interest rate risk management

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

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

	Consolidated	
	2010	2009
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	73,410	125,539
Net Exposure	<u>73,410</u>	<u>125,539</u>

Interest rate sensitivity

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

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL INSTRUMENTS (CONTINUED)

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

	Impact on Post Tax Profit Higher / (Lower)	
	Consolidated	
	2010	2009
	\$'000	\$'000
+0.5% (50 basis points)	367	628
-0.5% (50 basis points)	(367)	(628)

The sensitivity is lower in 2010, compared to 2009 due to the decrease in the cash and cash equivalents balance.

e) Credit risk

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

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

	Consolidated	
	2010	2009
	\$'000	\$'000
Cash at Bank and Short Term Deposits		
<i>Counterparties with external credit ratings</i>		
A1+	72,410	120,539
A1	1,000	5,000
	<u>73,410</u>	<u>125,539</u>

f) Liquidity risk

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

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

**MURCHISON METALS LTD
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NOTE 28: FINANCIAL INSTRUMENTS (CONTINUED)

	Consolidated	
	2010	2009
	\$'000	\$'000
Less than one month	6,208	8,009
Later than one month and not later than three months	-	-
Later than three months and not later than one year	2,611	3,321
Later than one year and not later than five years	-	-
	<u>8,819</u>	<u>11,330</u>

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

	Weighted Average Effective Interest Rate	Less than one month \$'000	Later than one month and not later than three months \$'000	Later than three months and not later than one year \$'000	Later than one year and not later than five years \$'000	Total \$'000
Consolidated 2010	%					
Financial Assets						
Non-interest bearing	-	995	-	-	2,000	2,995
Variable interest rate	5.5	32,332	41,078	-	-	73,410
		33,327	41,078	-	2,000	76,405
Financial Liabilities						
Non-interest bearing	-	(6,208)	-	(2,611)	-	(8,819)
		(6,208)	-	(2,611)	-	(8,819)
Net maturity		27,119	41,078	(2,611)	2,000	67,586
2009	%					
Financial Assets						
Non-interest bearing	-	1,680	-	-	2,000	3,680
Variable interest rate	3.7	51,310	74,229	-	-	125,539
		52,990	74,229	-	2,000	129,219
Financial Liabilities						
Non-interest bearing	-	(8,009)	-	(3,321)	-	(11,330)
		(2,198)	-	(2,671)	-	(11,330)
Net maturity		50,792	74,229	(2,671)	2,000	117,889

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

g) Net fair values

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

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

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

**MURCHISON METALS LTD
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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 29: SHARE BASED PAYMENTS

a) Recognised share based payment expenses

The amount recognised for employee services received during the year is shown in the table below:

	Consolidated	
	2010	2009
	\$'000	\$'000
Expense arising from equity-settled share-based payment transactions	4,530	1,323
Total share based payment during the year	<u>4,530</u>	<u>1,323</u>

b) Type of share based payment plans

Directors

The objective in providing long term incentives is to reward Executive Directors in a manner that aligns remuneration with the creation of shareholder value. Long term incentives may be provided to Executive Directors in the form of share options. Share options vest upon the achievement of performance targets. Executive Directors are able to exercise the share options after vesting until the set expiry date.

Executives

The objective in providing long term incentives is to reward Executives in a manner that aligns remuneration with the creation of shareholder wealth and ensures that continuity of the experienced Executive team is maintained during the critical phases of project development and financing. Long term incentives have been provided to Executives in the form of share options under an Employee Share Option Plan. Under the plan, the share options vest over periods of up to 2 years subject to meeting continuity of employment provisions, and subject to the Board's discretion. Executives are able to exercise the share options after vesting until a set expiry date.

The Company does not use performance hurdles in assessing and granting share options to Executives under the Executive Share Option Plan.

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

Employees

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 29: SHARE BASED PAYMENTS (CONTINUED)

c) Summaries of options granted under Executive and employee share option plans

	2010 No.	2010 WAEP	2009 No.	2009 WAEP
Outstanding at the beginning of the year	20,413,400	1.10	24,002,500	0.97
Granted during the year	9,200,000	1.98	2,892,400	1.79
Exercised during the year	(17,155,500)	0.87	(481,500)	0.05
Forfeited during the year	(185,900)	1.73	-	-
Expired during the year	(274,000)	5.24	(6,000,000)	1.00
Outstanding at the end of the year	11,998,000	2.00	20,413,400	1.10

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

Option Series	Expiry date	Exercise Price	Class of shares	Number under option
Series 1	30-Nov-09	0.20	Ordinary	2,000,000
Series 2	31-Dec-09	0.50	Ordinary	3,750,000
Series 3	31-Dec-09	1.00	Ordinary	4,500,000
Series 4	31-Dec-09	1.25	Ordinary	6,000,000
Series 5	01-Nov-09	0.05	Ordinary	127,500
Series 6	30-Nov-09	1.25	Ordinary	250,000
Series 7	30-Jun-10	5.74	Ordinary	250,000
Series 8	30-Nov-10	5.19	Ordinary	100,000
Series 9	30-Jun-11	2.70	Ordinary	100,000
Series 10	30-Jun-11	3.96	Ordinary	100,000
Series 11	22-Aug-11	2.34	Ordinary	1,014,000
Series 12	22-Aug-11	0.94	Ordinary	47,000
Series 13	23-Sep-11	1.27	Ordinary	17,000
Series 14	15-Oct-11	0.81	Ordinary	21,000
Series 15	18-Nov-11	2.00	Ordinary	4,500,000
Series 16	17-Feb-12	0.61	Ordinary	2,000
Series 17	26-Jun-12	1.56	Ordinary	1,691,400
Series 18	30-Jun-12	0.68	Ordinary	100,000
Series 19	18-Nov-12	2.00	Ordinary	4,500,000
Series 20	18-Nov-12	1.25	Ordinary	200,000

Vesting conditions

In accordance with the terms of the share based payment arrangements for Series 1 to 14 and Series 16 to 18, options vest upon employees serving a minimum retention period of between 12 months and 2 years.

In accordance with the terms of the share based payment arrangements for Series 15 and 18 which relate to grants to Trevor Matthews and Paul Kopejtka as disclosed in Note 6(b), options vest upon achievement of performance conditions which are linked to milestones for the Group including 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 and 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.

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NOTE 29: SHARE BASED PAYMENTS (CONTINUED)

In accordance with the terms of the share based payment arrangements for Series 20 which relate to options issued to Non-Executive Director Rod Baxter as disclosed in Note 6 (b), the options have no vesting restrictions.

d) Weighted average fair value

The weighted average fair value of options granted during the year was \$0.82 (2009: \$0.90).

e) Option pricing model

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

The following table lists the inputs to the model used for the years ended 30 June 2010 and 30 June 2009:

	2010	2009
Risk-free interest rate (%)	4.47	4.18 - 5.85
Expected volatility (%)	80.00	67.87 - 80.00
Expected life of the option (years)	2.00 - 3.00	1.93 - 3.02
Option exercise price (\$)	1.25 - 2.00	0.61 - 2.34
Weighted average share price at grant date (\$)	1.76	1.59 - 2.22

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

f) Exercised during the financial year

The following share options granted under the Executive and employee share option plans were exercised during the financial year:

Option series	Number exercised #	Exercise date	Share price at exercise date \$
\$0.20 30 Nov 09	2,000,000	29 Oct 09 - 17 Nov 09	1.38 - 1.79
\$0.50 31 Dec 09	3,750,000	9 Dec 09	1.97
\$1.00 31 Dec 09	4,500,000	16 Dec 09 - 24 Dec 09	2.09 - 2.38
\$1.25 31 Dec 09	6,000,000	11 Nov 09 - 29 Dec 09	1.58 - 2.50
\$0.05 1 Nov 09	447,000	3 Jul 09 - 28 Oct 09	1.56 - 1.42
\$1.25 30 Nov 09	250,000	19 Oct 09 - 30 Nov 09	1.61 - 1.70
\$1.25 18 Nov 12	200,000	30 Nov 09	1.70
\$1.27 23 Sep 11	8,500	6 Jan 10	2.63

g) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 is 1.5 years (2009: 1.5 years).

h) Range of exercise prices

The range of exercise prices for options outstanding at the end of the year was \$0.68 – \$5.19 (2009: \$0.05 - \$5.74).

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 30: COMPANY DETAILS

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

Registered office and principal place of business:

Level 1

5 Ord Street

West Perth WA 6005

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES**

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- a) The attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Consolidated Entity;
- b) The attached financial statements are in compliance with the International Financial Reporting Standards, as stated in Note 1 to the financial statements; and
- c) Subject to matters discussed in Note 1, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Trevor Matthews', with a large loop at the start and a horizontal flourish at the end.

Mr Trevor Matthews
Managing Director

Perth, 16 September 2010

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

Report on the Financial Report

We have audited the accompanying financial report of Murchison Metals Ltd, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

Auditor's Opinion

In our opinion:

1. the financial report of Murchison Metals Ltd is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the financial position of Murchison Metals Ltd and the consolidated entity at 30 June 2010 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

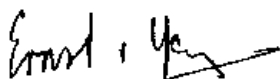
We have audited the Remuneration Report included in pages 10 to 17 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

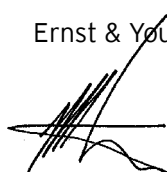
In our opinion the Remuneration Report of Murchison Metals Ltd for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualifying our audit opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1 to the financial report, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they become due and payable and realise its assets and extinguish its liabilities in the normal course of operations and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

A stylized signature of the Ernst & Young firm, written in black ink.

Ernst & Young

A handwritten signature of R A Kirkby, written in black ink.

R A Kirkby
Partner
Perth

16 September 2010

**MURCHISON METALS LTD
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ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 8 September 2010.

1. DISTRIBUTION OF EQUITY SECURITIES

(i) Ordinary share capital

435,384,268 fully paid ordinary shares are held by 11,075 individual shareholders.

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

(ii) Options

11,998,000 options are held by 18 individual option holders.

Options do not carry a right to vote.

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

Holdings Ranges	Fully paid Ordinary Shares	Options
1 - 1,000	2,884	-
1,001 - 5,000	4,395	1
5,001 - 10,000	1,672	1
10,001 - 100,000	1,903	6
100,001 - and over	221	10
	<u>11,075</u>	<u>18</u>
Holdings less than a marketable parcel	825	

2. SUBSTANTIAL SHAREHOLDERS

Ordinary Shareholders	Fully Paid No.	%
POSCO AUSTRALIA PTY LTD	60,567,000	13.91
JP MORGAN NOMINEES AUSTRALIA LIMITED	40,086,274	9.21
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	29,849,237	6.86
COLBERN FIDUCIARY NOMINEES PTY LTD	25,224,408	5.79
NATIONAL NOMINEES LTD	21,770,604	5.00

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3. TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

Ordinary Shareholders	No.	Fully Paid %
POSCO AUSTRALIA PTY LTD	60,567,000	13.91
J P MORGAN NOMINEES AUSTRALIA LIMITED	40,086,274	9.21
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	29,849,237	6.86
COLBERN FIDUCIARY NOMINEES PTY LTD	25,224,408	5.79
NATIONAL NOMINEES LIMITED	21,770,604	5.00
ANZ NOMINEES LIMITED <CASH INCOME A/C>	14,324,581	3.29
RESOURCE CAPITAL FUND 111 L P	12,450,000	2.86
CITICORP NOMINEES PTY LIMITED	12,123,698	2.79
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	11,848,114	2.72
BRISPTOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C>	7,545,051	1.73
MR PAUL JOHN KOPEJTKA & MRS KAREN LOUISE KOPEJTKA <KOPEJTKA FAMILY A/C>	7,240,000	1.66
RESOURCE CAPITAL FUND III L P	6,000,000	1.38
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	5,485,362	1.26
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	5,138,330	1.18
BAZHOU CITY HENGJI STRIP STEEL CO LTD	4,965,000	1.14
TASWA PTY LTD	4,360,000	1.00
AMP LIFE LIMITED	4,350,705	1.00
ERIDITUS PTY LTD <THE ROBERT VAGNONI A/C>	4,210,000	0.97
HEBEI QIANJIN STEEL GROUP (AUSTRALIA) PTY LTD <THE MA INVESTMENT A/C>	4,192,857	0.96
DR CHARLES FRATER	3,000,000	0.69
	<u>284,731,221</u>	<u>65.40</u>

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4. INTEREST IN MINING TENEMENTS

Tenement	Project	Percentage interest
E04/1418	Tarraj	10%
E31/733	Duck Hill	50%
E46/876	Bullstag Well	100%
E46/880	Mt Hodgson	100%
E46/903	Christie Crossing	100%
E47/952	Rocklea	100%
E47/1153	Rocklea	100% of iron ore rights
E47/1977	Rocklea	100%
P47/1429	Rocklea	100%
E47/2044	Chichester Range	100%
E47/2045	Punda Spring	100%
E47/2366	Yandicoogina	100%
E69/2576	Earaheedy	100%
E69/2606	Earaheedy	100%
M04/399	Turtle	50%
M80/90	Halls Creek	10%
E08/1988	Paulsens	100%
E08/2128	Paulsens	100%
E08/2146	Paulsens	100%
E47/2274	Paulsens	100%
E47/2116	Yandicoogina	100%

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CORPORATE GOVERNANCE

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

The Company conducted an annual review of its Corporate Governance Policy, Board Charter, Audit and Risk Committee Charter and Remuneration Committee Charter. Details of the Company's compliance with the ASX Principles are set out below. A checklist, cross referencing the ASX Principles to the relevant section of this statement and the remuneration report, is provided on pages 94 to 97 of this report.

1. BOARD OF DIRECTORS

a) Board Composition

Under the Constitution, the Board shall comprise not less than three and not more than ten Directors. The Board currently comprises two Executive Directors (one of whom is Executive Chairman and one of whom is Managing Director) and three Non-Executive Directors. Of the three Non-Executive Directors two are regarded as independent. Consequently, the Company does not have a majority of independent Directors.

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

To ensure it has the right mix of management skills and technical expertise to meet the challenges of its business, the Board regularly reviews its composition. The Board believes that at the current stage of the Company's development, the composition of the Board is adequate. Subsequent to year end, the Company commenced an independent review of the structure of the organisation which extends to the structure of the Board. As at the date of this report, Murchison is awaiting the findings from this review.

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

b) Board Responsibilities

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

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

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

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- ensuring robust and effective risk management, compliance and control systems (including legal compliance) are in place and operating effectively; and
- overseeing the Company's senior management and personnel including the terms of the appointment of the Executive Chairman and Managing Director and ensuring appropriate succession plans are in place.

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

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

c) Director Independence

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

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

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

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

Based on the criteria above, the Board considers that Mr McClements and Mr Baxter qualify as independent Directors.

d) Directors' Retirement and Re-election

The Constitution of the Company provides that subject to rule 14.1 of the Constitution (which deals with the appointment of a Managing Director):

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

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e) Board Succession Planning

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

f) Nominations and Appointment of New Directors

Recommendations for nomination of new Directors are made and considered by the Board as a whole. The Board considers Director appointments having regard to the skill base of current Directors, the requirements of the Board and the Company and the candidate's commercial experience, skills and other qualities. External consultants may be used from time to time to identify a wide base of potential Directors.

g) Board Performance Evaluation

The Board may conduct a performance evaluation of itself that:

- (a) compares the performance of the Board with the requirements of its Charter;
- (b) effects any improvements to the Board Charter and corporate governance principles and procedures deemed necessary or desirable; and
- (c) includes a process for review of the performance of individual Directors and a review of the performance of the Chairman by the other members of the Board.

The general management and oversight of this process of performance evaluation, together with development of appropriate Board member performance assessment measures, is the responsibility of the Chairman. Primarily the evaluation will be carried out through consultation by the Chairman with individual Directors. An independent review of the conduct of the performance of each Director, and the Board as a whole has not been undertaken during the past year.

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

h) Access to Professional Advice

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

i) Conflicts of Interest

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

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

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

The Code of Conduct for employees provides that:

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

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j) Terms of Appointment, Induction Training and Continuing Education

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

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

k) Board Meetings

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

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

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

l) Directors and Senior Management Remuneration

The Board, on advice from the Remuneration Committee, determines the fees and salaries for all Directors and senior management. Total remuneration for the Executive Directors includes an Annual Salary and other entitlements. Attendance at and participation in Board and Committee Meetings are considered among the duties of the Executive Director.

The actual remuneration paid to all Directors and the top five highest-paid Executives is detailed in the Directors' Report.

2. BOARD COMMITTEES

a) Board Committees and Membership

The Board currently has two standing committees to assist in the discharge of its responsibilities. These are the:

- Audit and Risk Committee; and
- Remuneration Committee.

The charters of the Board committees detailing the roles and duties of each are available in the Corporate Governance section of Murchison's website. All Board committee charters are reviewed at least annually.

At the date of this report the membership of each Board committee comprises the following Non-Executive Directors:

Audit and Risk Committee	Remuneration Committee
Rod Baxter (Chair)	James McClements (Chair)
James McClements	Rod Baxter
SM Woo	

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

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

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

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

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

b) Audit and Risk Committee

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

The Audit and Risk Committee comprises three Non-Executive Directors, the majority of whom are regarded as independent.

The external auditors, the Executive Chairman, the Managing Director and the Chief Financial Officer attend committee meetings by invitation. The Committee meets at least twice a year.

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

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

c) Remuneration Committee

The role of the Remuneration Committee is to assist the Board by reviewing and making appropriate recommendations to the Board on:

- remuneration for Executive Directors and Executives; and
- employee incentive and equity based plans.

The Remuneration Committee is comprised of two Non-Executive Directors.

The Committee's responsibilities include:

- review of the Company's *Remuneration Policy* and framework;
- review and determine remuneration and incentives for Executive Directors and Executives;
- review short term incentives strategy, performance targets and bonus payments;
- review and make recommendations concerning long-term incentive compensation plans, including the use of share options and other equity-based plans;
- ensure that incentive plans are designed around appropriate and realistic performance targets that measure relative performance and provide rewards when they are achieved;
- continually review and if necessary improve any existing benefit programs established for employees; and
- review performance assessment processes for Executives.

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

Executive Directors and Executives may attend Committee meetings by invitation although no individual can be involved in deciding their own remuneration. The Committee meets at least once a year.

d) Board Nomination

The Board as a whole regularly considers the composition of the Board to ensure it has the right mix of skills and experience. The Board believes at the current stage of the Company's development and the composition of the Board, a nomination committee is not necessary and all matters are dealt with by the full Board.

3. CONTROLLING AND MANAGING RISK

a) Approach to Risk Management

The Audit and Risk Committee is responsible for overseeing the implementation of the Company's Risk Management Policy by Executives. The Audit and Risk Committee ultimately reports to the Board.

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

- Identify risks relevant to the business to determine what can happen, when and how;
- Assess identified risks to determine their potential severity and impact on the business;
- Evaluate risks;
- Treatment plans for risks deemed unacceptable to the business;
- Communicate risk management activities and processes to employees; and
- Monitor and review risks, risk mitigation strategies and actions as well as the risk management processes and system.

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

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

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

b) Managing Director and CFO Assurance on Corporate Reporting

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

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

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

4. PROMOTING ETHICAL AND RESPONSIBLE BEHAVIOUR

a) Health and Safety

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

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

b) Codes of Conduct

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

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

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

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

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

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

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

c) Share Trading

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

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

The policy provides a brief summary of the law on insider trading and what constitutes "price sensitive information". The policy also prescribes "blackout periods" when Directors and Executives should not, in the absence of exceptional circumstances, trade in the Company's securities.

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

5. CONTINUOUS DISCLOSURE

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

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

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

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6. SHAREHOLDER COMMUNICATIONS AND PARTICIPATION

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

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

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

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

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

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

Principle	Details	Comments
1.	Lay solid foundations for management and oversight	
	Companies should establish and disclose the respective roles and responsibilities of Board and management.	
1.1	Companies should establish the functions reserved to the Board and those delegated to Executives and disclose those functions.	Comply – refer section 1b
1.2	Companies should disclose the process for evaluating the performance of Executives.	Comply – refer Remuneration Report in Directors Report
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Comply – the information is provided in sections 1a and 1b and the Remuneration Report

2.	Structure the Board to add value	
	Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.	
2.1	A majority of the Board should be Independent Directors.	The Board structure does not comply with this principle. However, as the Board consists of a majority of Non-Executive Directors (and the majority of Non-Executive Directors are independent) the Board believes the structure of the Board is adequate.
2.2	The Chair should be an Independent Director.	The Company does not comply with this principle. The Board believes the Company and Board functions adequately with an Executive Chairman.
2.3	The roles of Chair and Chief Executive Officer should not be exercised by the same individual.	Comply. The Company has a Managing Director that performs the role of Chief Executive Officer as distinct from the role of Executive Chairman

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2.	Structure the Board to add value (continued)	
2.4	The Board should establish a nomination committee.	The Company does not comply with this principle. Recommendations for the nomination of new Directors are made and considered by the Board as a whole. The Board considers Director appointments having regard to the skill base of current Directors, the requirements of the Board and the Company and the candidate's commercial experience, skills and other qualities.
2.5	Companies should disclose the process for evaluating the performance of its Board, its committees and individual Directors.	Comply – refer sections 1g and 2c
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Comply – refer to Directors' Report

3.	Promote ethical and responsible decision making	
	Companies should actively promote ethical and responsible decision making.	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> the practices necessary to maintain confidence in the company's integrity the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	Comply – refer section 4b
3.2	Companies should establish a policy concerning trading in company securities by Directors, Executives and employees, and disclose the policy or a summary of that policy.	Comply – refer section 4c
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Comply – refer sections 4b and 4c

**MURCHISON METALS LTD
AND ITS CONTROLLED ENTITIES
ABN 38 078 257 799**

**CORPORATE GOVERNANCE REVIEW
30 JUNE 2010**

4.	Safeguard integrity in financial reporting	
	Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.	
4.1	The Board should establish an Audit Committee.	Comply – refer sections 2a and 2b
4.2	The Audit Committee should be structured so that it: <ul style="list-style-type: none"> • Consists only of Non-Executive Directors • Consists of a majority of Independent Directors • Is chaired by an Independent Chair, who is not the Chair of the Board • has at least three members. 	Comply – refer sections 2a and 2b
4.3	The Audit Committee should have a formal charter.	Comply – refer section 2a
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Comply – refer Directors Report

5.	Make timely and balance disclosure	
	Companies should promote timely and balanced disclosure of all material matters concerning the company.	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at Executive level for that compliance and disclose those policies or a summary of those policies.	Comply – refer section 5
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Comply – refer section 5

6.	Respect the rights of shareholders	
	Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Comply – refer section 6
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Comply – refer section 6

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7.	Recognise and manage risk	
	Companies should establish a sound system of risk and oversight and management and internal control.	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Comply – refer sections 2b, 3a and 3b
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Comply – refer section 3a
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Comply – refer section 3b
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Comply – refer sections 3a and 3b

8.	Remunerate fairly and responsibly	
	Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.	
8.1	The Board should establish a remuneration committee.	Comply – refer section 2c
8.2	Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and Executives.	Comply – refer Remuneration Report
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Refer section 2a and Remuneration Report. In relation to the options issued to Rod Baxter, the Board agreed to issue options when Mr Baxter was appointed to the Board in January 2009, subject to shareholder approval. Shareholders approved the issue of options to Mr Baxter at the Company's Annual General Meeting in November 2009. There were no other options issued to Non-Executive Directors during the year ended 30 June 2010.