

METALLICA MINERALS LIMITED

ABN 45 076 696 092

1 POTTS STREET EAST BRISBANE, QLD 4169

GPO Box 122, Brisbane Qld 4001

Tel: 61 7 3891 9611 Fax: 61 7 3891 9199

admin@metallicaminerals.com.au

Home Page: www.metallicaminerals.com.au

22 October 2007

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Metallica Minerals Limited ABN 45 076 696 092 (**Metallica** or **Company**) will be held at Level 2, the Brisbane Polo Club, Naldham House, (front of Waterfront Place), 1 Eagle Street, Brisbane on Friday 23 November 2007, commencing at 10.00 am.

AGENDA

The agenda for the meeting is as follows:

- A. Opening of meeting
- B. Consideration and discussion of Audited Financial Statements for the year ended 30 June 2007, which are being circulated to shareholders in the attached Annual Report
- C. Consideration of Adoption of the Remuneration Report for the year ended 30 June 2007 (see Resolution 1)

[Note – the vote on this resolution is advisory only and does not bind the Directors of the Company]
- D. Election of Directors:
 - 1. Re-election of Mr Mark Ashley as a Director (see Resolution 2)
 - 2. Re-election of Mr John Haley as a Director (see Resolution 3)
- E. Consideration of Issue of Directors' Options to:
 - 1. Mr Andrew Gillies (see Resolution 4)
 - 2. Mr John Haley (see Resolution 5)
 - 3. Mr. Mark Ashley (see Resolution 6)
- F. Other business
- G. Close of meeting

The Explanatory Statement and the Proxy Form accompanying this Notice of Meeting are incorporated in and comprise part of this Notice of Meeting.

For personal use only

ORDINARY BUSINESS

To consider and, if thought fit, pass as ordinary resolutions of the Company:

Remuneration Report

Resolution 1

“That the Company be authorised to adopt the Remuneration Report for the year ended 30 June 2007”.

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

Re-election of Directors (Resolutions 2 and 3)

Resolution 2

“That Mark Ashley who, having been appointed by the Directors as an additional Director since the last Annual General Meeting of the Company, retires and being eligible, offers himself for re-election, be appointed as a Director of the Company”.

Resolution 3

“That John Kevin Haley who, having retired by rotation and being eligible, offers himself for re-election, be appointed as a Director of the Company”.

SPECIAL BUSINESS

To consider and, if thought fit, pass as ordinary resolutions of the Company:

Consideration of Issue of Directors Options (Resolutions 4, 5 and 6)

Resolution 4

*“That in accordance with the provisions of Listing Rule 7.1 and 10.11 of the ASX Listing Rules and Part 2E of the Corporations Act 2001 (Cwlth) (**Corporations Act**) and for all other purposes, the Company be authorised to issue 350,000 Options to subscribe for ordinary shares in the Company exercisable at \$0.65 cents after 28 September 2009 (providing Mr. Gillies is an employee of the Company at that time) and on or before 28 September 2012 (**Options**) to Andrew Gillies being a director of the Company or his nominee.”*

- (a) A copy of this Notice and the Explanatory Statement which accompanies this Notice has been lodged with the Australian Securities & Investments Commission in accordance with Section 218 of the Corporations Act.*
- (b) The Company intends to issue the Options as soon as practicable following the Meeting and in any event no later than one (1) month from the date of the Meeting.*
- (c) Detailed summary of the proposed terms of the Options is contained within the Explanatory Statement.*
- (d) The Company will disregard any votes cast on this Resolution by:*
- Andrew Gillies; and*
 - any associate of Andrew Gillies.*
- (e) However, the Company need not disregard a vote if:*
- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or*
 - it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.*

Resolution 5

*“Subject to the passing of Resolution 3, that in accordance with the provisions of Listing Rule 7.1 and 10.11 of the ASX Listing Rules and Part 2E of the Corporations Act 2001 (Cwlth) (**Corporations Act**) and for all other purposes, the Company be authorised to issue 250,000 Options to subscribe for ordinary shares in the Company exercisable at \$0.65 cents after 28 September 2009 (providing Mr. Haley is an employee of the Company at that time) and on or before 28 September 2012 (**Options**) to John Haley being a Director of the Company or his nominee.”*

- (a) A copy of this Notice and the Explanatory Statement which accompanies this Notice has been lodged with the Australian Securities & Investments Commission in accordance with Section 218 of the Corporations Act.*
- (b) The Company intends to issue the Options as soon as practicable following the Meeting and in any event no later than one (1) month from the date of the Meeting.*
- (c) Detailed summary of the proposed terms of the Options is contained within the Explanatory Statement.*
- (d) The Company will disregard any votes cast on this Resolution by:*
- John Haley; and*
 - any associate of John Haley.*
- (e) However, the Company need not disregard a vote if:*
- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or*
 - it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.*

Resolution 6

*“Subject to the passing of Resolution 2, that in accordance with the provisions of Listing Rule 7.1 and 10.11 of the ASX Listing Rules and Part 2E of the Corporations Act 2001 (Cwlth) (**Corporations Act**) and for all other purposes, the Company be authorised to issue 500,000 Options to subscribe for ordinary shares in the Company exercisable at \$0.80 on or before 31 December 2010 (**Options**) to Mark Ashley being a director of the Company or his nominee.”*

- (a) *A copy of this Notice and the Explanatory Statement which accompanies this Notice has been lodged with the Australian Securities & Investments Commission in accordance with Section 218 of the Corporations Act.*
- (b) *The Company intends to issue the Options as soon as practicable following the Meeting and in any event no later than one (1) month from the date of the Meeting.*
- (c) *Detailed summary of the proposed terms of the Options is contained within the Explanatory Statement.*
- (d) *The Company will disregard any votes cast on this Resolution by:*
- *Mark Ashley; and*
 - *any associate of Mark Ashley.*
- (e) *However, the Company need not disregard a vote if:*
- *it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or*
 - *it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.*

PROXY AND BODY CORPORATE REPRESENTATIVE INSTRUCTIONS

Shareholders are entitled to appoint up to two individuals to act as proxies to attend and vote on their behalf. Where more than one proxy is appointed each proxy may be appointed to represent a specific proportion of the shareholder's voting rights. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes.

A shareholder who is a body corporate is able to appoint representatives to attend and vote at the meeting under Section 250D of the Corporations Act.

The proxy form (and unless previously noted on the share registry, the power of attorney or other authority, if any, under which the proxy form is signed) and certificates appointing body corporate representatives or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) or certificate appointing a body corporate representative must be deposited at, posted to, or sent by facsimile transmission to the Company's office, GPO Box 122, Brisbane, Queensland 4001 or fax 07 3891 9199, to be received not less than 48 hours before the time for holding the meeting, or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

The proxy form must be signed by the shareholder or his/her attorney duly authorised in writing or, if the shareholder is a corporation, in a manner permitted by the Corporations Act.

The proxy may, but need not, be a shareholder of the Company. In the case of shares jointly held by two or more persons, all joint holders must sign the proxy form. A proxy form is attached to this Notice.

For personal use only

VOTING ENTITLEMENT

For the purposes of determining voting entitlements at the meeting, shares will be taken to be held by the persons who are registered as holding the shares at 7.00pm on 21 November 2007. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.



**BY ORDER OF THE BOARD
JOHN KEVIN HALEY
COMPANY SECRETARY**

For personal use only

EXPLANATORY STATEMENT

The following information is provided to shareholders of Metallica Minerals Limited ABN 45 076 696 092 (**Metallica** or **Company**) in connection with the business to be considered at the Annual General Meeting of shareholders to be held at the offices of Level 2, the Brisbane Polo Club, Naldham House, (front of Waterfront Place), 1 Eagle Street, Brisbane on Friday 23 November 2007, commencing at 10.00 am.

INTRODUCTION

The Notice of Meeting, which is also enclosed, sets out details of proposals concerning 6 Resolutions to be put to shareholders.

ORDINARY BUSINESS

Resolution 1: Adoption of Remuneration Report

The Board has submitted its Remuneration Report to Shareholders for consideration and adoption by way of a non-binding Resolution.

The Remuneration Report is set out in the Directors' Report. The Report summarises:

- the remuneration paid to Directors and key employees,
- the Board's policy for determining the nature and amount of remuneration of executive directors and senior executives of the Company;
- the relationship between the Board's remuneration policy and the Company's performance;
- remuneration details for each Director and the three most highly remunerated senior executives of the Company; and
- any performance conditions applicable to the remuneration of executive directors and senior executives of the Company.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the meeting.

The Board unanimously recommends that shareholders vote in favour of adopting the Remuneration Report.

Resolution 2: Re-election of Mark Ashley as a Director

As Mr Ashley was appointed as an additional Director between the last Annual General Meeting and this Annual General Meeting, the Company's Constitution requires that the meeting vote on his re-election as a Director.

Resolution 3: Re-election of John Haley as a Director

The Company's Constitution requires that at each Annual General Meeting, one-third of the Directors in office at the date of the last Annual General Meeting stand for re-election. The meeting is therefore required to vote on Mr Haley's re-election as a Director.

For personal use only

SPECIAL BUSINESS

Resolutions 4, 5 and 6: Issue of Options to Directors

The Company proposes to issue the following options to subscribe for ordinary shares in the Company (**Options**) to each director (or his nominee) (**Interested Directors**) of the Company:

Name of Interested Director	Total Options To be Issued	Resolution to Which the Issue Relates
Andrew Gillies	350,000	4
John Haley	250,000	5
Mark Ashley	500,000	6
Total	1,100,000	

The Company is seeking to appropriately incentivise the Interested Directors in respect of the future performance of the Company.

The Directors of the Company were issued with options approved by a meeting of the Company's shareholders in May 2004 with certain conditions attached to them. The Directors of the Company were also issued with options approved by meetings of the Company's shareholders in November 2005 and November 2006. Since the original option issue, the Company was listed on the Australian Stock Exchange and has achieved significant progress, with the number of shares on issue being increased significantly as a result of the Company's Initial Public Offering and the placements to Anegada Metals Corporation, Kagara Zinc Limited, and Resource Capital Fund III L.P.

Since listing, the Company's shares have traded from a low of 12 cents in February 2005 to \$1.00 in June 2007, with the shares trading recently around the 65 cent level. The Directors of the Company believe their cash remuneration is below market rates for personnel of comparable experience and expertise, and because of the small number of staff employed by the Company, the Directors are directly involved with the ongoing management and development of the Company. The Directors believe that the issue of the Options will therefore act as a further incentive in respect of the future performance of the Company.

Mr Ashley who joined the Board in November 2006 was not a participant in any previous issue of options, and these options were approved for issue in February 2007 with an exercise price of 80 cents, subject to shareholder approval.

Given these factors, the Directors believe the issuance of further options is warranted.

Terms of the Options

The terms of the Options to be issued to Messrs Gillies and Haley (**Principal**) (or their nominees) shall be as follows:

- The Options will be issued and allotted as soon as possible following the meeting.
- The Options will be issued for nil consideration.
- The Options will vest on the Commencement Date.
- The commencement date (**Commencement Date**) for the exercise of the Options shall be 28 September 2009 provided the relevant Principal is still in the employment of the Company.
- Until the Commencement Date, whilst the Options are issued they will not be capable of being exercised.
- The Options will, except to the extent earlier exercised, expire the earlier of :
 - 28 September 2012; or
 - the day on which the relevant Principal ceases to be employed by the Company, (**Expiry Date**).
- The exercise price for each Option shall be sixty-five cents (\$0.65) (**Exercise Price**).
- The **Option Exercise Period** shall be the period commencing on the Commencement Date of the relevant Options and expiring on the Expiry Date of the relevant Options.
- The Options will not be transferable in whole or in part and may not be exercised by any other person. .
- The Options may be exercised at any time wholly or in part by delivering a duly completed form of notice of exercise together with a cheque for the exercise price to the Company at any time during the Option Exercise Period.
- The number of Options that may be exercised at one time must be not less than 20,000.
- Upon the valid exercise of the Options and payment of the Exercise Price, the Company will issue fully paid ordinary shares ranking pari passu with the then issued ordinary shares of the Company.
- The Option holder will be permitted to participate in new issues of securities of the Company on the prior exercise of the Options, in which case the holder of the Options will be afforded the period of at least 14 days notice prior to and inclusive of the books closing date (to determine entitlements to the issue) to exercise the Options.
- In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company:

For personal use only

- the number of Options, the exercise price of the Options, or both will be reconstructed (as appropriate) in a manner consistent with the ASX Listing Rules, but with the intention that such reconstruction will not result in any benefits being conferred on the holders of the options which are not conferred on shareholders; and
 - subject to the provisions with respect to rounding of entitlements as sanctioned by a meeting of shareholders approving a reconstruction of capital, in all other respects the terms for the exercise of the Options will remain unchanged.
- If there is a pro rata issue (except a bonus issue), the exercise price of an Option may be reduced according to the following formula:

$$O^n = O - \frac{E [P - (S + D)]}{N + 1}$$

Where:

- O^n = the new exercise price of the Option;
 - O = the old exercise price of the Option;
 - E = the number of underlying securities into which one Option is exercisable;
 - P = the average market price per security (weighted by reference to volume) of the underlying securities during the 5 trading days ending on the day before the ex right date or the ex entitlements date;
 - S = the subscription price for a security under the pro rata issue;
 - D = dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue);
 - N = the number of securities with rights or entitlements that must be held to receive a right to one new security.
- The Company does not intend to apply for listing of the Options on the ASX, and will not be obliged to do so.
 - The Company shall apply for listing of the resultant shares of the Company issued upon exercise of any Option.
 - If there is a bonus issue to the holders of shares in the Company, the number of shares over which the Option is exercisable may be increased by the number of shares which the Option holder would have received if the Option had been exercised before the record date for the bonus issue.
 - The terms of the Options shall only be changed if holders (whose votes are not to be disregarded) of ordinary shares in the Company approve of such a change. However, the terms of the Options shall not be changed to reduce the exercise price, increase the number of Options or change any period for exercise of the Options.

For personal use only

The terms of the Options to be issued to Mr Ashley (or his nominee) shall be as follows:

- The Options will be issued and allotted as soon as possible following the meeting and in any event no later than one (1) month from the date of the meeting.
- The Options will be issued for nil consideration.
- The Options will vest when allotted.
- The commencement date (**Commencement Date**) for the exercise of the Options shall be the date on which they are issued and allotted.
- The Options will, except to the extent earlier exercised, expire on 31 December 2010 (**Expiry Date**).
- The exercise price for each Option shall be eighty cents (\$0.80) (**Exercise Price**).
- The **Option Exercise Period** shall be the period commencing on the Commencement Date of the relevant Options and expiring on the Expiry Date of the relevant Options.
- The Options will not be transferable in whole or in part and may not be exercised by any other person (except, in the case of the Option holder's death, by his or her legal personal representative).
- The Options may be exercised at any time wholly or in part by delivering a duly completed form of notice of exercise together with a cheque for the exercise price to the Company at any time during the Option Exercise Period.
- The number of Options that may be exercised at one time must be not less than 20,000.
- Upon the valid exercise of the Options and payment of the exercise price, the Company will issue fully paid ordinary shares ranking pari passu with the then issued ordinary shares of the Company.
- The Option holder will be permitted to participate in new issues of securities of the Company on the prior exercise of the Options, in which case the holder of the Options will be afforded the period of at least 14 days notice prior to and inclusive of the books closing date (to determine entitlements to the issue) to exercise the Options.
- In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company:
 - the number of Options, the exercise price of the Options, or both will be reconstructed (as appropriate) in a manner consistent with the ASX Listing Rules, but with the intention that such reconstruction will not result in any benefits being conferred on the holders of the options which are not conferred on shareholders; and
 - subject to the provisions with respect to rounding of entitlements as sanctioned by a meeting of shareholders approving a reconstruction of capital, in all other respects the terms for the exercise of the Options will remain unchanged.

For personal use only

- If there is a pro rata issue (except a bonus issue), the exercise price of an Option may be reduced according to the following formula:

$$O^n = O - \frac{E [P - (S + D)]}{N + 1}$$

Where:

- O^n = the new exercise price of the Option;
 - O = the old exercise price of the Option;
 - E = the number of underlying securities into which one Option is exercisable;
 - P = the average market price per security (weighted by reference to volume) of the underlying securities during the 5 trading days ending on the day before the ex right date or the ex entitlements date;
 - S = the subscription price for a security under the pro rata issue;
 - D = dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue);
 - N = the number of securities with rights or entitlements that must be held to receive a right to one new security.
- The Company does not intend to apply for listing of the Options on the ASX, and will not be obliged to do so.
 - The Company shall apply for listing of the resultant shares of the Company issued upon exercise of any Option.
 - If there is a bonus issue to the holders of shares in the Company, the number of shares over which the Option is exercisable may be increased by the number of shares which the Option holder would have received if the Option had been exercised before the record date for the bonus issue.
 - The terms of the Options shall only be changed if holders (whose votes are not to be disregarded) of ordinary shares in the Company approve of such a change. However, the terms of the Options shall not be changed to reduce the exercise price, increase the number of Options or change any period for exercise of the Options.

Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party of the public company unless the benefit falls within one of various exceptions to the general prohibition or where the company first obtains the approval of its shareholders in general meeting in circumstances where the requirements of Chapter 2E in relation to the convening of that meeting have been met.

For personal use only

A “*related party*” for the purposes of the Corporations Act is defined widely and it includes a director of the public company.

A “*financial benefit*” for the purposes of the Corporations Act has a very wide meaning. It includes the public company paying money or issuing securities to the related party. In determining whether or not a financial benefit is given, it is necessary to look to the economic and commercial substance and effect of what the public company is doing (rather than just the legal form). Any consideration which is given for the financial benefit is to be disregarded, even if it is full or adequate.

This proposed resolution, if passed, will confer financial benefits on the Interested Directors and the Company seeks to obtain member approval in accordance with the requirements of Chapter 2E of the Corporations Act and for this reason and for all other purposes the following information is provided to shareholders.

The related party to whom the resolution would permit the financial benefit to be given

The following persons, each being Directors of the Company, are the related parties to whom the corresponding Resolutions would permit the financial benefit to be given:

- (a) Andrew Gillies (or his nominee) – Resolution 4;
- (b) John Haley (or his nominee) – Resolution 5;
- (c) Mark Ashley (or his nominee) - Resolution 6,

being Directors of the Company.

The nature of the financial benefit

The nature of the proposed financial benefit to be given is the issue of the Options in the capital of the Company.

Directors’ recommendation

With respect to Resolution 4, Messrs Barwick, Haley, Nicholson and Ashley recommend that shareholders vote in favour of this Resolution. The reasons for their recommendation include:

- the grant of the Options as proposed to the Recipient will provide him with reward and incentive for future services he will provide to the Company to further the progress of the Company;
- the Options are not intended as a substitute for salary or wages or as a means for compensation for past services rendered; and
- in the Company’s circumstances as they existed as at the date of this Explanatory Memorandum, the Directors considered that the incentive provided a cost effective and efficient incentive as opposed to alternative forms of incentives (eg cash bonuses, increased remuneration). However, it must be recognised that there will be an opportunity cost to the Company, being the price at which the Company could grant the Options to a third party.

As Mr Gillies is interested in the outcome of Resolution 4, he accordingly makes no recommendation to shareholders in respect of this Resolution.

With respect to Resolution 5, Messrs Gillies, Barwick, Nicholson and Ashley recommend that shareholders vote in favour of this Resolution. The reasons for their recommendation include:

- the grant of the Options as proposed to the Recipient will provide him with reward and incentive for future services he will provide to the Company to further the progress of the Company;
- the Options are not intended as a substitute for salary or wages or as a means for compensation for past services rendered; and
- in the Company's circumstances as they existed as at the date of this Explanatory Memorandum, the Directors considered that the incentive provided a cost effective and efficient incentive as opposed to alternative forms of incentives (eg cash bonuses, increased remuneration). However, it must be recognised that there will be an opportunity cost to the Company, being the price at which the Company could grant the Options to a third party.

As Mr Haley is interested in the outcome of Resolution 5, he accordingly makes no recommendation to shareholders in respect of this Resolution.

With respect to Resolution 6, Messrs Gillies, Barwick, Nicholson and Haley recommend that shareholders vote in favour of this Resolution. The reasons for their recommendation include:

- the grant of the Options as proposed to the Recipient will provide him with reward and incentive for future services he will provide to the Company to further the progress of the Company;
- the Options are not intended as a substitute for salary or wages or as a means for compensation for past services rendered; and
- in the Company's circumstances as they existed as at the date of this Explanatory Memorandum, the Directors considered that the incentive provided a cost effective and efficient incentive as opposed to alternative forms of incentives (eg cash bonuses, increased remuneration). However, it must be recognised that there will be an opportunity cost to the Company, being the price at which the Company could grant the Options to a third party.

As Mr Ashley is interested in the outcome of Resolution 6, he accordingly makes no recommendation to shareholders in respect of this Resolution.

Costs and detriments of providing financial benefit

The opportunity costs and benefit foregone by the Company issuing the Options to the Interested Directors is the dilutionary impact on the issued share capital of the Company in the event that the Options are exercised.

For personal use only

Directors' interests and other remuneration

Mr Andrew Gillies

Mr Gillies has a material personal interest in the outcome of Resolution 4, as a total of 350,000 Options would be issued to him under this Resolution.

Excluding the Options, Mr Gillies (and entities associated with him) holds 9,150,000 shares in the Company, and 1,500,000 options to subscribe for ordinary shares in the Company on terms previously approved by the Company.

As the Managing Director of the Company, Mr Gillies receives an annual remuneration of \$250,000 including superannuation and up to \$20,000 of bonuses (\$10,000 of which has been paid). Mr Gillies shall not receive any additional director's fees as part of his total remuneration package.

Mr John Haley

Mr Haley has a material personal interest in the outcome of Resolution 5, as a total of 250,000 Options would be issued to him under this Resolution.

Excluding the Options, Mr Haley (and entities associated with him) holds 275,000 shares and 1,000,000 options to subscribe for ordinary shares in the Company on terms previously approved by the Company.

Mr Haley, as an executive Director, Company Secretary and Chief Financial Officer of the Company, receives an annual salary of \$110,000 (including superannuation) for a minimum of 3 days work per week in fulfilling these duties.

Mr Mark Ashley

Mr Ashley has a material personal interest in the outcome of Resolution 6, as a total of 500,000 Options would be issued to him under this Resolution.

Excluding the Options, Mr Ashley (and entities associated with him) holds no shares of the Company. Mr. Ashley is a Director of Kagara Zinc Limited, which holds 13,718,730 shares and 6 million options to acquire shares in the Company.

Other than the Options to be issued to Mr Ashley or his nominee pursuant to Resolution 6, Mr Ashley shall receive director's remuneration of \$13,200 per annum from the Company as part of his remuneration package.

For personal use only

If all of the Options granted are exercised by Messrs Gillies, Haley, and Ashley, the following will be the effect on their holdings in the Company:

Director	Current Share Holding	% of Total Share Capital (102,432,628 shares on issue ^{1,2})	Share Capital Upon Exercise	% of Total Share Capital (103,532,628 shares on issue 1)
Gillies	9,150,000	8.93 ²	9,500,000	9.19
Haley	275,000	0.28 ²	525,000	0.50
Ashley	0	0	500,000	0.48

Notes:

1. Assuming that none of the current options on issue is exercised.
2. Assuming that none of the current options on issue to the Directors is exercised.

If all of the Options granted are exercised by Messrs Gillies, Haley, and Ashley, the following will be the dilutionary effect on the current issued capital of the Company:

Shareholders	Current Share Capital	% of Current Share Capital ¹	Share Capital Upon Exercise	% of Share Capital Upon Exercise ¹
Current Shareholders	93,007,628	90.79	93,007,628	89.83
Gillies	9,150,000	8.93	9,500,000	9.19
Haley	275,000	0.28	525,000	0.50
Ashley	0	0	500,000	0.48
Total	102,432,628	100.00	103,532,628	100.00

1. Assuming that none of the current options on issue is exercised.
2. Assuming that none of the current options on issue to the Directors is exercised.

Valuation

The Options are not to be quoted on the ASX and as such have no easily discernible value. It is therefore necessary to calculate the Options' value. Each Option grants the holder a right to the grant of one ordinary share in the Company upon exercise of the Option and payment of the exercise price of the Option described above. Accordingly, the Options may have a present value at the date of their grant.

The Options' value is, amongst other things, dependent upon the extent to which the shares exceed the exercise price of the Options during the term of the Options.

The Company has engaged Harris Black, Chartered Accountants to estimate the value of the Options and Harris Black has done so using the Black-Scholes Model, which is the most widely used and recognised model for pricing options. The value of an option calculated by the Black-Scholes Model is a function of the relationship between a number of variables, being the share price, the exercise price, the time to expiry, the risk-free interest rate and the volatility of the Company's underlying share price.

For personal use only

Inherent in the application of the Black-Scholes Model are a number of inputs, some of which must be assumed. The data relied upon in applying the Black-Scholes Model to the 350,000 options to be issued to Andrew Gillies or his nominee, and the 250,000 options to be issued to John Haley or his nominee, was:

- The exercise price of the Options of 65 cents.
- The Company's current share price (\$0.70 at the time of the valuation).
- The fact that the Options cannot be exercised for two years.
- The expiry date of the Options, being 28 September 2012.
- A volatility measure of approximately 77% (This measure was determined having regard to the price range the Company's Shares have traded at since listing on the Australian Stock Exchange).
- No expected dividend yield (assumed data) during the life of the Options.
- The risk-free rate of return.

Based on this information, the Company at the recommendation of Harris Black has adopted an indicative value for the Options of 48.05 cents for each Option and an aggregate value for the 600,000 Options to be issued to Messrs Gillies and Haley of \$288,307.

The data relied upon in applying the Black-Scholes Model to the 500,000 options to be issued to Mark Ashley or his nominee was:

- The exercise price of the Options of 80 cents.
- The Company's current share price (\$0.70 at the time of the valuation).
- The expiry date of the Options, being 31 December 2010.
- A volatility measure of approximately 77% (This measure was determined having regard to the price range the Company's Shares have traded at since listing on the Australian Stock Exchange).
- No expected dividend yield (assumed data) during the life of the Options.
- The risk-free rate of return.

Based on this information, the Company at the recommendation of Harris Black has adopted an indicative value for the Options of 37.33 cents for each Option to be issued to Mr Ashley and an aggregate value for the 500,000 Options of \$186,667.

On that basis, the aggregate value of the Options to be issued pursuant to Resolutions 4 to 6 inclusive is \$474,974.

For personal use only

Any other information that is reasonably required by shareholders to make a decision and that is known to the Company or any of its Directors

There is no other information known to the Company or any of its Directors save and except as follows:

Opportunity Costs

Shareholders should note that there is an opportunity cost to the Company in issuing Options to Mr Gillies, Mr Haley and Mr. Ashley; being the dilutionary impact on the issued share capital of the Company on the exercise of any of the Options. In particular, based on the current issued shares of the Company of 102,432,628, on the basis that all of the Options are exercised, this would result in the dilutionary impact of the current shareholders of the Company of approximately 1.1%. Shareholders should note however that the Company shall receive a corresponding benefit of 65 cents or 80 cents for each Option exercised.

Taxation Consequences

The consequences to the Company arising from the proposed issue of the Options in accordance with Resolution 4-6 inclusive are as follows.

AASB 2 "Share Based Payments" requires that these payments shall be measured at the more readily determinable fair value of the equity instrument. Under the new accounting standards this amount will be expensed in the statement of financial performance. Where the grant date and the vesting date are different the total expenditure calculated will be allocated between the two dates taking into account the terms and conditions attached to the instruments and the counterparties as well as management's assumptions about probabilities of payments and compliance with and attainment of the set out terms and conditions.

Save as set out in this Explanatory Memorandum, the Directors are not aware of any other information that will be reasonably required by shareholders to make a decision in relation to benefits contemplated by the proposed resolution.

For personal use only