



Metals Finance Limited

SPECIALISTS IN METAL RECOVERY

QUARTERLY REPORT FOR THE PERIOD TO 31 AUGUST 2012

Metals Finance Limited (ASX: MFC) is pleased to provide its Quarterly Activities Report for the three month period ending 31 August 2012.

SUMMARY

- **Completion of feasibility study Barnes Hill**
- **Lucky Break Project fully permitted**
- **Discussions progressing for funding of nickel projects**
- **MF Africa reports progress on funding Chambishi**
- **Accelerated search for other opportunities**
- **Significant overhead cuts implemented**

NICKEL PROJECTS

Metals Finance has three nickel projects under detailed investigation and development, with agreements on the following projects being held through the Company's wholly owned subsidiary, Nickel Developments Limited:

1. Lucky Break, North Queensland, JV with Metallica Minerals Limited (ASX:MLM)
2. Barnes Hill, Tasmania, JV with Proto Resources and Developments Limited (Proto, ASX:PRW)
3. Homeville, New South Wales, JV with Augur Resources Limited (ASX:AUK)

Lucky Break

Feasibility studies are now complete for the Lucky Break project and both environmental and operating permits have been received. The Company is in discussion with a number of parties with a view to funding of the project, in conjunction with Barnes Hill and, at a later stage, potentially Homeville.

Barnes Hill

As advised to the ASX on 2 July 2012, the Company has completed detailed feasibility studies on the Barnes Hill nickel laterite project in Tasmania. The study has been based on the following general operating parameters:

- Treatment plant throughput – 500,000 tonnes per annum
- Projected operating life – 10 years
- Resource availability in accordance with Snowden Mining Industry Consultants assessment
- Proposed flow sheet:
 - Atmospheric vat leaching
 - Nickel and cobalt recovery through ion exchange
 - Production of nickel cathode through electrowinning

Average production rate for the 10 year modelled project is 4,100 tonnes of nickel and 200 tonnes of cobalt per annum. The feasibility study projects a start up capital cost of \$70 million dollars, including a substantial contingency amount. Under the parameters and assumptions contained in the base model, projected direct cost of nickel production in the project model is equivalent to US\$5.39 per pound of nickel in the first five years of operation.

Given the positive result from the feasibility study, the Company is, in conjunction with Proto, progressing development of the project through optimisation and other studies in the following areas:

- a) Further flow sheet refinement assisted by agreement with Dow Chemical
- b) Confirmation of site logistics and facilities for final costing
- c) Finalisation of applications for environmental and operating permits
- d) Evaluation of potential for treatment and sale of associated iron rich material
- e) Further discussions with potential funders of the project

Homeville

The Company has commenced geological and metallurgical studies on the Homeville project. The target in this project is an estimated JORC compliant resource of 16.3 million tonnes at 0.93% nickel and 0.05% cobalt (cut-off 0.7% nickel). The mineralisation is at surface in some areas, and has an average depth to the top of the deposit of only 10 metres. Based on a cut-off grade of 0.7% nickel, the resource estimate includes a total of 4.4 million tonnes at 0.99% nickel and 0.06% cobalt as Indicated Resource and 11.9 million tonnes at 0.91% nickel and 0.05% cobalt as Inferred Resource.

MFC's examination of the Homeville drill data base suggests that a discrete portion of the resource is higher grade, and potentially amenable to early development. The detailed modelling that is required to verify this under the terms of the JORC code has yet to be completed.

Preliminary test work at differing leach temperatures have been completed, the results of which indicate potential for reasonable recovery of nickel (85%) and cobalt (90%) from composite drill hole samples, with the primary impact of higher temperature being significant acceleration of leaching. Further comprehensive leach testing is planned.

Activities in the current quarter will focus on:

- Further leach testing of representative samples of the deposit
- Assessment of logistical and infrastructure characteristics of the project site
- Re-evaluation of previous detailed drilling

METALS FINANCE AFRICA

As previously announced, the Company has entered into a conditional agreement for Muva Metals (Pty) Ltd (Muva), of South Africa, to purchase its interests in Metals Finance Africa (Pty) Ltd. (MFA) and the Chambishi tailings project in Zambia. The sale was conditional upon the establishment by Muva and MFA of the funding required for the development of the Chambishi project, with settlement entailing an initial cash payment of \$700,000, followed by a further \$2.2 million in the form of a royalty per tonne of tailings treated by the project.

The Company advised in June 2012 that Muva had received offers from debt funders to provide the capital required for establishment of the project. Muva's activities in the past quarter have focussed on undergoing due diligence and documentation targeted at consummating debt arrangements with those funders. Significant progress has been achieved and Muva expects to achieve completion before the end of the year. Subject to successful completion of the lenders' requirements and installation of the Chambishi treatment facility, the Company expects payment of the consideration of its sale to Muva to commence during 2013.



BASS METALS

MFC holds a substantial shareholding in the Tasmanian listed mining company, Bass Metals Limited (ASX: BSM), the value of which has been significantly impacted by operational problems encountered earlier in the year at the Hellyer Mine. Bass Metals has spent the intervening period mining and milling easily available ore from the Fossey base metals deposit and reducing costs, with the aim of accelerating debt and creditor payments and re-establishing itself as an explorer of the high potential tenements it holds in Tasmania. In June 2012 Bass Metals reported a significant uplift in actual against projected production from its final mining and milling campaigns.

On 6 July 2012, Bass Metals announced that the company had entered into an agreement to sell its wholly-owned subsidiary, Hellyer Mill Operations Pty Ltd (HMO), to LionGold Corp Ltd, a Singapore listed gold investment and development company, for A\$15 million worth of LionGold shares or a cash payment of \$13.5 million at LionGold's election. The sale was targeted at leaving Bass Metals debt free, with a forecast free cash position of between \$6 to \$8 million.

On 4 September 2012 Bass Metals announced that the company had been notified that LionGold considered that the conditions precedent for completion of the sale agreement had not been satisfied, and therefor providing given notice of termination of the Sale Agreement. Bass Metals have subsequently (13 September 2012) advised that the company intends to vigorously pursue legal action against LionGold as a consequence of their actions.

At this stage the potential result of this action cannot be predicted, but the Company remains expectant of a possible positive outcome and a resulting recapture of value from its investment in Bass Metals.

FURTHER PROJECTS

The Company is actively seeking involvement in other projects, both in Australia and overseas. A number of potential opportunities are currently under examination, across a relatively wide range of commodities. Subject to a successful outcome from this search, this will provide the Company with a secondary focus outside of the nickel projects it has had under development for a number of years.

CORPORATE AND FINANCIAL

Metals Finance ended the quarter under review with cash reserves of approximately \$1.6 million. Supported by the expected commencement during 2013 of cash receipts from the sale of Metals Finance Africa, expected receipt of R&D refunds and the possibility of recapturing some value in the Company's Bass Metals investment, the Company expects to have sufficient working capital to maintain its activities through the end of 2013. As previously reported, the Company has instituted a series of wide ranging cuts in its base overheads, in order to facilitate achievement of this aim.



P.A. Treasure
Managing Director

Information within this announcement which pertains to mineralisation or resources is based on information compiled by Mr Tony Treasure who is a full time employee of Metals Finance Limited and is a Member of the Australasian Institute of Mining and Metallurgy. Mr Treasure has sufficient experience in the fields under consideration to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration results, Mineral Resources and Ore reserves and consents to the inclusion of this information in the form and context of which it appears in this report



Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

Metals Finance Limited

ABN

83 127 131 604

Quarter ended ("current quarter")

31 August 2012

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	21	66
1.2 Payments for (a) exploration & evaluation	(123)	(746)
(b) development	-	-
(c) production	-	-
(d) administration	(371)	(1,584)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	38	194
1.5 Interest and other costs of finance paid	(2)	(6)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	225
Net Operating Cash Flows	(437)	(1,851)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	44
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	44
1.13 Total operating and investing cash flows (carried forward)	(437)	(1,807)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(437)	(1,807)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(437)	(1,807)
1.20	Cash at beginning of quarter/year to date	2,051	3,421
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,614	1,614

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	58
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

None

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	n/a	-
3.2 Credit standby arrangements	n/a	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	100
4.2 Development	-
4.3 Production	-
4.4 Administration	255
Total	355

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	90	251
5.2 Deposits at call	1,524	1,800
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,614	2,051

+ See chapter 19 for defined terms.

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities	-	-	-
	(description)			
7.2	Changes during quarter			
	(a) Increases through issues	-	-	-
	(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-
7.3	+Ordinary securities	73,109,576	73,109,576	-
7.4	Changes during quarter			
	(a) Increases through issues	-	-	-
	(b) Decreases through returns of capital, buy-backs	-	-	-

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.5	+Convertible debt securities <i>(description)</i>	-	-	-	-
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-	-	-	-
7.7	Options <i>(description and conversion factor)</i>	2,000,000	-	<i>Exercise price</i> \$0.25	<i>Expiry date</i> 31 January 2013
		2,000,000	-	\$0.30	31 January 2013
		2,500,000	-	\$0.15	28 February 2017
7.8	Issued during quarter	-	-	-	-
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	-	-	-	-
7.11	Debentures <i>(totals only)</i>	-	-		
7.12	Unsecured notes <i>(totals only)</i>	-	-		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does ~~not~~ *does not** *(delete one)* give a true and fair view of the matters disclosed.



Sign here:

Date: **28 September 2012**

(Director/~~Company secretary~~)

Print name: **Tony Treasure**

+ See chapter 19 for defined terms.

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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