



Metals Finance Limited

SPECIALISTS IN METAL RECOVERY

QUARTERLY REPORT FOR THE PERIOD TO 30 NOVEMBER 2012

Metals Finance Limited (ASX: MFC) is pleased to provide its Quarterly Activities Report for the three month period ending 30 November 2012.

SUMMARY

- **Optimisation of Barnes Hill Feasibility Study under way**
- **Results of changes to proposed Barnes Hill flow sheet positive**
- **Discussions progressing for funding of nickel projects**
- **Accelerated search for other opportunities**
- **Continuation of cuts in overhead costs**
- **Substantial R&D return received**

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)

Nickel Development's CEO, Mark Sykes, is pursuing discussions with a number of parties with a view to establishing appropriate funding for commencement of the roll out of these projects.

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 market in late November 2012, Metals Finance continues to make significant progress on the Barnes Hill project. In June 2102 the Company completed a detailed feasibility study, based on a throughput of 500,000 tonnes per annum, through vat leaching, recovery of nickel through ion exchange and electrowinning, to produce a high value nickel cathode.

The past quarter has been occupied in optimisation in certain areas of the proposed project and flow sheet, and the furthering of requirements for environmental permitting. These have included an assessment of potential to amend the leach circuit to agitated tank leaching, as opposed to vat leaching. The potential benefits this offers to the project are:

- More rapid and enhanced leaching of the target nickel and cobalt
- Potential reduction in acid consumption in a more closely controlled leach
- Significant reduction in the leach circuit footprint, reducing the project's environmental impact
- The ability to use local estuarine, rather than fresh, water for the leach

Initial leach test work has now been completed and preliminary operating and capital costs of the revised circuit have been estimated. The proposed revision of the leach circuit has positive impact on the project, with respect to the benefits summarised above. Contrary to previous expectations, elevated temperature agitated tank leaching does not result in higher acid consumption in the leach – to the contrary, acid consumption is lower, given the more rapid reaction, and nickel and cobalt recovery are higher.

The switch to the tank leach option will significantly decrease the footprint of the treatment plant and other facilities, and the use of saline water in the leach resolves one of the more significant outstanding issues for the project (water supply).

The table below summarises the revised projected result, over a range of nickel values and/or a higher operating cost.

	Base	2	3	4	5
Capital cost (\$ millions)	81.1	81.1	81.1	81.1	81.1
Project tonnes throughput (million t)	5.93	5.93	5.93	5.93	5.93
Nickel grade first 5 yrs (%)	1.01%	1.01%	1.01%	1.01%	1.01%
Nickel grade second 5 yrs (%)	0.73%	0.73%	0.73%	0.73%	0.73%
Nickel recovery (%)	90%	90%	90%	90%	90%
Long term nickel price US\$/lb	10.00	9.00	7.42	9.00	11.00
Cobalt price US\$/lb (average 10 yrs)	13.61	13.61	13.61	13.61	13.61
AU:US exchange rate	0.95	0.95	0.95	0.95	0.95
Acid consumption (kg/t ore)	585	585	585	585	585
Total revenue (\$ millions)	1,081	982	825	982	1,210
Total operating costs (\$ millions)	630	631	631	757	631
Indicated surplus (\$ millions)	441	343	189	219	568
Indicated NPV 12.5% (\$ millions)	152	103	28	45	217
Indicated IRR%	60%	46%	24%	31%	77%

Providing for the higher value of cobalt, projected operating costs for the 10 year life of the mine are equivalent to an indicated A\$5.91/lb of nickel. As a result of the higher grade material expected to be treated during the first five years of the operation, equivalent direct operating costs for that period are lower – at an indicated average of A\$5.06/lb.

Studies in the forthcoming quarter will focus on:

- Completion of further confirmatory leach tests
- Completion of bulk leach tests
- Refining the projected operating and capital costs for the changed circuit

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.

Current activities on the project are focussing 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



The results of the preliminary leach test work have been positive, with nickel and cobalt recoveries exceeding 85%, at reasonable acid consumption level (between 550 and 650 kg/t of ore). Further comprehensive testwork is planned over the next 12 months, in order to optimise the leach operating parameters and methodology. The ongoing programme will also include a full reassessment of the reported resource and the completion of preliminary feasibility studies on the project.

BASS METALS

Metals Finance 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. 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.

Bass Metals has recently advised that its bankers and primary secured creditor have agreed to extend the final repayment date of its existing debt facilities to 22 February 2013. The extension was sought on the basis that Bass has received several proposals for the purchase of a selection of its key assets and the board considers that there are strong prospects of finalising a transaction within the new agreed time frame.

At this stage the potential result of the company's action against LionGold and its intended asset sales cannot be predicted, but the Company remains expectant of a potentially positive outcome and resulting recapture of value from its investment in Bass Metals.

FURTHER PROJECTS

The Company is currently reviewing involvement in a number of potential large project opportunities, which could provide the Company with the commodity versatility it is seeking and/or provide a significant share in emerging development and potential cash flow. Detailed investigations of the opportunities presented are presently being undertaken, and the search for other opportunities will continue.



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")

30 November 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	17	17
1.2 Payments for:		
(a) exploration & evaluation	(145)	(145)
(b) development	-	-
(c) production	-	-
(d) administration	(267)	(267)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	9	9
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	555	555
Net Operating Cash Flows	168	168
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	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	168	168

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	168	168
	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	168	168
1.20	Cash at beginning of quarter/year to date	1,614	1,614
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,782	1,782

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	73
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	80
4.2 Development	-
4.3 Production	-
4.4 Administration	295
Total	375

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	742	90
5.2 Deposits at call	1,040	1,524
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,782	1,614

+ 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	-	-	-
	<i>(description)</i>			
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: **21 December 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.
- 6 Details for item 1.7 on page 1 of this report relates to a refund received for research and development.

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