



# Metals Finance Limited

SPECIALISTS IN METAL RECOVERY

## QUARTERLY REPORT FOR THE PERIOD TO 28 MARCH 2013

Metals Finance Limited (ASX: MFC) is pleased to provide its Quarterly Activities Report for the period ending 28 March 2013.

### SUMMARY

- **Barnes Hill Optimised Feasibility Study complete**
- **Indicated result of changes to proposed Barnes Hill flow sheet positive**
- **Modelled project highlights (A\$):**
  - Project NPV \$ 143.6m
  - Construction capital \$ 78.4m
  - Capital Intensity \$ 7.50/lb<sup>1</sup>
  - Mine site cash costs \$ 5.75/lb<sup>1</sup>
  - Annual revenue \$ +100m
  - Average annual EBITDA \$ +30m
  - JV to finalise permitting
- **Discussions progressing for funding of nickel projects**
- **Continuing maintenance of strict expenditure control**
- **Further projects under review and discussion**

### 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 (NDL):

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)

#### Barnes Hill

The past quarter has been occupied primarily in completion of the updated feasibility study on the Barnes Hill project, incorporating changes to the originally proposed flow sheet and updated assessment of projected capital and operating costs.

As advised to the market on 26 March, the optimised study has now been completed and has confirmed that the project is economically robust, under the assumptions and factors incorporated into the study. It further endorses the Company's innovative ability to maximise the economic potential of an undeveloped nickel laterite deposit by delivering a low operating cost structure along with highly efficient use of capital.

The modelled project is a 500,000 tpa ROM nickel and cobalt operation producing 4,800 tonnes of Ni equivalent per annum. Once developed, the Project offers the joint venture partners sustainable cash

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<sup>1</sup> Based on nickel equivalent production that is inclusive of nickel and cobalt

flow over the modelled 10 year period. Modelling of the base case parameters for the Project, reports an NPV of A\$143.6m (@ 12.5% discount rate) yielding a 51% IRR. The optimisation study has confirmed the projects economic metrics with a capital intensity, equivalent to \$7.50/lb annual production, and operating costs of \$5.16/lb in the first 5 years and \$5.75/lb over 10 years.

The Company completed feasibility study work on the 500,000 tonnes per annum vat leach and nickel production plant in June 2012. The study was completed on the basis of capital and operating cost savings which could be achieved through the use of the nearby 3rd party infrastructure and utilities.

Since issuing the June 2012 feasibility study, further engineering studies have been undertaken aimed at optimising the project economics. A number of opportunities have been identified that are advantageous to the project economics, summarised below:

| Optimisation         | Proposition                                    | Advantages   |
|----------------------|--|--|
| Leaching Vessels     | Employ an agitated tank system                 | Reduce footprint of leach vessel and increase confidence in nickel recovery                |
| Leach Temperature    | Increase leach temperature to 80oC             | Reduce residence time in leach from 120 days to 8 hours                                    |
| Water Medium         | Utilise saline water in the process flow sheet | Reduce operating cost by reducing water unit charge rates and acid consumption             |
| Plant Relocation     | Reposition the processing facility             | Reduce site establishment capital by locating plant closer to existing road infrastructure |
| Power Options        | Connect to existing distribution system        | Reducing total power demand enables connection to nearby power system                      |
| Increase Strip Ratio | Maximises extraction of resource from deposit  | Ensures total resource recovery and maximises potential mine life.                         |

Total construction capital for the Project is \$78.4m, providing a capital intensity of \$7.50 per pound of annual Ni<sub>equiv</sub> production, positioning the project as a capital efficient nickel laterite project when compared to peers. The Project has a mine site cash cost of A\$5.16/lb of nickel equivalent for the first 5 years of operation and A\$5.75/lb for the modelled 10 year period.

Sales of nickel cathode and cobalt sulphate are projected to generate annual revenue of approximately \$105m annually. Revenue is based on commodity pricing of \$10/lb Ni and \$13/lb Cobalt with foreign exchange parity. Allowing for operating and marketing costs, the average annual EBITDA is approximately \$30m, inclusive of capital repayment and exclusive of project financing costs.

Key operational and financial highlights of the modelled project include:

| Barnes Hill Project                      | Base    |
|--|---------|
| Capital cost (\$ millions)               | 78.4    |
| Project ROM tonne throughput (million t) | 500,000 |
| Nickel grade first 5 yrs (%)             | 1.01%   |
| Nickel grade second 5 yrs (%)            | 0.73%   |
| Nickel recovery (%)                      | 90%     |
| Life of mine nickel price US\$/lb        | 10      |
| Foreign Exchange USD:AUD                 | 1:1     |
| Total revenue (\$ millions)              | 1,045   |
| Indicated NPV 12.5% (\$ millions)        | 143.7   |
| Indicated IRR%                           | 51%     |

### Lucky Break

With feasibility studies complete and environmental and operating permits in place, have been received. The Company is now focussed on funding of the project, in conjunction with Barnes Hill and, at a later stage, potentially Homeville.



## Homeville

Now that the Barnes Hill feasibility study has been completed, added focus will be given to completing studies on the Homeville project in New South Wales. The detailed work completed for the Barnes Hill project, particularly on flow sheet design, capital costing and operating costing, will allow the Homeville programme to be accelerated.

Activities over the coming quarter will focus one:

- 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
- Integration of engineering and costing form the Barnes Hill project

## BASS METALS

Metals Finance remains a substantial shareholding (9.6%) in the Tasmanian listed mining company, Bass Metals Limited (ASX: BSM).

The Company is pleased to note that BSM have now completed a major sale of assets, providing a cash inflow of \$11 million. The result of this is that the company has been able to pay down all of its debts and creditors, leaving a cash balance of approximately \$3 million, that can be utilised to restart exploration programs on its Tasmanian projects and pursue new project opportunities.

## CORPORATE

The Company is continuing to maintain strict control on expenditure and implementing actions to streamline its corporate costs.

The Company's strategy is to continue to pursue investment opportunities that translate directly to increased shareholder value. The Company is currently considering a number of potentially large project opportunities that may satisfy this objective and provide MFC with;

- exposure to broader portfolio of commodities,
- a significant share in emerging development projects, and
- targets that can generate potential short term positive cash flows.

Detailed discussions of these opportunities are at various stages of advancement.



**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")

**28 February 2013**

### Consolidated statement of cash flows

|   | Current quarter<br>\$A'000 | Year to date<br>(6 months)<br>\$A'000 |
|---|----------------------------|---------------------------------------|
| <b>Cash flows related to operating activities</b>               |                            |                                       |
| 1.1 Receipts from product sales and related debtors             | 24                         | 41                                    |
| 1.2 Payments for:   |                            |                                       |
| (a) exploration & evaluation                                    | (336)                      | (481)                                 |
| (b) development   | -                          | -                                     |
| (c) production  | -                          | -                                     |
| (d) administration  | (203)                      | (470)                                 |
| 1.3 Dividends received  | -                          | -                                     |
| 1.4 Interest and other items of a similar nature received       | 10                         | 19                                    |
| 1.5 Interest and other costs of finance paid                    | -                          | (1)                                   |
| 1.6 Income taxes paid   | -                          | -                                     |
| 1.7 Other (provide details if material)                         | -                          | 555                                   |
| <b>Net Operating Cash Flows</b>                                 | <b>(505)</b>               | <b>(337)</b>                          |
| <b>Cash flows related to investing activities</b>               |                            |                                       |
| 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)                        | -                          | -                                     |
| <b>Net investing cash flows</b>                                 | <b>-</b>                   | <b>-</b>                              |
| 1.13 Total operating and investing cash flows (carried forward) | <b>(505)</b>               | <b>(337)</b>                          |

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

|      |  |              |              |
|------|--|--------------|--------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (505)        | (337)        |
|      | <b>Cash flows related to financing activities</b>          |              |              |
| 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)                        | -            | -            |
|      | <b>Net financing cash flows</b>                            | -            | -            |
|      | <b>Net increase (decrease) in cash held</b>                | (505)        | (337)        |
| 1.20 | Cash at beginning of quarter/year to date                  | 1,782        | 1,614        |
| 1.21 | Exchange rate adjustments to item 1.20                     | -            | -            |
| 1.22 | <b>Cash at end of quarter</b>                              | <b>1,277</b> | <b>1,277</b> |

**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<br>\$A'000 |
|------|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 146                        |
| 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<br>\$A'000 | Amount used<br>\$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 | 65         |
| 4.2 Development                | -          |
| 4.3 Production                 | -          |
| 4.4 Administration             | 230        |
| <b>Total</b>                   | <b>295</b> |

### 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<br>\$A'000 | Previous quarter<br>\$A'000 |
|--|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank                     | 47                         | 90                          |
| 5.2 Deposits at call                             | 1,230                      | 1,524                       |
| 5.3 Bank overdraft                               | -                          | -                           |
| 5.4 Other (provide details)                      | -                          | -                           |
| <b>Total: cash at end of quarter (item 1.22)</b> | <b>1,277</b>               | <b>1,614</b>                |

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+ 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 | <b>Preference securities</b>                                     | -             | -   | -  |
|     | <i>(description)</i>   |               |   |  |
| 7.2 | Changes during quarter   |               |   |  |
|     | (a) Increases through issues                                     | -             | -   | -  |
|     | (b) Decreases through returns of capital, buy-backs, redemptions | -             | -   | -  |
| 7.3 | <b>+Ordinary securities</b>                                      | 73,109,576    | 73,109,576                                    | -  |
| 7.4 | Changes during quarter   |               |   |  |
|     | (a) Increases through issues                                     | -             | -   | -  |
|     | (b) Decreases through returns of capital, buy-backs              | -             | -   | -  |

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+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

|      |   |           |   |                                 |  |
|------|---|-----------|---|---------------------------------|--|
| 7.5  | <b>+Convertible debt securities</b><br><i>(description)</i>   | -         | - | -                               | -                                      |
| 7.6  | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through securities matured, converted | -         | - | -                               | -                                      |
| 7.7  | <b>Options</b><br><i>(description and conversion factor)</i>  | 1,000,000 | - | <b>Exercise price</b><br>\$0.15 | <b>Expiry date</b><br>28 February 2017 |
| 7.8  | Issued during quarter   | -         | - | -                               | -                                      |
| 7.9  | Exercised during quarter  | -         | - | -                               | -                                      |
| 7.10 | Expired during quarter  | -         | - | -                               | -                                      |
| 7.11 | <b>Debentures</b><br><i>(totals only)</i>   | -         | - |                                 |  |
| 7.12 | <b>Unsecured notes</b> <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 ~~does not~~\* *(delete one)* give a true and fair view of the matters disclosed.



Sign here: ..... Date: **28 March 2013**  
(Director/~~Company secretary~~)

Print name: **Tony Treasure**

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+ 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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