**METALS FINANCE LIMITED (ABN 83 127 131 604)**

**CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 28 FEBRUARY 2014**

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## CORPORATE INFORMATION

*Registered Office*

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Sydney, NSW, 2000
Telephone: +61 2 9252-5300
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Website: www.metalsfinance.com
Email: info@metalsfinance.com

*Directors*

Geoff Hill (Chairman)
Richard Anthon (Non-Executive Director)
Simon Bird (Non-Executive Director)

*Principal Place of Business*

Level 14, 52 Phillip Street
Sydney, NSW, 2000
Telephone: +61 2 9252-5300
Facsimile: +61 2 9252-8400

*Solicitors*

CBP Lawyers
Level 5, 307 Queen Street
Brisbane, QLD, 4000
Telephone: +61 7 3002 8700
Facsimile: +61 7 3221 3068

*Company Secretary*

Ian Morgan

*Share Registry*

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney, NSW, 2000

*Bankers*

Bank of Queensland – Australia

*Auditor*

BDO Audit Pty Ltd
Level 10, 12 Creek Street
Brisbane, QLD 4000

*Investor enquiries*

Level 14, 52 Phillip Street
Sydney, NSW, 2000
Telephone: +61 2 9252-5300
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Website: www.metalsfinance.com
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## DIRECTORS' REPORT

The Directors of Metals Finance Limited (**MFC** or **the Company**) present their report for the half-year ended 28 February 2014. The Directors report as follows:

### Directors

The names of the Directors of the Company during the half-year and up to the date of this report are:

Geoff Hill (Chairman) Appointed 9 March 2007

Richard Anthon (Non-Executive Director) Appointed 7 October 2009

Simon Bird (Non-Executive Director) Appointed 13 July 2010

### Background

Metals Finance has actively sought out new investment opportunities and on 6th March 2014, Metals Finance signed of a Heads of Agreement with privately owned Texas and Oklahoma Coal Co Limited (**TOCC**).

After finalisation of a due diligence process, a merger between the two MFC and TOCC is expected to be proposed for approval by MFC's members.

### Review and Results of Operations

The consolidated net loss after income tax for the half-year ended 28 February 2014 was $200,646 (2013: $251,802).

### State of Affairs

There has been no significant change in the Company's state of affairs during the reported period other than the items noted below.

The most notable of MFC's recent achievements prior to the half year ended 28th February 2014 was to assemble a portfolio of promising nickel developments. MFC looked long and hard at consolidating these interests and listing them as a separate entity but regrettably, this proved to be impossible because of the difficult nickel markets and associated lack of investor interest.

Metals Finance actively sought out new investment opportunities capable of bringing value to MFC shareholders. This review process concluded in the signing of a Heads of Agreement with privately owned TOCC. Metal Finance has been conducting extensive due diligence, including a site visit to the TOCC Oklahoma assets.

TOCC is an unlisted public company that is focused on developing substantial coking coal projects in Canada and the US.

During the last three years, TOCC acquired a portfolio of exploration and development projects. It also has an option to acquire a producing, profitable coal mine in Oklahoma.

TOCC had been in the process of assessing its options for a public listing and a merger between the two MFC and TOCC is to be proposed for approval by MFC's members.

**Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

The auditor's independence declaration pursuant to Section 307C of the Corporations Act 2001 is set out on page 6.

Signed in accordance with a resolution of the Board of Directors.

Simon Bird

Director

Sydney

14 May 2014

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**DECLARATION OF INDEPENDENCE BY CRAIG R JENKINS TO THE DIRECTORS OF METALS FINANCE LIMITED**

As lead auditor for the review of Metals Finance Limited for the half-year ended 28 February 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Metals Finance Limited and the entities it controlled during the period.

**C R Jenkins**
Director
**BDO Audit Pty Ltd**

Brisbane, 14 May 2014

## CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the Half-Year Ended 28 February 2014

| | Note | Consolidated Entity Half-Year Ended **28 February 2014** **$** | Restated 28 February 2013 $ |
|---|---|---|---|
| **Revenue** | | | |
| Consulting revenue | | **-** | 20,000 |
| Interest revenue | | **5,893** | 28,093 |
| Other revenue | | **16,819** | - |
| | | **22,712** | 48,093 |
| Gain on sale of property, plant and equipment | | **-** | 4,859 |
| | | **22,712** | 52,952 |
| **Expenses** | | | |
| Employee expenses | | **(48,778)** | (88,143) |
| Depreciation and amortisation expense | | **-** | (5,226) |
| Foreign exchange loss | | **-** | (15,801) |
| Finance costs | | **(1,285)** | (429) |
| Project and feasibility costs | | **(3,887)** | (204,295) |
| Administration | | **(293,739)** | (505,992) |
| Impairment of property, plant and equipment | | **-** | (60,566) |
| Impairment of available-for-sale financial asset | 2 (b) (i) | **(118,987)** | - |
| Impairment of receivables | | **-** | (12,000) |
| **Loss before income tax benefit** | | **(443,964)** | (839,500) |
| Income tax benefit | 2 (a) | **243,318** | 587,698 |
| **Loss after income tax** | | **(200,646)** | (251,802) |
| **Other comprehensive income** | | | |
| Items that may be reclassified to profit or loss | | | |
| Changes in the fair value of available-for-sale financial assets | 2 (b) (i) | **(118,987)** | 89,240 |
| Income tax on other comprehensive income | | **-** | - |
| Total other comprehensive income | | **(118,987)** | 89,240 |
| **Total comprehensive income** | | **(319,633)** | (162,562) |
| Loss after income tax attributable to: | | | |
| Owners of the Parent Entity | | **(200,646)** | (251,802) |
| Non-controlling Interest | | **-** | - |
| | | **(200,646)** | (251,802) |
| Total comprehensive income attributable to: | | | |
| Owners of the Parent Entity | | **(319,633)** | (162,562) |
| Non-controlling Interest | | **-** | - |
| | | **(319,633)** | (162,562) |
| | | **Cents per share** | Cents per share |
| Loss per share: | | | |
| Basic loss | | **(0.27)** | (0.34) |
| Diluted loss | | **(0.27)** | (0.34) |

The Consolidated Interim Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements

## CONSOLIDATED INTERIM BALANCE SHEET

As at 28 February 2014

| | Note | Consolidated Entity | |
|---|---|---|---|
| | | **28 February 2014** | Restated 31 August 2013 |
| | | **$** | $ |
| Current Assets | | | |
| Cash and cash equivalents | | **569,219** | 768,958 |
| Trade and other receivables | | **3,360** | 18,831 |
| Financial assets at fair value through profit or loss | 2 (b) (ii) | **3,333** | 3,333 |
| Total Current Assets | | **575,912** | 791,122 |
| Non-Current Assets | | | |
| Available-for-sale financial assets | 2 (b) (i) | **118,987** | 356,961 |
| Investments accounted for using the equity method | 1 | **-** | - |
| Total Non-Current Assets | | **118,987** | 356,961 |
| Total Assets | | **694,899** | 1,148,083 |
| Current Liabilities | | | |
| Trade and other payables | | **79,297** | 170,874 |
| Provisions | | **-** | 41,974 |
| Total Current Liabilities | | **79,297** | 212,848 |
| Non-Current Liabilities | | | |
| Total Non-Current Liabilities | | **-** | - |
| Total Liabilities | | **79,297** | 212,848 |
| Net Assets | | **615,602** | 935,235 |
| Equity | | | |
| Contributed equity | 4 | **22,083,126** | 22,083,126 |
| Reserves | | **271,833** | 390,820 |
| Accumulated losses | | **(21,739,357)** | (21,538,711) |
| Total equity attributable to the equity holders of the Company | | **615,602** | 935,235 |
| Non-controlling Interest | | **-** | - |
| Total Equity | | **615,602** | 935,235 |

The Consolidated Interim Balance Sheet is to be read in conjunction with the Notes to the Financial Statements

## CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the Half-Year Ended 28 February 2014

| | Note | Contributed Equity $ | Reserves $ | Accumulated Losses $ | Total Parent Equity $ | Non-Controlling Interest $ | **Total $** |
|---|---|---|---|---|---|---|---|
| **Balance at 1 September 2012** | | **22,083,126** | **480,936** | **(20,701,565)** | **1,862,497** | **(619,780)** | **1,242,717** |
| Adjustment on change of accounting policy (net of tax) | | - | (210,103) | 185,187 | (24,916) | 619,780 | **594,864** |
| **Balance at 1 September 2012 (restated)** | | **22,083,126** | **270,833** | **(20,516,378)** | **1,837,581** | **-** | **1,837,581** |
| Loss after tax for the half-year as previously reported | | - | - | (273,070) | (273,070) | (52,530) | **(325,600)** |
| Adjustment on change of accounting policy (net of tax) | | - | - | 21,268 | 21,268 | 52,530 | **73,798** |
| Restated profit for the half-year | | - | - | (251,802) | (251,802) | - | **(251,802)** |
| Other comprehensive income as previously reported | | - | 119,193 | - | 119,193 | 29,953 | **149,146** |
| Adjustment on change of accounting policy (net of tax) | | - | (29,953) | - | (29,953) | (29,953) | **(59,906)** |
| Restated other comprehensive income | | - | 89,240 | - | 89,240 | - | **89,240** |
| **Total comprehensive income for the half-year** | | **-** | **89,240** | **(251,802)** | **(162,562)** | **-** | **(162,562)** |
| **Balance at 28 February 2013** | | **22,083,126** | **360,073** | **(20,768,180)** | **1,675,019** | **-** | **1,675,019** |
| **Balance at 1 September 2013** | | **22,083,126** | **650,184** | **(21,769,708)** | **963,602** | **(636,930)** | **326,672** |
| Adjustment on change of accounting policy (net of tax) | | - | (259,364) | 230,997 | (28,367) | 636,930 | **608,563** |
| **Balance at 1 September 2013 (restated)** | | **22,083,126** | **390,820** | **(21,538,711)** | **935,235** | **-** | **935,235** |
| Loss after tax | | - | - | (200,646) | (200,646) | - | **(200,646)** |
| Changes in the fair value of available-for-sale assets | 2 (b) (i) | - | (118,987) | - | (118,987) | - | **(118,987)** |
| **Total comprehensive income for the half-year** | | **-** | **(118,987)** | **(200,646)** | **(319,633)** | **-** | **(319,633)** |
| **Balance at 28 February 2014** | | **22,083,126** | **271,833** | **(21,739,357)** | **615,602** | **-** | **615,602** |

The Consolidated Interim Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements

## CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the Half-Year Ended 28 February 2014

| | Consolidated Entity Half-Year Ended | |
|---|---|---|
| | | Restated |
| | **28 February 2014** | 28 February 2013 |
| | **$** | $ |
| Cash Flows Used In Operating Activities | | |
| Cash receipts in the course of operations | **16,819** | 27,534 |
| Interest received | **5,892** | 28,093 |
| Cash payments in the course of operations | **(464,483)** | (987,730) |
| Finance costs paid | **(1,285)** | (429) |
| Income tax benefit received | **243,318** | 587,698 |
| Net Cash used in Operating Activities | **(199,739)** | (344,834) |
| Cash Flows Used In Investing Activities | | |
| Proceeds from sale of property, plant and equipment | **-** | 34,000 |
| Net Cash received from Investing Activities | **-** | 34,000 |
| Cash Flows from Financing Activities | | |
| Principal repayment - finance leases | **-** | (30,614) |
| Net Cash used in Financing Activities | **-** | (30,614) |
| Net decrease in cash and cash equivalents | **(199,739)** | (341,448) |
| Net foreign exchange differences | **-** | - |
| Cash and cash equivalents at beginning of financial period | **768,958** | 1,634,926 |
| Cash and cash equivalents at end of financial period | **569,219** | 1,293,478 |

The Consolidated Interim Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Statement of Significant Accounting Policies

*Reporting Entity*

Metals Finance Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the half year ended 28 February 2014 comprises the Company and its controlled entities (together referred to as the "Consolidated Entity").

*Statement of Compliance*

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the year ended 31 August 2013.

This consolidated interim financial report was approved by the Board of Directors on 14 May 2014

*Going Concern*

The Consolidated Entity incurred a loss after income tax of $200,646 for the half year ended 28 February 2014. As at 28 February 2014, the Consolidated Entity had cash and cash equivalents of $569,219, current liabilities of $79,297 and net assets of $615,602.

Current operating cash inflows are not sufficient to continue to fund operations and based on current and projected expenditure levels required to meet minimum commitments and operating expenses management anticipates that a capital raising may be required to continue to fund operations.

The ability of the Consolidated Entity to continue as a going concern is principally dependent upon one or more of the following:

- the ability of the Consolidated Entity to raise additional capital in the form of equity;
- the continued support of current shareholders; and
- the ability to successfully develop and extract value from its projects.

These conditions give rise to a material uncertainty over the Consolidated Entity's ability to continue as a going concern.

The directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- To date the Consolidated Entity has funded its activities through issuance of equity securities and it is expected that the Consolidated Entity will be able to fund its future activities through further issuances of equity securities; and
- The directors believe there is sufficient cash available for the Consolidated Entity to continue operating until it can raise sufficient further capital to fund its ongoing activities.

Should the Consolidated Entity be unable to continue as a going concern, it may be required to realise its assets to operate in the ordinary course of business, further reduce expenditure and operate at amounts that differ from those stated in the financial statements.

This interim financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Consolidated Entity be unable to continue as a going concern.

1. Statement of Significant Accounting Policies (continued)

*Accounting Policies*

Except for the changes stated below, the accounting policies and methods of computation applied by the Consolidated Entity in the consolidated interim financial report are the same as those applied by the Consolidated Entity in the previous financial year and corresponding interim reporting period.

*Changes in Accounting Policies*

The Consolidated Entity had to change some of its accounting policies as the result of new or revised accounting standards, which became effective for the annual reporting period commencing on 1 September 2013.

The main affected policies and standards relate to the new standard AASB 10 *Consolidated Financial Statements*.

Other new standards that are applicable for the first time for the February 2014 half-year report are AASB 11 *Joint Arrangements*, revised AASB 119 *Employee Benefits*, AASB 13 *Fair Value Measurement*, AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* and AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*. These standards have introduced new disclosures for the interim report but did not affect the Consolidated Entity's accounting policies or any of the amounts recognised in the financial statements.

*Principles of consolidation – subsidiaries*

As a result of AASB 10 *Consolidated Financial Statements*, the Consolidated Entity has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 introduces a new control model that focuses on whether the Consolidated Entity has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. Under the new standards there has been no change to the method used to consolidate entities that are controlled.

As at 1 September 2012, the Consolidated Entity re-assessed the control conclusion for its investees and changed its control conclusion in respect of its investment in Metals Finance Africa Ltd, which was previously accounted for as a controlled entity, to one accounted for as an associate using the equity method.

The accounting policy applied to the accounting for the investment in an associate is as follows:

*Associates*

Associates are all entities over which the Consolidated Entity has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Consolidated Entity's investment in associates includes goodwill identified on acquisition.

The Consolidated Entity's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the Consolidated Entity's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Consolidated Entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Consolidated Entity and its associates are eliminated to the extent of the Consolidated Entity's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

1. Statement of Significant Accounting Policies (continued)

*Changes in Accounting Policies (continued)*

As required under AASB 10, the change in policy has been applied retrospectively and, as consequence, adjustments were recognised in the balance sheet as of 1 September 2012.

The impact of this change in the entity's accounting policy on individual line items in the financial statements can be summarised as follows:

*Restated Consolidated Interim Statement of Comprehensive Income for the half year ended 28 February 2013*

| | Previously reported half year ended 28 February 2013 $ | Adjustment $ | **Restated half year ended 28 February 2013 $** |
|---|---|---|---|
| **Revenue** | | | |
| Consulting revenue | 20,000 | - | **20,000** |
| Interest revenue | 28,105 | (12) | **28,093** |
| | 48,105 | (12) | **48,093** |
| Gain on sale of property, plant and equipment | 4,859 | - | **4,859** |
| | 52,964 | (12) | **52,952** |
| **Expenses** | | | |
| Employee expenses | (117,040) | 28,897 | **(88,143)** |
| Depreciation and amortisation expense | (7,543) | 2,317 | **(5,226)** |
| Foreign exchange loss | (53,333) | 37,532 | **(15,801)** |
| Finance costs | (429) | - | **(429)** |
| Other expenses from ordinary activities | | | |
| Project and feasibility costs | (207,844) | 3,549 | **(204,295)** |
| Administration | (519,507) | 13,515 | **(505,992)** |
| Impairment of property, plant and equipment | (60,566) | - | **(60,566)** |
| Impairment of receivables | - | (12,000) | **(12,000)** |
| **Loss before income tax benefit** | (913,298) | 73,798 | **(839,500)** |
| Income tax benefit | 587,698 | - | **587,698** |
| **Loss after income tax** | (325,600) | 73,798 | **(251,802)** |
| **Other comprehensive income** | | | |
| Items that may be reclassified to profit or loss | | | |
| Foreign currency translation differences | 59,906 | (59,906) | **-** |
| Changes in the fair value of available-for-sale | 89,240 | - | **89,240** |
| Income tax on other comprehensive income | - | - | **-** |
| Total other comprehensive income | 149,146 | (59,906) | **89,240** |
| **Total comprehensive income** | (176,454) | 13,892 | **(162,562)** |
| | | | |
| **Loss after income tax attributable to:** | | | |
| **Owners of the Parent Entity** | (273,070) | 21,268 | **(251,802)** |
| **Non-controlling Interest** | (52,530) | 52,530 | **-** |
| | (325,600) | 73,798 | **(251,802)** |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| **Owners of the Parent Entity** | (153,877) | (8,685) | **(162,562)** |
| **Non-controlling Interest** | (22,577) | 22,577 | **-** |
| | (176,454) | 13,892 | **(162,562)** |
| | | | |
| | Cents per share | | **Cents per share** |
| **Loss per share:** | | | |
| **Basic loss** | (0.45) | 0.11 | **(0.34)** |
| **Diluted loss** | (0.45) | 0.11 | **(0.34)** |

1. Statement of Significant Accounting Policies (continued)

*Changes in Accounting Policies (continued)*

*Restated Consolidated Interim Statement of Cash Flows for the half year ended 28 February 2013*

| | Previously reported half year ended 28 February 2013 $ | Adjustment $ | **Restated half year ended 28 February 2013 $** |
|---|---|---|---|
| Cash Flows Used In Operating Activities: | | | |
| Cash receipts in the course of operations | 27,534 | - | **27,534** |
| Interest received | 28,105 | (12) | **28,093** |
| Cash payments in the course of operations | (1,054,140) | 66,410 | **(987,730)** |
| Finance costs paid | (429) | - | **(429)** |
| Income tax benefit received | 587,698 | - | **587,698** |
| Net Cash Used In Operating Activities | (411,232) | 66,398 | **(344,834)** |
| | | | |
| Cash Flows Used In Investing Activities: | | | |
| Proceeds from sale of property, plant & equipment | 34,108 | (108) | **34,000** |
| Net Cash received from Investing Activities | 34,108 | (108) | **34,000** |
| | | | |
| Cash Flows from Financing Activities: | | | |
| Proceeds from borrowings | 15,504 | (15,504) | **-** |
| Principal repayment - finance leases | (30,614) | - | **(30,614)** |
| Net Cash used in Financing Activities | (15,110) | (15,504) | **(30,614)** |
| | | | |
| Net decrease in cash and cash equivalents | (392,234) | 50,786 | **(341,448)** |
| Net foreign exchange differences | 50,306 | (50,306) | **-** |
| Cash and cash equivalents at beginning | 1,635,682 | (756) | **1,634,926** |
| Cash and Cash Equivalents at End | 1,293,754 | (276) | **1,293,478** |

1. Statement of Significant Accounting Policies (continued)

*Changes in Accounting Policies (continued)*

*Restated Consolidated Interim Balance Sheet*

| | Previously reported 31 August 2013 $ | Adjustment $ | **Restated 31 August 2013 $** | Previously reported 1 September 2012 $ | Adjustment $ | **Restated 1 September 2012 $** |
|---|---|---|---|---|---|---|
| Current Assets | | | | | | |
| Cash and cash equivalents | 768,958 | - | **768,958** | 1,635,682 | (756) | **1,634,926** |
| Trade and other receivables | 18,858 | (27) | **18,831** | 110,493 | (952) | **109,541** |
| Financial assets at fair value | 3,333 | - | **3,333** | 3,333 | - | **3,333** |
| Total Current Assets | 791,149 | (27) | **791,122** | 1,749,508 | (1,708) | **1,747,800** |
| Non-Current Assets | | | | | | |
| Trade and other receivables | - | - | **-** | 140,510 | - | **140,510** |
| Property, plant and equipment | - | - | **-** | 175,355 | (2,962) | **172,393** |
| Available-for-sale financial assets | 356,961 | - | **356,961** | 237,974 | - | **237,974** |
| Total Non-Current Assets | 356,961 | - | **356,961** | 553,839 | (2,962) | **550,877** |
| Total Assets | 1,148,110 | (27) | **1,148,083** | 2,303,347 | (4,670) | **2,298,677** |
| Current Liabilities | | | | | | |
| Trade and other payables | 174,075 | (3,201) | **170,874** | 369,797 | (7,039) | **362,758** |
| Provisions | 41,974 | - | **41,974** | 67,724 | - | **67,724** |
| Interest bearing loans | 605,389 | (605,389) | **-** | 599,810 | (592,495) | **7,315** |
| Total Current Liabilities | 821,438 | (608,590) | **212,848** | 1,037,331 | (599,534) | **437,797** |
| Non-Current Liabilities | | | | | | |
| Interest bearing loans | - | - | **-** | 23,299 | - | **23,299** |
| Total Non-Current Liabilities | - | - | **-** | 23,299 | - | **23,299** |
| Total Liabilities | 821,438 | (608,590) | **212,848** | 1,060,630 | (599,534) | **461,096** |
| Net Assets | 326,672 | 608,563 | **935,235** | 1,242,717 | 594,864 | **1,837,581** |

## 2. Explanation of movements in half-year period

*(a) Income Tax Benefit*

During the 6 months to 28 February 2014 the Consolidated Entity received a Research and Development Tax Incentive of $243,318 (6 months period to 28 February 2013: $587,698)

*(b) Fair Value*

*(i) Available-for-Sale Financial Assets*

At 28 February 2014 the Consolidated Entity held 29,746,778 ordinary shares representing 9.12% interest in ASX listed entity Bass Metals Ltd (**ASX: BSM**) which was valued at $118,987 (31 August 2013: $356,961) based on market bid price at 28 February 2014 of 0.4 cents (31 August 2013: 1.2 cents).

*(ii) Financial Assets at Fair Value through Profit and Loss*

At 28 February 2014 the Consolidated Entity held 3,333,333 listed options over Bass Metals Ltd shares. The options were reflected at a value of 0.1 cents being the market bid price at 28 February 2014. The options reflect the same value for 31 August 2013.

Each option has an exercise price of 20 cents and expires on 30 June 2014.

*(iii) Fair Value Disclosures*

The carrying amount of the Consolidated Entity's financial assets and financial liabilities approximate their fair value.

The fair value of financial liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For interest bearing loans and borrowings, the market rate of interest is determined by reference to similar liabilities in the same industry and with a similar risk rating, and for finance leases, by reference to similar finance leases at reporting date.

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(ii) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table analyses the Consolidated Entity's financial instruments carried at fair value by the measurement levels set out above:

| | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| 28 February 2014 | $ | $ | $ | **$** |
| Financial assets at fair value | | | | |
| Listed options – Bass Metals Ltd | 3,333 | - | - | **3,333** |
| Available-for-sale financial assets | | | | |
| Listed shares – Bass Metals Ltd | 118,987 | - | - | **118,987** |
| Total assets | 122,320 | - | - | **122,320** |
| | | | | |
| 31 August 2013 | | | | |
| Financial assets at fair value | | | | |
| Listed options – Bass Metals Ltd | 3,333 | - | - | **3,333** |
| Available-for-sale financial assets | | | | |
| Listed shares – Bass Metals Ltd | 356,961 | - | - | **356,961** |
| Total assets | 360,294 | - | - | **360,294** |

2. Explanation of movements in half-year period (continued)

*(b) Fair Value (continued)*

*(iii) Fair Value Disclosures (continued)*

Level 1 Investments: Quoted prices (unadjusted) in active markets for identical assets

28 February 2014 - Listed shares and options: For the half-year ended 28 February 2014 the value of the listed shares and options was based on the closing price of Bass Metals Ltd's securities as quoted on the ASX on 28 February 2014.

31 August 2013 - Listed shares and options: For the year ended 31 August 2013 the value of the listed shares and options was based on the closing price of Bass Metals Ltd's securities as quoted on the ASX on 31 August 2013.

Unlisted derivative instruments (2013 and 2014): The fair value at financial year end is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at year end and expected price volatility of the underlying share and the risk free interest rate for the term of the option.

## 3. Dividends

During the half year, no dividends were paid or provided for (2013: $Nil).

## 4. Contributed Equity

| | **28 Feb 2014** | 31 Aug 2013 |
|---|---|---|
| Issued Capital - Number of shares | **73,109,576** | 73,109,576 |
| Value of Issued Capital | **$ 22,083,126** | $ 22,083,126 |

## 5. Contingent Liabilities and Assets

The Consolidated Entity has no known contingent assets or contingent liabilities at 28 February 2014.

## 6. Subsequent Events

There has not arisen in the interval between the end of the interim period and the date of this review report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, except for as follows:

On 6 March 2014 the Company signed a Heads of Agreement with Texas and Oklahoma Coal Co Limited (TOCC) to acquire 100% of TOCC for a consideration of $11.1 m. Subject to approval by the Company's members, this acquisition will create an international mining company with a coal producing asset in Oklahoma and exploration projects in Oklahoma and British Columbia in North America.

TOCC also offers the Company shareholders a portfolio of coking coal exploration tenements.

The parties are currently undertaking due diligence and finalising the terms of a binding merger implementation deed, and obtaining an Independent Expert's Report on the fairness and reasonableness of the respective company valuations, Following approval by shareholders, the Company will issue new ordinary shares to TOCC in a relative proportion of 5 to 6 to acquire 100% of TOCC's issued capital.

## 7. Segment Reporting

*Reportable Segments*

The Consolidated Entity has identified its operating segment based on internal reports that are reviewed and used by the executive team in assessing performance and determining the allocation of resources. The Consolidated Entity does not yet have any products or services from which it derives an income.

In previous periods, the Consolidated Entity has identified two reportable segments identified on the basis of geographical location, being the resource industry and specifically metals recovery in Australia and Africa.

Following the change of accounting policy as discussed in Note 1 to the interim financial report, management currently identifies the Consolidated Entity as having only one reportable segment, being the resource industry and specifically metals recovery in Australia. The financial results from this segment are equivalent to the financial statements of the Consolidated Entity.

All assets are located in Australia.

## DIRECTORS' DECLARATION

For the half year ended 28 February 2014

In the Directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, *Australian Accounting Standard AASB 134 'Interim Financial Reporting', Corporations Regulations 2001* and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto give a true and fair view of the Consolidated Entity's financial position as at 28 February 2014 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5) of the *Corporations Act 2001*.

Simon Bird

Director

Sydney

14 May 2014

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**INDEPENDENT AUDITOR'S REVIEW REPORT**

To the members of Metals Finance Limited

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Metals Finance Limited, which comprises the consolidated interim balance sheet as at 28 February 2014, the consolidated interim statement of comprehensive income, the consolidated interim statement of changes in equity and the consolidated interim statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 28 February 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Metals Finance Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Metals Finance Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Metals Finance Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 28 February 2014 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

*Emphasis of matter*

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the consolidated entity's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

**BDO Audit Pty Ltd**

BDO

**C R Jenkins**

**Director**

Brisbane, 14 May 2014