Metals Finance Limited

(ABN 83 127 131 604)

and its Controlled Entities

Consolidated Interim Financial Report
for the six months ended 28 February 2011

CONTENTS

DIRECTORY

CORPORATE INFORMATION

Registered Office
Metals Finance Limited
Unit 32, 28 Burnside Road
Yatala, Queensland, Australia, 4207
Telephone: +61 7 3807 4166
Facsimile: +61 7 3807 3801
Website: www.metalsfinance.com
Email: info@metalsfinance.com

Share Registry
Registries Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Telephone: +61 2 9290 9600
Facsimile: +61 2 9279 0664
Website: www.registries.com.au

Directors
Geoff Hill (Chairman)
Tony Treasure (Executive Director)
Rick Anthon (Non-Executive Director)
Mike Gunn (Non-Executive Director)
Simon Bird (Non-Executive Director)

Bankers
Bank of Queensland – Australia
National Australia Bank – Australia
Bankwest – Australia
Standard Bank – South Africa

Principal Office
Unit 32, 28 Burnside Road
Yatala, Qld, Australia, 4207

Auditor
PKF
Level 6, 10 Eagle Street
Brisbane Qld 4000

Solicitors
Hemming + Hart Lawyers
Level 2, 307 Queen Street
Brisbane, QLD, 4000
Telephone: +61 7 3002 8700
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Investor enquires
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info@metalsfinance.com
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Company Secretaries
Arno de Vos (Chief Financial Officer)
Ian Morgan

DIRECTORS' REPORT

The Directors of Metals Finance Limited ("MFC" or "the Company") present their report for the half-year ended 28 February 2011. 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:

Name	
Geoff Hill (Chairman)	Appointed 09/03/2007
Tony Treasure (Executive Director)	Appointed 02/09/2003
Rick Anthon (Non-Executive Director)	Appointed 07/10/2009
Mike Gunn (Non-Executive Director)	Appointed 07/10/2009
Simon Bird (Non-Executive Director)	Appointed 13/07/2010

Background

The Company is currently pursuing a number of projects around the world. It is also seeking to expand its portfolio of development opportunities in areas such as:

- Medium sized, proven, high-grade primary resources
- Start up projects requiring demonstration of new technologies
- Mine waste dumps and tailings
- Smelter and solid industrial wastes
- Industrial waste materials and streams

There are many high-grade, small to medium sized metal recovery opportunities available for evaluation and, if selected, for development through Metals Finance Limited. They are widely varied in location and commodity, but are characteristically owned/controlled by parties who lack the funding, technical capability or business structure required for their development.

Access to development funding, application of key leading edge, metals recovery technologies and a highly skilled network of technical experts are all underlying factors in Metals Finance Limited's business strategy.

Metals Finance Limited employs proven metals recovery technologies that can be implemented quickly and in a modular fashion, in order to allow confirmation of project economics without protracted feasibility study. In many cases the first phase of the project is in essence the 'bankable feasibility study'. In order to execute this model, a thorough working knowledge of the capabilities of the technologies to be used is necessary. This is a key competence of the team and technical network established by Metals Finance Limited.

Review and Results of Operations

The consolidated net loss after income tax for the half-year ended 28 February 2011 was $1,803,894 (2009: $1,737,562).

State of Affairs

There has been no significant change in the Company's state of affairs during the reported period other than note 1 below. During the period Metals Finance:

1. Disclosed to the market on 6 December 2010, Metals Finance sold its Palabora Nickel Sulphate Plant facility. Proceeds from this sale were received on 24 February 2011 and totaled $5,838,401. This amount includes $716,997 for Value Added Tax (VAT), which is payable in the next quarter to the South African Revenue Service.
2. Continued feasibility studies on the Lucky Break nickel project in North Queensland.
3. Continued processes to finalise agreements for the Chambisi project in Zambia.
4. Continued leach test work on nickel ore samples from the Barnes Hill laterite project in Tasmania.
5. Continued assessments of opportunities in Chile.
6. Completed a revised joint venture agreement with Metallica Minerals on the Lucky Break project and finalised the definitive feasibility study.
7. Maintained investment in Bass Metals Limited. The current market value of the investment significantly exceeded its book value at 31 August 2010.(Refer Note 1 – Other financial assets)

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 5.

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

P. A. Treasure.

Tony Treasure
Executive Director

Brisbane

31st March 2011

Chartered Accountants
& Business Advisers

Auditor's Independence Declaration

As lead auditor for the review of Metals Finance Limited for the half-year ended 28 February 2011, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) 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 half year.

PKF

PKF

Albert Loots
Partner

Dated at Brisbane this 31st day of March 2011

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Consolidated Interim Statement of Comprehensive Income for the Half-Year Ended 28 February 2011

	Consolidated Entity Half-Year Ended	
	28 February 2011	28 February 2010
	$	$
Consulting revenue	**63,924**	79,480
Employee expenses	**(638,878)**	(602,980)
Project costs	**(121,522)**	(127,772)
Depreciation and amortisation expense	**(16,438)**	(26,969)
Foreign exchange gain/(loss)	**(386,536)**	(332,686)
Finance costs	**(208,635)**	(539,914)
General administration expenses	**(553,336)**	(645,151)
Results from operating activities	**(1,861,421)**	(2,195,992)
Other Income		
Interest received	**50,348**	437,684
Loss on investment	**-**	(55)
Rental income	**7,179**	20,801
	57,527	458,430
Loss before income tax benefit	**(1,803,894)**	(1,737,562)
Income tax benefit	**-**	-
Loss after income tax	**(1,803,894)**	(1,737,562)
Other comprehensive income		
Foreign currency translation differences for foreign operations	**107,509**	57,771
Gain on available for sale financial assets	**7,659,899**	120,061
Income tax on other comprehensive income	**-**	-
Total other comprehensive income, net of tax	**7,767,408**	177,832
Total comprehensive income	**5,963,514**	(1,559,730)
Loss after income tax attributable to:		
Owners of the Parent Entity	**(1,500,122)**	(1,737,562)
Non-Controlling Interest	**(303,772)**	-
	(1,803,894)	(1,737,562)
Total comprehensive income attributable to:		
Owners of the Parent Entity	**5,909,759**	(1,559,730)
Non-Controlling Interest	**53,755**	-
	5,963,514	(1,559,730)
	Cents per share	Cents per share
Loss per share:		
Basic loss	**(2.47)**	(2.38)
Diluted loss	**(2.47)**	(2.38)

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 2011

	Note	Consolidated Entity 28 February 2011 $	31 August 2010 $
Current Assets:			
Cash and cash equivalents		**6,430,833**	5,335,370
Trade and other receivables		**15,738**	63,445
Other		**1,862**	1,964
Total Current Assets		**6,448,433**	5,400,779
Non-Current Assets:			
Trade and other receivables		**179,751**	5,701,256
Property, plant and equipment		**407,829**	425,378
Other financial assets		**12,018,117**	4,358,218
Total Non-Current Assets		**12,605,697**	10,484,852
Total Assets		**19,054,080**	15,885,631
Current Liabilities:			
Trade and other payables		**929,539**	327,216
Provisions		**38,095**	38,095
Interest bearing loans and borrowings		**625,860**	4,020,592
Total Current Liabilities		**1,593,494**	4,385,903
Non-Current Liabilities:			
Interest bearing loans and borrowings		**9,740**	12,396
Total Non-Current Liabilities		**9,740**	12,396
Total Liabilities		**1,603,234**	4,398,299
Net Assets		**17,450,846**	11,487,332
Equity:			
Contributed equity	4	**22,083,126**	20,511,496
Reserves		**9,089,375**	1,375,722
Equity component of convertible notes		**-**	1,571,630
Accumulated losses		**(13,471,638)**	(11,971,516)
Total equity attributable to the equity holders of the Company		**17,700,863**	11,487,332
Non-Controlling Interest		**(250,017)**	-
Total Equity		**17,450,846**	11,487,332

Consolidated Interim Statement of Changes in Equity for the Half-Year Ended 28 February 2011

	Share Capital $	Reserves $	Convertible Notes $	Accumulated Losses $	Total $	Non-Controlling Interest $	Total $
Balance at 1 September 2009	20,511,496	2,304,507	1,571,630	(9,040,588)	15,347,045	-	15,347,045
Transactions with owners in their capacity as owners							
Share-based payment expense	-	140,522	-	-	140,522	-	140,522
Comprehensive income							
Loss after income tax	-	-	-	(1,737,562)	(1,737,562)	-	(1,737,562)
Other comprehensive income, net of tax	-	177,832	-	-	177,832	-	177,832
Balance at 28 February 2010	**20,511,496**	**2,622,861**	**1,571,630**	**(10,778,150)**	**13,927,837**	**-**	**13,927,837**
Balance at 1 September 2010	20,511,496	1,375,722	1,571,630	(11,971,516)	11,487,332	-	11,487,332
Transactions with owners in their capacity as owners							
Share-based payment expense	-	-	-	-	-	-	-
Transfer from Convertible Note reserve	1,571,630	-	(1,571,630)	-	-	-	-
Comprehensive income							
Loss after income tax	-	-	-	(1,500,122)	(1,500,122)	(303,772)	(1,803,894)
Other comprehensive income, net of tax	-	7,713,653	-	-	7,713,653	53,755	7,767,408
Balance at 28 February 2011	**22,083,126**	**9,089,375**	**-**	**(13,471,638)**	**17,700,863**	**(250,017)**	**17,450,846**

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 2011

	Consolidated Entity Half-Year Ended	
	28 February 2011	28 February 2010
	$	$
Cash Flows from Operating Activities:		
Cash receipts in the course of operations	**5,747,467**	694,641
Interest received	**50,348**	437,684
Cash payments in the course of operations	**(1,097,795)**	(1,522,389)
Finance costs paid	**(101,901)**	(213,008)
Net Cash Received From /(Used In) Operating Activities	**4,598,119**	(603,072)
Cash Flows from Investing Activities:		
Payments for property plant and equipment	**-**	(9,487)
Payments for investments	**-**	(1,104,562)
Net Cash Used In Investing Activities	**-**	(1,114,049)
Cash Flows from Financing Activities:		
Repayment of convertible notes	**(3,500,000)**	(31,009)
Principal repayment - finance leases	**(2,656)**	(2,656)
Net Cash Used In Financing Activities	**(3,502,656)**	(33,665)
Net increase / (decrease) in cash and cash equivalents	**1,095,463**	(1,750,786)
Cash and cash equivalents at beginning of financial period	**5,335,370**	8,225,139
Cash and Cash Equivalents at End of Financial Period	**6,430,833**	6,474,353

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICES

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 six months ended 28 February 2011 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 2010.

This consolidated interim financial report was approved by the Board of Directors on 31 March 2011.

Accounting Policies

The accounting policies applied by the Consolidated Entity in the consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated financial report as at and for the year ended 31 August 2010.

Estimates

The preparation of interim financial reports requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgments made by management in applying the Consolidated Entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 August 2010.

Other Financial Assets

At 28 February 2011 Metal Finance Limited's 14.2% shareholding in Bass Metals Limited of 26,413,445 shares equated to an investment of $12,018,117 at a closing share price of $0.455 per share on that date. This resulted in an increase of equity reserves and other financial assets by $7,767,408 compared to 31 August 2010. Subsequent to the 28 February 2011 half year the share price of Bass Metals Limited has decreased and at the date of this report is trading at approximately $0.405. As a result Metals Finance Limited's investment has decreased by $1,320,672 to a total value of approximately $10,697,445.

During the period of review, Metals Finance Chile Limitada was incorporated on 26 October 2010 and is 99% held by MFCH Pte Ltd and 1% by IPS Nominees Limited on behalf of MFCH Pte Ltd. Metals Finance Limited owns 100% of MFCH Pte Ltd and indirectly 100% of Metals Finance Chile Limitada.

Interest Bearing loans and borrowings

Convertible Notes:

In October 2007, the Company completed a financing agreement for cash proceeds. The financing consisted of 12% per annum unsecured convertible notes maturing 16 October 2010 with four places. The notes were redeemable at the option of the Company within the first year and convertible to common shares at the option of the holder after 180 days and prior to the maturity date at a conversion ratio of $0.50 per share. Upon either conversion or early redemption a share option was to be granted to the holder for an additional $0.50 per share which would have been exercisable for two years from the issue of the option. The conversion and option feature of the notes had a fair value of $1,571,630, which was determined using a Black-Scholes valuation model upon the issue of the notes.

The fair value of the conversion feature of the notes has been recorded as an equity component of the notes financing, reducing the amount assigned to the debt component which was transferred to contributed equity after settlement of the convertible note liability.

During the period under review the convertible notes liability were repaid on 18 October 2010 to the value of $3,500,000 plus an interest portion of $107,700, both of which were paid out of existing cash reserves. None of the convertible notes were converted to shares and consequently all related options attached to the notes lapsed in accordance with the terms of the note agreements.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICES (continued)

Trade and other receivables

As disclosed to the market on 6 December 2010, Metals Finance received the proceeds from the sale of its Palabora Nickel Sulphate Plant facility on 24 February 2011 totalling $5,838,401. This amount included $716,997 for Value Added Tax (VAT), payable to the South African Revenue Service.

2. SEGMENT REPORTING

The Company has identified the operating segments based on internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments identified are based on geographical location, different risk profiles and performance assessment criteria. Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

As at 28 February 2011, the Consolidated Entity was operating primarily in two reportable segments being the resource industry and specifically metals recovery and production in Australia and South Africa.

Reportable segment information is as follows:

Half-Year Ended 28 February 2011	**Australia $**	**South Africa $**	**Consolidated $**
Revenue:			
Revenue from outside the Consolidated Entity	86,414	35,037	**121,451**
Other unallocated revenue			**-**
Revenue from Ordinary Activities	86,414	35,037	**121,451**
Result:			
Segment result	(1,196,351)	(607,543)	**(1,803,894)**
Loss from ordinary activities before income tax			**(1,803,894)**
Income tax			**-**
Net Loss			**(1,803,894)**

Half-Year Ended 28 February 2010	**Australia $**	**South Africa $**	**Consolidated $**
Revenue:			
Revenue from outside the Consolidated Entity	-	315,733	**315,733**
Other unallocated revenue	222,233	-	**222,233**
Revenue from Ordinary Activities	222,233	315,733	**537,966**
Result:			
Segment result	(1,343,465)	(394,097)	**(1,737,562)**
Loss from ordinary activities before income tax			**(1,737,562)**
Income tax			**-**
Net Loss			**(1,737,562)**

3. DIVIDENDS

During the half year, no dividends were paid or provided for (2009 $Nil).

4. ISSUED CAPITAL

	28 Feb 2011	31 Aug 2010
Issued Capital - Number of shares	73,109,576	73,109,576
Value of Issued Capital	$ 22,083,126	$ 20,511,496

Movement in contributed equity during the period:

Share Capital Movements	**Feb 2011 Shares**	**Feb 2011 $**	**Aug 2010 Shares**	**Aug 2010 $**
Fully paid ordinary shares at beginning of period	73,109,576	20,511,496	73,109,576	20,511,496
Transfers from equity component of convertible notes	-	1,571,630	-	-
Total fully paid ordinary shares at end of period	**73,109,576**	**22,083,126**	**73,109,576**	**20,511,496**

5. CONTINGENT LIABILITIES

The Consolidated Entity has no known contingent assets or contingent liabilities at 28 February 2011.

6. SUBSEQUENT EVENTS

There has not arisen between the end of the financial half-year and the date of this Report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Consolidated Entity, the results of these operations, or the state of affairs of the Consolidated Entity, in future financial periods.

Directors' Declaration for the half year ended 28 February 2011

In the Directors' opinion:

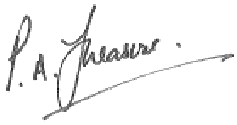
(a) the attached financial statements and notes as set out on pages 6 to 12 are in accordance with the Corporations Act 2001, including:

  (i) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

  (ii) giving a true and fair view of the Consolidated Entity's financial position as at 28 February 2011 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of directors.



Tony Treasure
Executive Director

Brisbane

31st March 2011

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Metals Finance Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying consolidated half-year financial report of Metals Finance Limited, which comprises the consolidated balance sheet as at 28 February 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity. The consolidated entity comprises Metals Finance Limited and the entities it controlled at 28 February 2011 or from time to time during the half year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

The directors of the consolidated entity are responsible for the preparation of the consolidated 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 control as the directors determine is necessary to enable the preparation of the consolidated 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 consolidated half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 28 February 2011 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*.

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Chartered Accountants
& Business Advisers

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the consolidated half-year financial report of the consolidated entity 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 2011 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*.

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Albert Loots
Partner

Dated at Brisbane this 31st day of March 2011