



Metals Finance Limited

SPECIALISTS IN METAL RECOVERY

QUARTERLY REPORT FOR THE PERIOD TO 31 MAY 2012

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

HIGHLIGHTS

- **Separate nickel development vehicle with new management launched**
- **Substantive progress on final Barnes Hill feasibility study**
- **Execution of agreement with Dow Chemical**
- **Receipt of environmental and operating permits for the Lucky Break project**
- **Funding offer for Chambishi project**
- **Bass Metals reports better than expected results**

NICKEL DEVELOPMENTS LIMITED

As announced on 17 May 2012 to the market, Metals Finance Limited has now established a separate vehicle for the development and funding of its nickel laterite projects. The projects under study and potential development are:

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)

The joint venture agreements on the Lucky Break and Homeville projects have been held for some time in a wholly owned subsidiary of the Company, Metals Finance Australia Pty.Ltd. The agreement with Proto on the Barnes Hill project has now been transferred to that subsidiary, and the name has been changed to Nickel Developments Limited.

The Company has dedicated significant resources over the past six months to the establishment of Nickel Developments as a separate entity. Nickel Developments now contains a portfolio of advanced nickel projects which are capable of sustaining a long term development programme, supported by:

1. The lower cost nickel laterite flow sheet developed by Metals Finance
2. The capability of procuring a high grade LME product from nickel laterite
3. The key relationship developed with Dow Chemical
4. The achievement of permitting of the Lucky Break project
5. The solid and accelerated progress being achieved on the Barnes Hill project
6. The relationship established by Proto with Caterpillar Finance on the Barnes Hill project

The purpose in these changes has been to establish a management and technical team solely focussed on the development of nickel laterite projects, based on the technical developments achieved by Metals Finance in this area over the past four years. The portfolio of projects assembled by Metals Finance is expected to provide a platform for long term growth of Nickel Developments through further acquisitions, commencing with development of the Lucky Break project.

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Management



The core management team for Nickel Developments has now been established, with the appointment of Mark Sykes as CEO, and the secondment of Peter Shelley, who has been the project manager for Lucky Break for the past two years. Mark Sykes is a highly experienced Mining Engineer with a wealth of operations and business development experience, during a career of some 22 years. He brings exceptional experience in areas of corporate development, transactional due diligence, operations, technical engineering and project management.

Peter Shelley is a Metallurgist with over 20 years' experience in the mineral processing industry. He has worked in technical and operational management, process development in several base metals operations, including the commissioning and ramp up of plants in Queensland and Western Australia.



Agreement with Dow Chemical

As advised on 26 April 2012 to the market, Metals Finance has entered into an initial agreement with The Dow Chemical Company (NYSE: DOW) to provide both technical and financial support for the development of the Lucky Break project. It is intended that the project will be used as the base for identifying process improvements which may be applicable to the treatment of nickel laterite projects on a global basis. As part of the agreement, Dow will provide expertise, technical and process engineering support for the use of its Ion Exchange Resin (IER) PLS separations technology at Lucky Break.

This agreement is considered to be the first step in developing a long-term, strategic relationship between the Company and Dow. Metals Finance has been working closely with Dow for some time now on project feasibility studies including Lucky Break and the Palabora nickel sulphate project in South Africa. The benefits in this agreement, where they relate to the development of nickel laterite projects, will be a key support for Nickel Developments.

Funding

As previously advised, it is the Company's intent to seek separate funding of Nickel Developments, initially through an issue of \$3 million in equity in Nickel Developments to sophisticated and professional investors. These funds will be allocated to fast tracking development of the Lucky Break project and to accelerate studies on other projects. The Company intends to progressively supplement funds for development of the pipeline of projects through appropriate off-take, debt and equity facilities.

Nickel Developments continues to advance discussions with Sophisticated Investors regarding the \$3m equity raising. Nickel Developments has received encouraging responses from several parties regarding a potential strategic investor position in the company. Nickel Developments are seeking to close the capital raising at the earliest opportunity with the objective of producing first nickel metal from its portfolio of assets by Q4 2013.

Projects

During the period under review, the Company has achieved significant progress on the completion of the detailed feasibility study on the **Barnes Hill project** in Tasmania. The work completed includes:

- Further review of the available Ni/Co resource on which the project will be based
- Modelling of iron rich zones associated with one of the Barnes Hill orebodies
- Continued metallurgical testing on a variety of ore types
- Completion of preliminary iron beneficiation studies
- Refinement and updating of capital and operating costs

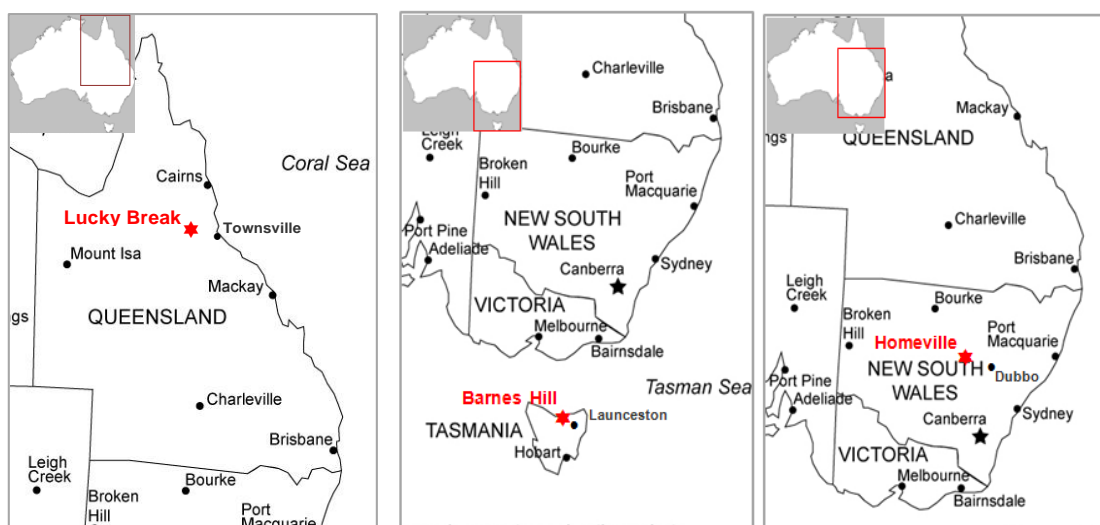


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The results of the study are currently being reviewed by the joint venture partners, with a view to finalisation of the full study within the next four to six weeks. The outcome of the study completed by Metals Finance and Nickel Developments is encouraging, indicating positive returns from the project even at current depressed nickel prices, and under varying and more adverse parameters than assumed in the project's base model. A separate release will be made to the market summarising the results of the study.

Substantive progress has also been made on the **Lucky Break project**, with both environmental and operating permits now received. Subject to funding, the project is ready to commence development.

The Company has commenced geological and metallurgical studies on the **Homeville project** in NSW, in order to provide the platform for completion of formal feasibility studies on the project over the next 12 months.



BASS METALS

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

Metals Finance is pleased to note that, in providing an update to the market at the beginning of June, Bass Metals has reported a significant uplift in actual against projected production from its final mining and milling campaigns. As a result, Bass Metals has stated that it is well positioned to meet and potentially exceed its plans to have reduced its overall debt position to approximately \$10 million by mid-2012. Significant and many changes have been made in the company in order to reduce costs and to re-establish it as an efficient explorer with reduced staffing and support structures. The company has also reported that there is keen interest from outside parties in supporting the company through refinancing and equity structures.

Subject to a successful outcome to Bass Metal's current process of rationalising and debt reduction the Company would anticipate recapturing value from this investment.



METALS FINANCE AFRICA

As announced in June 2011, the Company has entered into a conditional agreement for Muva Metals (Pty) Ltd (Muva), of South Africa, to purchase its interests in Metals Finance Africa (Pty) Ltd. (MFA) and the Chambishi tailings project in Zambia. The sale was conditional upon the establishment by Muva and MFA of the funding required for the development of the Chambishi project, with settlement entailing an initial cash payment of \$700,000, followed by a further \$2.2 million in the form of a royalty per tonne of tailings treated by the project.

Since entering into this agreement Muva have funded the activities of MFA, including further feasibility studies, metallurgical test work and detailed project design – and has been seeking funding for the establishment of the project. The time period required to achieve these aims has been protracted and the Company has provided extensions to the agreement timeframe as required.

Muva has now received an offer from two financial institutions to provide 100% funding of the Chambishi project, subject to completion of due diligence, structuring and appropriate loan documentation. Under the arrangement proposed by the debt providers, payments to Metals Finance of the agreed amounts will commence after completion of the construction phase of the project, subject to successful completion of the lenders' requirements and installation of the Chambishi treatment facility. The Company expects payment of the consideration of its sale to Muva to commence during 2013.

FURTHER PROJECTS

The Company is pursuing a number of potential projects in Chile, Europe and Australia which, due to their nature as well-defined metal bearing resources, fit the MFC project criteria. As the management team for Nickel Developments becomes more established this process will be expanded and accelerated.

CORPORATE AND FINANCIAL

Metals Finance ended the quarter under review with cash reserves of approximately \$2.1 million. As previously noted, the combined value of the Company's cash and liquid investments has been adversely impacted by the problems encountered by Bass Metals. As a result, during the quarter under review, the Company's management has instituted a strict programme of overhead control and cost cuts, which are aimed at ensuring that the Company has sufficient cash to meet its base operating overheads and project activities for the next two years.

Supported by the expected commencement during 2013 of cash receipts from the sale of Metals Finance Africa, and the possibility of recapturing some value in the Company's Bass Metals investment, the Company expects to have sufficient working capital to maintain its activities through the end of 2013.



P.A. Treasure
Managing Director

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



Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

Metals Finance Limited

ABN

83 127 131 604

Quarter ended ("current quarter")

31 May 2012

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	28	45
1.2 Payments for (a) exploration & evaluation	(250)	(623)
(b) development	-	-
(c) production	-	-
(d) administration	(368)	(1,213)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	39	156
1.5 Interest and other costs of finance paid	(2)	(4)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	225
Net Operating Cash Flows	(553)	(1,414)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	44
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	44
1.13 Total operating and investing cash flows (carried forward)	(553)	(1,370)

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Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(553)	(1,370)
	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	(553)	(1,370)
1.20	Cash at beginning of quarter/year to date	2,604	3,421
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	2,051	2,051

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	143
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

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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	105
4.2 Development	-
4.3 Production	-
4.4 Administration	305
Total	410

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	251	235
5.2 Deposits at call	1,800	2,369
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,051	2,604

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Appendix 5B
Mining exploration entity quarterly report

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	-	-	-
7.5	+Convertible debt securities	-	-	-
	<i>(description)</i>			
7.6	Changes during quarter			
	(a) Increases through issues	-	-	-
	(b) Decreases through securities matured, converted	-	-	-

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Appendix 5B
Mining exploration entity quarterly report

7.7	Options <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
		2,000,000	-	\$0.25	31 January 2013
		2,000,000	-	\$0.30	31 January 2013
		2,500,000		\$0.15	28 February 2017
7.8	Issued during quarter	2,500,000	-	\$0.15	28 February 2017
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~~* *(delete one)* give a true and fair view of the matters disclosed.



Sign here:

Date: **29 June 2012**

(Director/~~Company secretary~~)

Print name: **Tony Treasure**

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Notes

- 1 The quarterly report provides a basis for informing the market how the entity’s activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

- 2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.

- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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