



**Metals Finance Limited**

(ABN 83 127 131 604)

and its Controlled Entities

**Consolidated Interim Financial Report  
for the six months ended 29 February 2012**

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**CONTENTS**

Directory	2
Directors' Report	3
Auditor's Independence Declaration	5
Consolidated Interim Statement of Comprehensive Income	6
Consolidated Interim Balance Sheet	7
Consolidated Interim Statement of Changes in Equity	8
Consolidated Interim Statement of Cash Flows	9
Notes to the Consolidated Interim Financial Report	10
Directors' Declaration	14
Independent Auditor's Review Report	15

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**DIRECTORY****CORPORATE INFORMATION****Registered Office**

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Telephone: +61 7 3807 4166  
Facsimile: +61 7 3807 3801  
Website: [www.metalsfinance.com](http://www.metalsfinance.com)  
Email: [info@metalsfinance.com](mailto:info@metalsfinance.com)

**Share Registry**

Boardroom Limited  
Level 7, 207 Kent Street  
Sydney NSW 2000  
Telephone: +61 2 9290 9600  
Facsimile: +61 2 9279 0664  
Website: [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

**Directors**

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

**Bankers**

Bank of Queensland – Australia

**Principal Office**

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

**Auditor**

PKF Chartered Accountants  
Level 6, 10 Eagle Street  
Brisbane Qld 4000

**Solicitors**

Hemming + Hart Lawyers  
Level 5, 307 Queen Street  
Brisbane, QLD, 4000  
Telephone: +61 7 3002 8700  
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**Investor enquires**

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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 29 February 2012. 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 (Managing 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 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 both proven and novel 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 29 February 2012 was \$4,977,652 (2011: \$1,803,894).

The Company holds shares and listed options in Bass Metals Limited (BSM). At 29 February 2012 Bass Metals Limited were in a voluntary trading halt and accordingly the Company valued the price of BSM's shares and options using a 10 day weighted average price from the date trading recommenced on 26 March 2012. The adopted share and option prices resulted in a fair value write down of the Company's share and option investments of \$4,941,826 and \$404,891 respectively. Refer Note 2 for further detail.

### 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.

1. The conditional sale of the Company's share in Metals Finance Africa Pty Ltd is still ongoing and finalisation of the sale is expected in due course.
2. Environmental permits were issued for the Lucky Break nickel project in North Queensland, and detailed engineering work continued.
3. The Definitive Feasibility Study on the Barnes Hill nickel project in Tasmania was updated to confirm that annual throughput of ore could be doubled to 500,000 tonnes.
4. A Joint Venture Agreement was signed with Augur Resources to assess development of the Homeville nickel-cobalt project near Nyngan, New South Wales.
5. A restructuring of MFC's Australian nickel projects is under consideration, including a separate corporate entity and management team.
6. MFC is investigating potential new mineral ventures in Australia, SE Asia, Chile and Europe.

**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.

A handwritten signature in black ink that reads "P. A. Treasure" with a long horizontal flourish extending to the right.

**Tony Treasure**  
**Managing Director**

Brisbane

9<sup>th</sup> May 2012



Chartered Accountants  
& Business Advisers

**Lead auditor's independence declaration under Section 307C of the Corporations Act 2001**

To: the directors of Metals Finance Limited and the entities it controlled during the financial half-year

I declare to the best of my knowledge and belief, in relation to the review of the financial half-year ended 29 February 2012 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review, and
- no contraventions of any applicable code of professional conduct in relation to the review.

*PKF*

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**Albert Loots**  
Partner

Dated at Brisbane this 9<sup>th</sup> day of May 2012

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## Consolidated Interim Statement of Comprehensive Income for the Half-Year Ended 29 February 2012

	Note	Consolidated Entity Half-Year Ended	
		29 February 2012 \$	28 February 2011 \$
Consulting revenue		24,698	63,924
Employee expenses		(579,640)	(638,878)
Project costs		(574,118)	(121,522)
Depreciation and amortisation expense		(11,227)	(16,438)
Foreign exchange loss		(114,203)	(386,536)
Finance costs		(1,539)	(208,635)
General administration expenses		(455,393)	(553,336)
Impairment of property, plant and equipment		(60,566)	-
<b>Results from operating activities</b>		<b>(1,771,988)</b>	<b>(1,861,421)</b>
<i>Other Income</i>			
Interest received		92,650	50,348
Changes in the fair value of financial assets at fair value through profit and loss	2(b)	(404,891)	-
Impairment of available-for-sale financial assets	2(a)	(3,118,512)	-
Rental income		-	7,179
		<b>(3,430,753)</b>	<b>57,527</b>
<b>Loss before income tax benefit</b>		<b>(5,202,741)</b>	<b>(1,803,894)</b>
<b>Research and development income tax refund</b>		<b>225,089</b>	<b>-</b>
<b>Loss after income tax</b>		<b>(4,977,652)</b>	<b>(1,803,894)</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations		128,820	107,509
Changes in the fair value of available-for-sale financial assets	2(a)	(1,823,314)	7,659,899
Income tax on other comprehensive income		-	-
Total other comprehensive income, net of tax		<b>(1,694,494)</b>	<b>7,767,408</b>
<b>Total comprehensive income</b>		<b>(6,672,146)</b>	<b>5,963,514</b>
<b>Loss after income tax attributable to:</b>			
Owners of the Parent Entity		(4,774,475)	(1,500,122)
Non-Controlling Interest		(203,177)	(303,772)
		<b>(4,977,652)</b>	<b>(1,803,894)</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Parent Entity		(6,533,379)	5,909,759
Non-Controlling Interest		(138,767)	53,755
		<b>(6,672,146)</b>	<b>5,963,514</b>
		<b>Cents per share</b>	<b>Cents per share</b>
<b>Loss per share:</b>			
Basic loss		(6.81)	(2.47)
Diluted loss		(6.81)	(2.47)

## Consolidated Interim Balance Sheet as at 29 February 2012

	Note	Consolidated Entity	
		29 February 2012 \$	31 August 2011 \$
<b>Current Assets:</b>			
Cash and cash equivalents		2,651,641	3,426,060
Trade and other receivables	3	57,725	671,263
Financial assets at fair value through profit or loss	2(b)	5,667	410,558
Other		-	467
<b>Total Current Assets</b>		<b>2,715,033</b>	<b>4,508,348</b>
<b>Non-Current Assets:</b>			
Trade and other receivables		135,018	134,737
Property, plant and equipment		243,417	307,970
Available-for-sale financial assets	2(a)	550,315	4,992,141
<b>Total Non-Current Assets</b>		<b>928,750</b>	<b>5,434,848</b>
<b>Total Assets</b>		<b>3,643,783</b>	<b>9,943,196</b>
<b>Current Liabilities:</b>			
Trade and other payables		203,114	89,388
Provisions		46,361	46,361
Interest bearing loans and borrowings		479,137	216,394
<b>Total Current Liabilities</b>		<b>728,612</b>	<b>352,143</b>
<b>Non-Current Liabilities:</b>			
Interest bearing loans and borrowings		26,879	30,615
<b>Total Non-Current Liabilities</b>		<b>26,879</b>	<b>30,615</b>
<b>Total Liabilities</b>		<b>755,491</b>	<b>382,758</b>
<b>Net Assets</b>		<b>2,888,292</b>	<b>9,560,438</b>
<b>Equity:</b>			
Contributed equity	6	22,083,126	22,083,126
Reserves		353,832	2,112,736
Accumulated losses		(18,993,210)	(14,218,735)
<b>Total equity attributable to the equity holders of the Company</b>		<b>3,443,748</b>	<b>9,977,127</b>
Non-Controlling Interest		(555,456)	(416,689)
<b>Total Equity</b>		<b>2,888,292</b>	<b>9,560,438</b>

## Consolidated Interim Statement of Changes in Equity for the Half-Year Ended 29 February 2012

	Share Capital \$	Reserves \$	Convertible Notes \$	Accumulated Losses \$	Total \$	Non-Controlling Interest \$	Total \$
<b>Balance at 1 September 2010</b>	20,511,496	1,375,722	1,571,630	(11,971,516)	11,487,332	-	11,487,332
<b>Transactions with owners in their capacity as owners</b>							
Transfer from Convertible Note reserve	1,571,630	-	(1,571,630)	-	-	-	-
<b>Comprehensive income</b>							
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
<b>Balance at 28 February 2011</b>	<b>22,083,126</b>	<b>9,089,375</b>	<b>-</b>	<b>(13,471,638)</b>	<b>17,700,863</b>	<b>(250,017)</b>	<b>17,450,846</b>
<b>Balance at 1 September 2011</b>	22,083,126	2,112,736	-	(14,218,735)	9,977,127	(416,689)	9,560,438
<b>Transactions with owners in their capacity as owners</b>							
<b>Comprehensive income</b>							
Loss after income tax	-	-	-	(4,774,475)	(4,774,475)	(203,177)	(4,977,652)
Other comprehensive income, net of tax	-	(1,758,904)	-	-	(1,758,904)	64,410	(1,694,494)
<b>Balance at 29 February 2012</b>	<b>22,083,126</b>	<b>353,832</b>	<b>-</b>	<b>(18,993,210)</b>	<b>3,443,748</b>	<b>(555,456)</b>	<b>2,888,292</b>

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 29 February 2012

	<b>Consolidated Entity Half-Year Ended</b>	
	<b>29 February 2012</b>	<b>28 February 2011</b>
	<b>\$</b>	<b>\$</b>
<b>Cash Flows Used In Operating Activities:</b>		
Cash receipts in the course of operations	2,102	5,747,467
Interest received	180,534	50,348
Cash payments in the course of operations	(1,432,374)	(1,097,795)
Finance costs paid	(1,539)	(101,901)
Research and development income tax refund received	225,089	-
<b>Net Cash (Used In) / Received From Operating Activities</b>	<b>(1,026,188)</b>	<b>4,598,119</b>
<b>Cash Flows Used In Investing Activities:</b>		
Payments for property plant and equipment	(7,240)	-
<b>Net Cash Used In Investing Activities</b>	<b>(7,240)</b>	<b>-</b>
<b>Cash Flows from Financing Activities:</b>		
Repayment of convertible notes	-	(3,500,000)
Proceeds from borrowings	262,439	-
Principal repayment - finance leases	(3,431)	(2,656)
<b>Net Cash Received From / (Used In) Financing Activities</b>	<b>259,008</b>	<b>(3,502,656)</b>
Net (decrease) / increase in cash and cash equivalents	(774,420)	1,095,463
Cash and cash equivalents at beginning of financial period	3,426,061	5,335,370
<b>Cash and Cash Equivalents at End of Financial Period</b>	<b>2,651,641</b>	<b>6,430,833</b>

## 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 29 February 2012 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 2011.

This consolidated interim financial report was approved by the Board of Directors on 8 May 2012.

### 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 2011.

### 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 2011.

### Going Concern

The Consolidated Entity has net assets of \$2,888,292 (31 August 2011: \$9,560,438) and realised a loss after income tax of \$4,977,652 (28 February 2011: \$1,803,894). Despite the loss the Consolidated Entity has sufficient cash reserves available to continue as a going concern.

The Consolidated Entity continues to be active in pursuing a number of high-grade metal recovery projects around the world.

The ability of the Consolidated Entity to continue operating at its present level of operations will be achieved by:

- (a) selling its 50% share holding in Metals Finance Africa;
- (b) successfully developing and extracting value from its current projects; and
- (c) implementation of appropriate cost reduction measures.

Negotiations remain on-going for sale of the Company's fifty percent stake in Metals Finance Africa and a number of promising nickel recovery projects are being explored in Australia and Europe in order to achieve the company's short term objectives. Furthermore, at the time of this report, measures are being implemented to reduce overheads in order to preserve cash reserves.

On this basis, the Directors believe the use of the going concern basis of accounting is appropriate and believe that the Consolidated Entity will be able to continue operating and pay its debts as and when due in the ordinary course of business.

**2. OTHER FINANCIAL ASSETS****(a) Available-for-Sale Financial Assets**

At 29 February 2012 Metal Finance Limited's shareholding in Bass Metals Limited (BSM) was 29,746,778 shares, representing a 10.1% interest in BSM.

On 23 January 2012 BSM entered into a voluntary trading halt while it re-negotiated the terms of its financing arrangements and reviewed operational strategies. The trading halt was subsequently lifted on 26 March 2012. Based on a weighted average price over a period of 10 days since trading re-commenced the Consolidated Entity determined the underlying share price of BSM as at 29 February 2012 to be 1.85 cents equating to an investment value of \$550,315.

This write-down of the investment value resulted in the elimination of the investment reserve of \$1,823,314 and an impairment expense being recognised in the Statement of Comprehensive Income of \$3,118,512.

At the time of this report the share price of BSM has declined further and is trading at approximately 0.7 cents. This share price would result in a material decrease in the value of the Company's investment by approximately \$342,088. The impact of this has not been reflected in the financial statements at 29 February 2012.

**(b) Financial Assets at Fair Value Through Profit and Loss**

The Consolidated Entity holds 3,333,333 listed options in BSM. As mentioned above BSM were in a trading halt at 29 February 2012 and the Consolidated Entity has determined an option price of 0.17 cents at 29 February 2012 using a weighted average price over a period of 10 days since trading re-commenced on 26 March 2012. The option price adopted has resulted in a fair value reduction of \$404,891 being recognised in the Statement of Comprehensive Income. This fair value adjustment equates to an options value of \$5,667 as at 29 February 2012.

**3. TRADE AND OTHER RECEIVABLES**

During the period the Consolidated Entity converted its 500,000 \$1.00 convertible notes in Bass Metals Ltd. Each \$1.00 convertible note converted into 6.66 shares at a conversion price of 15 cents per share resulting in the Consolidated Entity receiving 3,333,333 additional shares in BSM. The effect of this conversion resulted in a reduction of trade and other receivables from 31 August 2011 by \$500,000 with a corresponding increase in the value of the Consolidated Entity's investment in Bass Metals Limited, classified in the consolidated interim balance sheet as available-for-sale financial assets.

#### 4. 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 29 February 2012, the Consolidated Entity was operating primarily in two reportable segments being the resource industry and specifically metals recovery and production in Australia and Africa.

Reportable segment information is as follows:

<b>Half-Year Ended 29 February 2012</b>	<b>Australia</b>	<b>Africa</b>	<b>Consolidated</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue:</b>			
Revenue from outside the Consolidated Entity	117,348	-	<b>117,348</b>
Other unallocated revenue			-
<b>Revenue from Ordinary Activities</b>	<b>117,348</b>	<b>-</b>	<b>117,348</b>
<b>Result:</b>			
Segment result	(4,796,386)	(406,355)	<b>(5,202,741)</b>
Loss from ordinary activities before income tax			<b>(5,202,741)</b>
Income tax			<b>225,089</b>
<b>Net Loss</b>			<b>(4,977,652)</b>

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

#### 5. DIVIDENDS

During the half year, no dividends were paid or provided for (2011: \$Nil).

**6. ISSUED CAPITAL**

	<b>29 Feb 2012</b>	<b>31 Aug 2011</b>
Issued Capital - Number of shares	<u>73,109,576</u>	<u>73,109,576</u>
Value of Issued Capital	<u>\$ 22,083,126</u>	<u>\$ 22,083,126</u>

**Movement in contributed equity during the period:**

<b>Share Capital Movements</b>	<b>Feb 2012 Shares</b>	<b>Feb 2012 \$</b>	<b>Aug 2011 Shares</b>	<b>Aug 2011 \$</b>
Fully paid ordinary shares at beginning of period	73,109,576	22,083,126	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	<u><b>73,109,576</b></u>	<u><b>22,083,126</b></u>	<u><b>73,109,576</b></u>	<u><b>22,083,126</b></u>

**7. CONTINGENT LIABILITIES**

The Consolidated Entity has no known contingent assets or contingent liabilities at 29 February 2012.

**8. SUBSEQUENT EVENTS**

Except for the movement in the share price of Bass Metals Limited post year end as disclosed in Note 2, there has not arisen between the end of the financial half-year and the date of this Report any other 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 29 February 2012**

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', the 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 29 February 2012 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 2001.

On behalf of the Directors



**Tony Treasure**  
**Managing Director**

Brisbane

9<sup>th</sup> May 2012



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 interim balance sheet as at 29 February 2012, the consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim 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 (the company) and the entities it controlled at 29 February 2012 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 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 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 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 29 February 2012 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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**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 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 29 February 2012 and of its performance for the half-year ended on that date; and

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



PKF



**Albert Loots**  
Partner

Dated at Brisbane this 9<sup>th</sup> day of May 2012