



Metals Finance Limited

ABN 83 127 131 604

and its Controlled Entities

2012 Annual Report

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DIRECTORY

CORPORATE INFORMATION

Registered Office

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Telephone: +61 7 3002 8700
Facsimile: +61 7 3221 3068
Website: www.metalsfinance.com
Email: info@metalsfinance.com

Directors

Geoff Hill (Chairman)
Tony Treasure (Managing Director)
Richard Anthon (Non-Executive Director)
Simon Bird (Non-Executive Director)
Mike Gunn (Non-Executive Director – resigned 26 June 2012)

Principal Place of Business

Level 5, 307 Queen Street
Brisbane, QLD, 4000
Telephone: +61 7 3807 4166
Facsimile: +61 7 5573 6907

Solicitors

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

Company Secretary

Arno de Vos (Chief Financial Officer)
Ian Morgan

Share Registry

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney, NSW, 2000
Telephone: +61 2 9290 9600
Facsimile: +61 2 9279 0664
Website: www.boardroomlimited.com.au

Bankers

Bank of Queensland – Australia

Auditor

BDO East Coast Partnership (formerly PKF East Coast Practice)
Level 10, 1 Margaret Street
Sydney, NSW, 2000

Investor enquires

Level 5, 307 Queen Street
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www.metalsfinance.com

CHAIRMAN'S LETTER

Dear shareholder,

Metals Finance has weathered a difficult year both for investors and commodity markets. As a result of board initiatives we have substantially reduced our cost and expense base, which has resulted in a tighter leaner and more efficient organisation.

We have also prioritised our efforts and have focussed on developing and expanding our nickel projects. Nickel Developments offers exciting opportunities for us and under Mark Sykes, as the new CEO of that company, management should take the next steps forward to commercial production in 2013. Solid progress was made on both the Barnes Hill and Lucky Break projects during 2012.

We continue to look for new opportunities but have tightened our return criteria.

My thanks to my fellow directors and our staff for their efforts in 2012.

Yours sincerely



Geoff Hill
Chairman



MANAGING DIRECTOR'S REPORT

OPERATIONS REVIEW

1. HIGHLIGHTS

- Establishment of separate structure to focus on the Company's nickel laterite projects
- Appointment of Mark Sykes as CEO of the separate structure (Nickel Developments Limited)
- Completion of permitting of the Lucky Break project
- Completion of feasibility study Barnes Hill project
- Substantive progress on optimisation and permitting of Barnes Hill project
- Acquisition of joint venture over the Homeville nickel laterite project in NSW
- Entering in to a key technical support and supply agreement with Dow Chemical
- Progress towards settlement of the Company's Metals Finance Africa sale
- Acceleration of search for other project and corporate opportunities

These positive achievements were overshadowed early in 2012 by the surprising and sudden difficulties encountered by Bass Metals Ltd, a company in which Metals Finance holds a significant investment. This has resulted in a major deterioration in the value of the Company's investment - and, to provide for the possibility of Bass taking a protracted time to emerge from its difficulties, has led to Metals Finance severely curtailing its overheads and other costs to ensure maintenance of working capital.

2. NICKEL DEVELOPMENTS

During the year under review Metals Finance established and rebranded its subsidiary Metals Finance Australia Pty Ltd as a separate vehicle for the development and funding of its nickel laterite projects under Nickel Developments Limited. 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 all three projects have now been transferred to Nickel Developments Limited (NDL), which remains a wholly owned subsidiary of Metals Finance.

The purpose in this move has been to establish a separate management structure solely focussed on the growth and development of nickel laterite projects, based on the technical developments achieved by Metals Finance in this area. The portfolio of projects assembled by Metals Finance has the capability of providing a platform for long term growth of various nickel developments, commencing with the Lucky Break project and progressing through development and acquisition of further projects.

Separate management of Nickel Developments has been established through the appointment of Mark Sykes as CEO. Mark is a highly experienced Mining Engineer who brings a wealth of experience in areas of corporate development, transactional due diligence, operations, technical engineering and project management. Mark is also acting as Metals Finance's COO, providing a key ingredient in the Company's push to pursue other opportunities.

Mark is now primarily responsible for achieving appropriate funding for NDL and its projects - in order to progress development of the Lucky Break project, move on to early development of the Barnes Hill project and others. The Company is in active discussions with a number of parties with respect to the required funding.

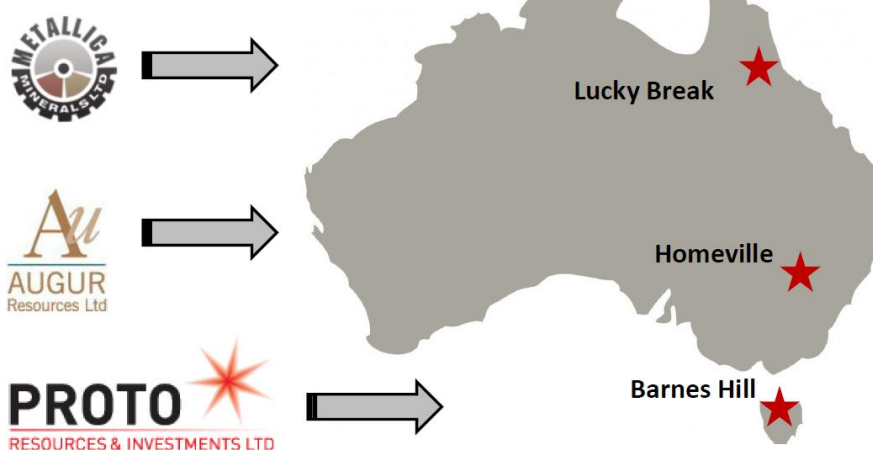
Metals Finance has provided Nickel Developments with a number of key advantages, including:

1. The lower cost nickel laterite flow sheet developed by the Company
2. The capability of procuring a high grade LME product from nickel laterite
3. The achievement of permitting of the Lucky Break project
4. The solid and accelerated progress being achieved on the Barnes Hill project
5. An established suite of projects which can be progressively developed

In addition to this NDL has the benefit of the strategic relationship that is being developed with Dow Chemical, under which the Lucky Break nickel 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. Under this 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.

3. NICKEL PROJECTS

Quality assets with defined resources



Lucky Break, North Queensland

The Lucky Break nickel laterite project is a joint venture with Metallica Minerals whereby MFC is responsible for completing feasibility studies, funding and implementation of the project. Upon development, 100% of surplus cash flow will be directed to repayment of development capital and interest, thereafter project surplus will be split equally between the parties.

MFC completed a Definitive Feasibility Study in 2011 aimed at producing 650-700 tonnes per annum of nickel metal from the higher grade portions of the Lucky Break orebody. The study projects a capital requirement for the project of around \$15 million. The feasibility study indicates positive financial return from the Lucky Break project - based on the novel flow sheet designed by Metals Finance, the higher grade ore and product quality being targeted, and a projected long term nickel price of between US\$9 and US\$11/lb.

The Company has continued to progress detailed planning of the project during the year under review, with a large proportion of the detail required for development having now been completed. Environmental and Operating Permits for the project have now been received and the project, subject to achievement of appropriate funding, is ready for implementation.

Managing Director's Report

Barnes Hill, Tasmania

Metals Finance has made significant progress on the Barnes Hill project during the year under review. In June 2102 the Company completed a detailed feasibility study, based on a throughput of 500,000 tonnes per annum, through vat leaching, recovery of nickel through ion exchange and electrowinning, to produce a high value nickel cathode. The feasibility study projected a direct operating cost of US\$5.39 per pound of nickel in the first five years of operation and a capital cost of between \$70 and \$92 million, depending on the availability of other infrastructure close to the site.

The period since June 2012 has been occupied in optimisation in certain areas of the proposed project and flow sheet, and the furthering of requirements for environmental permitting. These have included an assessment of potential to amend the leach circuit to agitated tank leaching, as opposed to vat leaching. The potential benefits this offers to the project are:

- More rapid and enhanced leaching of the target nickel and cobalt
- Potential reduction in acid consumption in a more closely controlled leach
- Significant reduction in the leach circuit footprint, reducing the project's environmental impact
- The ability to use local estuarine, rather than fresh, water for the leach

Further work is required to ensure that design and materials construction will permit the proposed change to the leach, and that the revised flow sheet will facilitate permitting of the project. However, initial leach test work has now been completed and preliminary operating and capital costs of the revised circuit have been estimated.

The proposed revision of the leach circuit for Barnes Hill has positive impact on the project, with respect to the benefits summarised above. The methodology is not new and is used elsewhere on nickel laterite projects (e.g. Ravensthorpe in WA). Contrary to previous expectations, elevated temperature agitated tank leaching does not result in higher acid consumption in the leach – to the contrary, acid consumption is lower, given the more rapid reaction, and nickel and cobalt recovery are higher.

The switch to the tank leach option will significantly decrease the footprint of the treatment plant and other facilities, and the use of saline water in the leach resolves one of the more significant outstanding issues for the project (water supply).

The table below summarises the revised projected result, over a range of nickel values and/or a higher operating cost.

	Base	2	3	4	5
Capital cost (\$ millions)	81.1	81.1	81.1	81.1	81.1
Project tonnes throughput (million t)	5.93	5.93	5.93	5.93	5.93
Nickel grade first 5 yrs (%)	1.01 %	1.01 %	1.01 %	1.01 %	1.01 %
Nickel grade second 5 yrs (%)	0.73 %	0.73 %	0.73 %	0.73 %	0.73 %
Nickel recovery (%)	90%	90%	90%	90%	90%
Long term nickel price US\$/lb	10.00	9.00	7.42	9.00	11.00
Cobalt price US\$/lb (average 10 yrs)	13.61	13.61	13.61	13.61	13.61
AU:US exchange rate	0.95	0.95	0.95	0.95	0.95
Acid consumption (kg/t ore)	585	585	585	585	585
Total revenue (\$ millions)	1,081	982	825	982	1,210
Total operating costs (\$ millions)	630	631	631	757	631
Indicated surplus (\$ millions)	441	343	189	219	568
Indicated NPV 12.5% (\$ millions)	152	103	28	45	217
Indicated IRR%	60%	46%	24%	31%	77%

Managing Director's Report

Providing for the higher value of cobalt, projected operating costs for the 10 year life of the mine are equivalent to an indicated A\$5.91/lb of nickel. As a result of the higher grade material expected to be treated during the first five years of the operation, equivalent direct operating costs for that period are lower – at an indicated average of A\$5.06/lb.

Further work is required to confirm reproducibility of the results of the additional leach test work completed, and to finalised design and costing of the revised circuit. It is expected that this will be completed during the first quarter of 2013. The requirement for additional work does not impact on the aspects of the project which remain unchanged from the June 2012 study.

The studies carried out by Metals Finance have also confirmed the existence of a discrete zone of near surface iron-enriched material related to the Barnes Hill north orebody. The investigation has indicated that the zone is continuous through the drill holes in the area of interest, extends from surface to a depth of approximately 19 metres and is reasonably consistent with respect to iron content. The area has been extensively drilled, resulting in a mineralisation target of around 3.5 million tonnes at an average grade of 39% iron. Further studies into the potential for commercial development of this material are currently in train.

Homeville, NSW

During the year the Company expanded its pipeline of nickel development projects by entering into a joint venture with Augur Resources Limited (AUK) over the Homeville nickel-cobalt laterite project near Nyngan in central New South Wales.

Homeville contains an estimated JORC compliant resource of 16.3 million tonnes at 0.93% nickel and 0.05% cobalt (cut-off 0.7% nickel). The mineralisation is at surface in some areas, and has an average depth to the top of the deposit of only 10 metres. Based on a cut-off grade of 0.7% nickel, the resource estimate includes a total of 4.4 million tonnes at 0.99% nickel and 0.06% cobalt as Indicated Resource and 11.9 million tonnes at 0.91% nickel and 0.05% cobalt as Inferred Resource.

Metals Finance's examination of the Homeville drill data base suggests that a discrete portion of the resource is higher grade, and potentially amenable to early development. The detailed modelling that is required to verify this under the terms of the JORC code has yet to be completed.

During the period MFC conducted a series of metallurgical tests on samples from eight scattered drill holes through the Homeville deposit, testing the following variables.

- Period under leach
- Acid concentration
- Temperature

The results of this work have been positive, with nickel and cobalt recoveries exceeding 85%, at reasonable acid consumption level (between 550 and 650 kg/t of ore). Further comprehensive testwork is planned over the next 12 months, in order to optimise the leach operating parameters and methodology. The ongoing programme will also include a full reassessment of the reported resource and the completion of preliminary feasibility studies on the project.

4. BASS METALS

Metals Finance 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. In June 2012 Bass Metals reported a significant uplift in actual against projected production from its final mining and milling campaigns.

On 6 July 2012, Bass Metals announced that the company had entered into an agreement to sell its wholly-owned subsidiary, Hellyer Mill Operations Pty Ltd (HMO), to LionGold Corp Ltd, a Singapore listed gold investment and development company, for A\$15 million worth of LionGold shares or a cash payment of \$13.5 million at LionGold's election. The sale was targeted at leaving Bass Metals debt free, with a forecast free cash position of between \$6 to \$8 million.

On 4 September 2012 Bass Metals announced that the company had been notified that LionGold considered that the conditions precedent for completion of the sale agreement had not been satisfied, and therefor providing given notice of termination of the Sale Agreement. Bass Metals have subsequently (13 September 2012) advised that the company intends to vigorously pursue legal action against LionGold as a consequence of their actions.

At this stage the potential result of this action cannot be predicted, but the Company remains expectant of a possible positive outcome and a resulting recapture of value from its investment in Bass Metals.

5. METALS FINANCE AFRICA

As previously advised, 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 is 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.

The Company was notified in June 2012 that Muva had received offers from debt funders to provide the capital required for establishment of the project. Since that time Muva have encountered significant delays in finalising the funding arrangement, relating to the proposed structuring of the project and ownership of the operating vehicle, and obtaining approvals of all parties involved. Metals Finance has been informed by Muva and one of the lenders involved that these issues can be resolved in the near future and 'financial close' achieved early in 2013. The Company remains expectant that payment of the consideration of this sale will commence during 2013.

6. BUSINESS PLAN

The Company's primary activity during the year has been the furthering of the feasibility studies on its nickel projects. It is pleasing to note that progress in this area has been constant and successful – with one project now being fully permitted and ready to develop, and another approaching this stage.

The board has continued to review and examine means of refining Metals Finance's business plan, in order to provide a greater degree of insulation from the effects of continuity global financial uncertainty and the current limitation in our activities, to a single commodity and project type (nickel laterite projects).

The Company has commenced the process of change, through the establishment of a separate vehicle dedicated solely to the pursuit of funding and development of our current nickel projects. The primary purpose of this has been to provide focus to the nickel effort, but also to free up personnel to aggressively pursue other potential opportunities.

Activities over the past three months have resulted in presentation to the board of a number of potentially large project opportunities, which could provide the Company with the commodity versatility it is seeking and/or provide a significant share in emerging development and potential cash flow. Detailed investigations of the opportunities presented are being undertaken, and the search for other opportunities continues. The board hopes to be in a position to implement on one of these opportunities within the next three months.

7. OUTLOOK

The failure of Bass Metals to achieve the performance projected for the Hellyer project in Tasmania, and the consequent reduction in value of Metals Finance's investment, has unexpectedly led to a significant reduction in the financial resources available to the Company. In order to counter this and maintain current activities, albeit at a reduced level, the board and management have implemented a series of wide reaching overhead cuts.

The implementation of these cuts has ensured that the Company has sufficient working capital to carry it through to the end of calendar 2013. As at the end of December, providing for income that is expected during the final quarter of 2012, the Company's cash at hand is expected to be approximately \$1.6 million. There are a number of events which have potential to improve the Company's financial position over the next 12 months, including:

- Achievement of funding for development of the Company's nickel projects
- An improvement in the financial position of Bass Metals Limited
- Settlement of the Company's sale of its interests in Metals Finance Africa
- Acquisition by the Company of a further significant development project/opportunity

The board and management will continue to work assiduously in order to achieve a positive outcome from the above.



P.A. Treasure
Managing Director

Information within this announcement which pertains to mineralisation or resources is based on information compiled by Mr P.A.(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

DIRECTORS' REPORT

Your Directors submit their report for the year ended 31 August 2012 for Metals Finance Limited (the "Company") and the consolidated entity incorporating the entities that it controlled during the financial year (the "Consolidated Entity").

DIRECTORS

The Directors of the Company during the year and until the date of this report are:

NAME AND POSITION	QUALIFICATIONS, EXPERIENCE, SPECIAL RESPONSIBILITIES AND OTHER DIRECTORSHIPS
<p>Geoff Hill Non-Executive Chairman</p> <p>Appointed Director 9 March 2007 and Chairman 18 December 2008</p>	<p>Geoff Hill BEcon (Syd), MBA (NSW), FFIN, FCPA, FAICD is a merchant banker and Director with over 30 years of international experience. He is the Founder of Bancorp Holdings Limited, a former MD of Morgan Grenfell Australia and a former Director of Morgan Grenfell PLC. Mr. Hill was also the founding Partner and Managing Director of Pitt Capital Partners in Australia and a former Chairman of Pitt Capital Partners Asia Limited (HK).</p> <p>He is the Executive Chairman of International Pacific Securities Limited Group and Chairman of Hong Kong Administrative Services Limited, a Partner of Hill Sherlock and Willis [Sydney] and Chairman of Australasian Investment Holdings Limited [Singapore]. A Director and Founder of Asian Property Services Limited and Asian Property Investments Limited he is also the Non-Executive Chairman of Parry International Trading. Mr Hill is the Hong Kong Representative of Lagerkvist & Partners, Sweden.</p> <p>An experienced Company Director for over 30 Years, current public company boards include :-</p> <ul style="list-style-type: none"> • Chairman Mount Gibson Iron Limited [ASX: MGX] (appointed May 2011) • Director Broken Hill Prospecting [ASX: BHL] (appointed February 1989) • Chairman Texas & Oklahoma Coal Company Inc. <p>Geoff is a former director of Brickworks Investment Company Limited (December 2005 to September 2009), Centrex Metals Limited (October 2008 to February 2011), Outback Metals Limited (April 2010 to November 2010), Hills Holdings Limited (February 1999 to April 2011), and Heritage Gold NZ Limited (July 1999 to April 2012).</p> <p>A current member of RHKYC and WPO Hong Kong Chapter in Hong Kong, Mr Hill is a member of the Australian Union, Royal Sydney Yacht Squadron and CYCA in Sydney.</p>
<p>Tony Treasure Managing Director</p> <p>Appointed Director 2 September 2003 and Managing Director 18 October 2010</p>	<p>Tony Treasure BSc (Hons), MAusIMM, MAICD is a geologist by profession who has been actively involved in the resource and metal recovery industry for over 35 years, holding senior executive positions with a number of publicly listed companies in the process metallurgy and mining fields. Mr Treasure has extensive experience in corporate management, technology development, project evaluation and development. He was a founding Director of Metals Finance Limited and the primary architect of the Company's business plan. Tony Treasure is a non-executive director of Bass Metals Limited (ASX: BSM) (appointed December 2008).</p> <p>Tony Treasure has served since September 2003 as a Director of Metals Finance Limited. He was Chairman of the Board from September 2003 to March 2007 and Company Secretary from September 2003 to November 2005.</p>
<p>Richard Anthon Independent Non- Executive Director</p> <p>Appointed 7 October 2009</p>	<p>Rick Anthon BA (ANU) LLB (ANU) MAICD is the Managing Partner of the Queensland law firm Hemming+Hart. He has practiced extensively in corporate, mining and resources law for over 25 years. He has advised on numerous acquisitions, joint ventures, and debt and capital raisings both in Australia and overseas. Additionally, Rick has acted as non-executive director and chairman for a number of public resource companies over the last 15 years and has chaired audit and remuneration committees for those companies.</p> <p>Rick is a director of Renison Consolidated Mines NL (ASX: RSN) (appointed June 1996) and Chair of Stratum Metals (ASX: SXT) (appointed May 2011) and Lamboo Resources Limited (ASX: LMB) (appointed October 2011).</p>
<p>Simon Bird Independent Non- Executive Director</p> <p>Appointed 13 July 2010</p>	<p>Simon Bird B.Compt (University of South Africa), B.Compt (Hons) (University of South Africa), FCPA, FAICD is a Director and the Chief Executive Officer of ASX listed mining company King Island Scheelite Limited, Non-Executive Director and Chairman of the Audit Committee of ASX listed Mount Gibson Iron and former member of the Board of Directors at CPA Australia Limited. Simon's 30 year professional career in Australia, Africa and Europe includes six years with PricewaterhouseCoopers and time in the resources, financial services, property, infrastructure and agricultural sectors. His time in Australia includes terms as Chief Financial Officer with Stockland Limited, GrainCorp Limited and the Wizard Mortgage Corporation.</p> <p>Simon is a Fellow of the Australian Institute of Company Directors (FAICD) and Fellow of CPA Australia (FCPA). Current public company boards on which Simon serves include non-executive Director of Mount Gibson Iron Limited [ASX: MGX] (appointed February 2012) and Director of King Island Scheelite Limited [ASX: KIS] (appointed October 2012).</p>

Director's Report

NAME AND POSITION QUALIFICATIONS, EXPERIENCE, SPECIAL RESPONSIBILITIES AND OTHER DIRECTORSHIPS

<p>Michael Gunn Independent Non-Executive Director</p> <p>Appointed 7 October 2009 Resigned: 26 June 2012</p>	<p>Mike Gunn B.Sc. [Metallurgy] (UNSW) is a metallurgical engineer with a 35 year career in mineral processing operations, project development with a number of engineering design companies, and project and technology evaluation as an independent consultant. He has previously served as an executive director of a publicly listed resource company and has been a director of several private consulting and project development organisations. Mike is a specialist hydrometallurgist with significant expertise in the development and implementation of projects including, in recent years processing of lateritic nickel ores and bacterial treatment of refractory sulphide ores.</p>
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All Directors shown were in office from the beginning of the year until the date of this report, unless otherwise stated.

COMPANY SECRETARIES**Arno De Vos**

Arno De Vos B Com., B Com (Hons), B Compt. (Hons), CA, PMP is the Chief Financial Officer and was appointed on 25 March 2009 to the position of Company Secretary. For the previous ten years he was director, compliance manager and company secretary for numerous private companies.

Arno is a Chartered Accountant with over 18 years of experience in accounting, audit, corporate finance, treasury and company secretarial. For 8 years, he was Chief Financial Officer of a property industry related company. Arno has served as a director for more than 34 private companies. Employed for a period of 5 years by Deloitte, Arno also worked with numerous listed entities.

Arno is a member of the Institute of Chartered Accountants Australia (ICAA), member of Chartered Public Accountants Australia (CPA), affiliate of Chartered Secretaries Australia (CSA), Registered Project Management Professional with the Project Management Institute and member of the Australian Institute of Project Management (AIPM) and Registered with the Australian Office of Fair Trading as Principal Real Estate Agent and Property Developer.

Ian Morgan

Ian Morgan B Bus (NSW Institute of Technology), MComLaw (Macquarie University), Grad Dip App Fin (Securities Institute), CA, ACIS, ACSA, MAICD, F Fin, was appointed Company Secretary on 11 March 2010.

His experience includes:

- Ten years as an independent specialist consultant supplying Company Secretarial services to clients, including effective management of compliance to enable Australian listed public companies to comply with Australian Law, including ASIC and ASX requirements.
- Seven years as Managing Director of Corporate & Administrative Services and Financial Controller/Company Secretary of the Republic Group, a boutique merchant bank.
- Eight years as Group Financial Controller/Financial Accountant for various listed and other public companies including Green's General Foods, Foxtel and AKZO Chemicals.
- Seven years as a professional Chartered Accountant, including three years with a major international accounting firm.

CORPORATE GOVERNANCE

The Board adheres to strict Corporate Governance practices in accordance with its corporate charter (a copy of which is provided on the company web site www.metalsfinance.com) and in accordance with ASX best practice guidelines. Further information is provided in the last section of this report on page 53.

MEETINGS OF DIRECTORS AND COMMITTEES OF BOARD

The number of meetings held (including Meetings of Directors) and the number of meetings attended during the financial year are:

Directors	Board Meetings		Audit Committee Meetings	
	Eligible to Attend	Attended	Eligible to Attend	Attended
G Hill	7	7	-	-
T Treasure	7	7	-	-
R Anthon	7	7	3	2
M Gunn	5	2	-	-
S Bird	7	7	3	3

During the year, the Board met to independently consider that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear. No separate Remuneration Committee meetings were held during the year.

PRINCIPAL ACTIVITIES

Metals Finance Limited has been formed for the specific purpose of providing a unique combination of finance and technical skills for the development of small to medium scale metal recovery projects around the globe. The Company's primary targets are those opportunities which, even during an upturn in world metal markets, may be too small, complex or unusual to easily attract the funding and high level technical input required to ensure their successful development.

Director's Report

PRINCIPAL ACTIVITIES (continued)

Metals Finance Limited does not assume the classical resource risks inherent to mineral exploration and mine development. It rather focuses its activities on metal-bearing resources and materials which have already been identified and fully outlined/measured. Metals Finance Limited is not a mining or exploration Company, rather it provides financial and production services to mining and metals companies.

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.

We particularly seek associations where the opportunity has a high potential for viability but, without Metals Finance Limited, is unlikely to proceed to profitable 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.

One of the inherent advantages that Metals Finance Limited possesses is the capability to rapidly assess available projects. This is aided by the fact that the projects targeted are, from a resource point of view, late stage or already developed. The facts are generally known, and technical and financial assessment simply requires testing to determine an appropriate treatment methodology. Metals Finance Limited follows a strict, sequential model in project development:

- Establishment of a suitable process flow sheet
- Preliminary financial modelling and risk assessment
- Site testing of the proposed flow sheet
- Decision to proceed with plant design and engineering
- Determination of minimum scale for positive return
- Design and engineering of treatment facility, including permitting
- Determination of capital and operating costs
- Establishment of personnel requirements and availability
- Generation and independent review of project plan
- Project development

Metals Finance Limited, through its range of contacts, has access to a network of individuals around the world who are highly experienced in the field of project establishment.

There have been some major recent developments in metal processing technology, which have resulted in:

- Increased efficiency in process application
- Modular construction of unit processes
- Reduction in unit capital and operating cost

As a consequence the potential economies of scale in metal recovery have changed. Whereas conventional recovery processes have, in their traditional application, required large scale projects to achieve viability, it is now possible to develop relatively small resources in the phased and rigidly controlled Metals Finance Limited fashion.

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.

There were no other significant changes in the nature of the activities of the Consolidated Entity during the year.

REVIEW OF OPERATIONS

The consolidated loss after income tax for the year attributable to the Owners of the Consolidated Entity was \$6,826,103 (2011: \$2,766,999).

DIVIDENDS

There were no dividends paid or declared by the Consolidated Entity (2011: \$nil).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Consolidated Entity.

Director's Report

ENVIRONMENTAL REGULATION

The Consolidated Entity's operations are subject to environmental regulations under relevant local laws, council policies and state and federal government legislation in relation to operating activities.

Operations are closely monitored in accordance with operating procedures to ensure that the potential for environmental contamination is minimised.

The Directors are not aware of any significant breaches in environmental regulations during the period covered by this report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 31 August 2012, that has significantly affected, or, may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in financial years subsequent to 31 August 2012.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments have been reported in the Directors' Report to the extent considered appropriate. Further information as to likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

DIRECTORS' INTERESTS

The relevant interest of each Director in the shares and options issued by the Company, as notified by the Directors to the Australian Securities Exchange ('ASX') in accordance with Section 205G(1) of the *Corporations Act 2001*, at the date of this Directors' Report is as follows:

	Ordinary Shares	Options
G Hill*	5,504,350	1,000,000
T Treasure*	3,332,596	2,000,000
R Anthon*	50,000	500,000
S Bird*	100,000	-

* Held directly and indirectly

AUDITOR'S INDEPENDENCE DECLARATION

We confirm that we have obtained the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* which is set out on page 19.

AUDITOR

BDO East Coast Partnership (formerly PKF East Coast Practice) continues in office in accordance with section 327 of the *Corporations Act 2001*.

SHARES UNDER OPTION

At the date of this report unissued ordinary shares of the Company under option are:

Date options granted	Expiry date	Exercise price	Number of options
18 January 2010 *	31 January 2013	25 cents per share	2,000,000
18 January 2010 *	31 January 2013	30 cents per share	2,000,000
30 March 2012 *	28 February 2017	15 cents per share	2,500,000
			6,500,000

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

* Included in these options were options granted as remuneration to the directors and the five most highly remunerated officers during the year. Details of options granted to key management personnel are disclosed in the remuneration report and note 25 in the notes to the financial statements. The following options were granted to officers who are among the five highest remunerated officers of the company and the group, but are not key management persons and hence not disclosed in the remuneration report:

Name of officer	Date granted	Exercise price	Number of options granted
A Robert	30 March 2012	15 cents per share	1,000,000
P Shelley	30 March 2012	15 cents per share	500,000

Director's Report

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND AUDITORS**Indemnification**

Under the Company's Constitution, the Company indemnifies each Director, Officer and Agent of the Company ('Officer') against:

- any liability incurred by that Officer as such in defending any proceedings, whether civil or criminal, in which judgement is given in favour of the Officer or which are discontinued, withdrawn, dismissed or struck out, or in which the Officer is acquitted, or in connection with any application in relation to those proceedings in which relief is granted to the Officer by the Court; and
- any liability incurred by an Officer in carrying out the business or exercising the powers of the Company which does not involve any negligence, default, breach of duty or breach of trust by the Officer in relation to the Company.

Insurance Premiums

Each of the Directors of the Company have entered into an Indemnity Agreement with the Company whereby the Company has agreed at the Company's discretion, to effect and maintain insurance in respect of directors and officers liability. The Company has also agreed to provide certain indemnities to each of the Directors, to the fullest extent permitted by law.

Since the end of the previous financial year, the Company has paid insurance premiums of \$19,878 (2011: \$19,478) in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former Officers, including senior executives of the Company and directors, senior executives and secretaries of its controlled entities. The insurance premiums relate to:

- costs and expenses incurred by the relevant Officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The insurance policies outlined above do not contain details of the premiums paid in respect of individual Officers.

NON-AUDIT SERVICES

During the year BDO East Coast Partnership (formerly PKF East Coast Practice), the Consolidated Entity's external auditor, performed certain other services in addition to statutory duties.

The Board has considered the non-audit services provided during the year by the external auditor and in accordance with advice provided by the Audit Committee, is satisfied that the provision of those services during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the external auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board, as they did not involve reviewing or auditing the external auditor's own work, acting in a management capacity for the Company, acting as an advocate for the Company or jointly sharing risks or rewards.

The following amounts were paid or are payable by the Consolidated Entity for non-audit services provided during the year:

	2012 \$	2011 \$
BDO East Coast Partnership:		
Taxation services	10,000	21,810

Remuneration Report

REMUNERATION REPORT - AUDITED

The remuneration committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the executive officers and directors of the Company and of other executives of the Consolidated Entity. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

The members of the remuneration committee during the year were:

- Rick Anthon (Chairman) – Independent Non-Executive Director
- Geoff Hill – Non-Executive Board Chairman
- Mike Gunn – Independent Non-Executive Director (Resigned: 26 June 2012)

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for security holders. The remuneration structures take into account a range of factors, including the following:

- the capability and experience of the key management personnel;
- the requirement to utilise those skills in the furtherance of the Consolidated Entity's strategic objectives;
- the performance of the key management in their particular role;
- the Consolidated Entity's overall performance;
- the remuneration levels being paid by competitors for similar positions; and
- the need to ensure continuity of executive talent and smooth succession planning.

In assessing the performance of a particular executive, consideration of various other aspects are taken into account regardless of only the immediate profit and loss performance. The nature of the Consolidated Entity's operations and investment is such that decisions are constantly being taken that will not have profit repercussions for several years. Moreover, the evaluation of executive performance also has regard to the Executive's effectiveness in developing a capable support team and in showing leadership qualities and instilling positive cultural values within the Consolidated Entity.

Remuneration packages included fixed remuneration only for the past financial year, but a revision of a performance bonus structure is under consideration. There was no performance-based remuneration in either the current or the prior financial year. Equity-based remuneration is detailed below.

Fixed Remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any fringe benefits tax charges related to employee benefits including motor vehicles, car parking and other specified benefits), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Remuneration Committee through a process that considers the factors outlined above.

Non-executive Directors

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. No remuneration consultants were used in the 2012 financial year. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at a General Meeting. On 16 December 2008, shareholders last approved a maximum aggregate amount totalling \$250,000. Fees for Non-Executive Directors are not linked to the performance of the Consolidated Entity. However, to align Non-Executive Directors' interests with shareholders' interests, the Non-Executive Directors are encouraged to hold shares in the Consolidated Entity and may receive options as long-term incentive remuneration.

Executives

Executive Directors and other Company executives (Executives) receive either a salary plus superannuation guarantee contributions as required by law, currently set at 9%, or provide their services via a consultancy arrangement. Individuals may elect to sacrifice part of their salary to increase payments towards superannuation. Bonus payments are at the discretion of the Board and based on an Executive's performance.

Base Salary

Structured as a total employment cost package comprising cash, leave benefits and superannuation, Executives' remuneration is reviewed annually for competitiveness and performance. There are no guaranteed salary increases fixed in any Executives' contract.

Benefits

Executives may receive reimbursement for out-of-pocket expenses incurred in undertaking their duties, including reasonable travel, accommodation and entertainment expenses.

When considering the relationship between the Consolidated Entity's Remuneration Policy and the performance of the Consolidated Entity and Executives and the subsequent benefits the performance had on shareholders' wealth, the Remuneration Committee had regard to the following:

Remuneration Report

REMUNERATION REPORT – AUDITED (continued)

	2012	2011	2010	2009	2008
Net loss (\$)	(6,826,103)	(2,766,999)	(2,930,928)	(1,077,433)	(3,731,969)
Loss per share (cents)	(8.9)	(3.1)	(4.0)	(1.5)	(5.1)
Dividends / distributions (\$)	-	-	-	-	-
Share price at year end (cents)	2.3	7.5	5.8	10.0	9.8
Market capitalisation (\$)	1,681,520	5,483,218	4,240,355	7,310,957	7,164,738
Director & Key Management Personnel remuneration (\$)	755,021	742,986	1,135,456	959,824	707,098

The Remuneration Committee considers that the Consolidated Entity's remuneration policy is appropriate.

Employment Contracts*Managing Director – Mr Tony Treasure*

The Managing Director, Mr Tony Treasure, was retained by a contract dated 18 October 2010 which expired on 17 October 2012. A new contract is currently under negotiation. The past agreement provided for an annual base salary, exclusive of compulsory superannuation contributions and other incentives or bonuses. Subject to approval required by the Company's shareholders, the Managing Director is also eligible to participate in short and long term incentive plans implemented by the Company.

The annual base salary exclusive of compulsory superannuation contributions paid under the agreement totals \$300,000 per annum, subject to annual review. For a portion of the year however the Managing Director's salary was reduced in line with the cost saving measures implemented by the Board. The Managing Director's annual incentive plan provides the Managing Director with an opportunity to earn a cash bonus in excess of the annual base salary. The annual incentive plan is subject to, in the opinion of the Board, achieving certain annual key performance indicators. A total cash bonus of up to \$100,000 would be payable if all key performance indicators were met. If the Managing Director qualifies for payment, the cash bonus payments would be made to the Managing Director or his nominee within 30 days of achievement of individual key performance indicators. The first annual incentive plan payment would have been paid in January 2012, and then on an annual basis. For the year ended 31 August 2012 100% of the annual incentive was forfeited (0% vested).

The Company may terminate the Managing Director's employment with the Company at any time and may or may not be required to give a notice of termination to the Managing Director, depending on the cause for termination. No termination payments are mandatory in this circumstance.

The Company may terminate the Managing Director's employment with the Company by the giving of 6 months of notice, or payment in lieu, for permanent disability.

The Managing Director may terminate his employment with the Company at any time by giving the Company 3 months of notice in writing. The Company may waive all or part of such notice and end the Managing Director's employment immediately without liability, by giving the Managing Director pay in lieu of the period of notice so waived.

No other director or key management personnel are employed under a contract of service.

Details of Key Management Personnel**Directors**

Name	Position
G Hill	Non-Executive Chairman
T Treasure	Managing Director
R Anthon	Non-Executive Director
S Bird	Non-Executive Director
M Gunn	Non-Executive Director (resigned: 26 June 2012)

Other Key Management Personnel

Name	Position
A de Vos	Chief Financial Officer / Company Secretary
I Morgan	Company Secretary

Remuneration Report

REMUNERATION REPORT – AUDITED (continued)

Key management personnel are those directly accountable and responsible for the operational management and strategic direction of the Company and the Consolidated Entity.

Details of the nature and amount of each element of the remuneration of Directors and other Key Management Personnel of the Company during the financial year are:

Key Management Personnel	Year	Short-Term Employee Benefits			Post-Employment	Share Based Payments	Performance Related %	% Consisting of Options
		Salary & Fees	Bonus	Non-Monetary Benefits	Super-annuation Benefits	Options		
		\$	\$	\$	\$	\$	\$	
Directors								
<i>Non-executive Directors</i>								
G Hill	2012	82,500	-	-	-	-	82,500	-
	2011	90,000	-	-	-	-	90,000	-
R Anthon	2012	27,500	-	-	2,475	-	29,975	-
	2011	30,000	-	-	2,700	-	32,700	-
M Gunn ¹	2012	23,750	-	-	-	-	23,750	-
	2011	30,000	-	-	-	-	30,000	-
S Bird	2012	36,667	-	-	3,300	-	39,967	-
	2011	40,000	-	-	3,600	-	43,600	-
<i>Executive Director</i>								
T Treasure	2012	271,688	-	-	28,063	-	299,751	-
	2011	279,833	-	-	42,625	-	322,458	-
<i>Executives (Other)</i>								
A de Vos	2012	182,792	-	-	31,575	28,000	242,367	11.55
	2011	174,220	-	-	21,980	-	196,200	-
I Morgan	2012	36,711	-	-	-	-	36,711	-
	2011	28,028	-	-	-	-	28,028	-
Total	2012	661,608	-	-	65,413	28,000	755,021	3.71
	2011	672,081	-	-	70,905	-	742,986	-

¹ M Gunn was appointed as Director on 7 October 2009 and resigned 26 June 2012

No termination or long-term benefits have been paid or accrued for any director or key management personnel in the year ended 31 August 2012 (2011: \$nil).

Compensation options: Granted and vested during the year

During the year the following options were issued to key management personnel as part of their remuneration.

	Number of Options Granted	Total Value \$	% vested	% forfeited	Number of options vested	Date exercisable
A de Vos ¹	1,000,000	28,000	100	-	1,000,000	30/03/2012

¹ The options issued to A de Vos have no further service or performance conditions attached and will not affect future year's remuneration.

No options were exercised or lapsed during the year.

Remuneration Report

REMUNERATION REPORT – AUDITED (continued)*Terms & Conditions:*

	<u>Terms</u>
Grant Date	30/03/2012
Expiry Date	28/02/2017
Exercise Price \$	0.15
Fair Value per option at grant date \$	0.028

The options issued formed part of the standard remuneration of each key management personnel and as such were not dependent on a performance condition.

Shares issued on exercise of compensation options

No shares were issued on the exercise of compensation options in the 2011 or 2012 financial years.

END - REMUNERATION REPORT – AUDITED**PROCEEDINGS ON BEHALF OF THE COMPANY**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

ROUNDING OF AMOUNTS

Amounts in the financial report and Directors' Report are rounded off to the nearest dollar, unless otherwise stated.

Signed in accordance with a resolution of the Directors



Director

Brisbane, 26 November 2012

DECLARATION OF INDEPENDENCE BY ALBERT LOOTS TO THE DIRECTORS OF METALS FINANCE LIMITED

As lead auditor of Metals Finance Limited for the year ended 31 August 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

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



A S Loots

Partner

BDO East Coast Partnership

Brisbane, 26 November 2012

STATEMENT OF COMPREHENSIVE INCOME

for the Year Ended 31 August 2012

	Note	2012 \$	2011 \$
Revenue			
Consulting revenue		70,652	168,424
Interest revenue		147,125	180,546
Rental income		-	7,041
		217,777	356,011
Other income			
Gain on sale of property, plant and equipment		-	3,465
Fair value gain on financial assets at fair value through profit or loss		-	410,558
		-	414,023
Expenses			
Employee expenses		(1,231,262)	(1,331,988)
Depreciation and amortisation expense		(23,517)	(27,386)
Foreign exchange loss		(229,299)	(483,325)
Finance costs		(12,568)	(202,972)
Other expenses from ordinary activities			
Project and feasibility costs		(921,346)	(619,979)
Administration		(891,768)	(796,956)
Impairment of property, plant and equipment		(121,131)	(121,131)
Impairment of available-for-sale financial assets		(3,430,853)	-
Fair value loss on financial assets at fair value through profit or loss		(407,225)	-
Loss before income tax benefit		(7,051,192)	(2,813,703)
Income tax benefit	2	225,089	46,704
Loss after income tax		(6,826,103)	(2,766,999)
Other comprehensive income			
Foreign currency translation differences for foreign operations		280,363	206,182
Changes in the fair value of available-for-sale financial assets		(1,823,314)	633,923
Income tax on other comprehensive income		-	-
Total other comprehensive income		(1,542,951)	840,105
Total comprehensive income		(8,369,054)	(1,926,894)
Loss after income tax attributable to:			
Owners of the Parent Entity		(6,482,830)	(2,247,219)
Non-Controlling Interest		(343,273)	(519,780)
		(6,826,103)	(2,766,999)
Total comprehensive income attributable to:			
Owners of the Parent Entity		(8,165,962)	(1,510,205)
Non-Controlling Interest		(203,092)	(416,689)
		(8,369,054)	(1,926,894)
Loss per Share:			
Basic and diluted loss per share (cents)	3	(8.9)	(3.1)

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

BALANCE SHEET

as at 31 August 2012

	Note	2012 \$	2011 \$
Current Assets:			
Cash and cash equivalents	4	1,635,682	3,426,060
Trade and other receivables	5	110,493	671,263
Financial assets at fair value through profit or loss	8 (a)	3,333	410,558
Other	6	-	467
Total Current Assets		1,749,508	4,508,348
Non-Current Assets:			
Trade and other receivables	5	140,510	134,737
Property, plant and equipment	7	175,355	307,970
Available-for-sale financial assets	8 (b)	237,974	4,992,141
Total Non-Current Assets		553,839	5,434,848
Total Assets		2,303,347	9,943,196
Current Liabilities:			
Trade and other payables	9	369,797	89,388
Provisions	10	67,724	46,361
Interest bearing loans and borrowings	11	599,810	216,394
Total Current Liabilities		1,037,331	352,143
Non-Current Liabilities:			
Interest bearing loans and borrowings	11	23,299	30,615
Total Non-Current Liabilities		23,299	30,615
Total Liabilities		1,060,630	382,758
Net Assets		1,242,717	9,560,438
Equity:			
Contributed equity	12	22,083,126	22,083,126
Reserves	13	480,936	2,112,736
Accumulated losses		(20,701,565)	(14,218,735)
Total equity attributable to the equity holders of the Company		1,862,497	9,977,127
Non-controlling interest		(619,780)	(416,689)
Total Equity		1,242,717	9,560,438

STATEMENT OF CHANGES IN EQUITY

for the Year Ended 31 August 2012

	Contributed Equity	Reserves	Accumulated Losses	Total Parent Equity	Non-Controlling Interest	Total Equity
	\$	\$	\$	\$	\$	\$
Balance at 1 September 2010	20,511,496	2,947,352	(11,971,516)	11,487,332	-	11,487,332
Transactions with owners in their capacity as owners						
Transfer from reserve	1,571,630	(1,571,630)	-	-	-	-
Total comprehensive income						
Loss after income tax for the year	-	-	(2,247,219)	(2,247,219)	(519,780)	(2,766,999)
Foreign currency translation differences for foreign operations	-	103,091	-	103,091	103,091	206,182
Change in the fair value of available-for-sale financial assets	-	633,923	-	633,923	-	633,923
Total comprehensive income for the year	-	737,014	(2,247,219)	(1,510,205)	(416,689)	(1,926,894)
Balance at 31 August 2011	22,083,126	2,112,736	(14,218,735)	9,977,127	(416,689)	9,560,438
Balance at 1 September 2011	22,083,126	2,112,736	(14,218,735)	9,977,127	(416,689)	9,560,438
Transactions with owners in their capacity as owners						
Employee share options	-	51,333	-	51,333	-	51,333
Total comprehensive income						
Loss after income tax for the year	-	-	(6,482,830)	(6,482,830)	(343,273)	(6,826,103)
Foreign currency translation differences for foreign operations	-	140,181	-	140,181	140,182	280,363
Change in the fair value of available-for-sale financial assets	-	(1,823,314)	-	(1,823,314)	-	(1,823,314)
Total comprehensive income for the year	-	(1,683,133)	(6,482,830)	(8,165,963)	(203,091)	(8,369,054)
Balance at 31 August 2012	22,083,126	480,936	(20,701,565)	1,862,497	(619,780)	1,242,717

STATEMENT OF CASH FLOWS

for the Year Ended 31 August 2012

	Note	2012 \$	2011 \$
Cash Flows from Operating Activities:			
Cash receipts in the course of operations		254,466	5,741,320
Interest received		147,125	180,546
Cash payments in the course of operations		(2,920,102)	(3,456,847)
Income tax benefit received		225,089	46,704
Finance costs paid		(12,568)	(96,238)
Net Cash (Used In) / Provided By Operating Activities	16	(2,305,990)	2,415,485
Cash Flows from Investing Activities:			
Payments for property plant and equipment		(12,033)	-
Payments for Bass Metals Limited convertible notes		-	(500,000)
Net Cash Used In Investing Activities		(12,033)	(500,000)
Cash Flows from Financing Activities:			
Repayment of Metals Finance Limited convertible notes		-	(3,500,000)
Proceeds from borrowings		383,112	116,747
Repayments of borrowings		-	(534,692)
Principal repayment - finance leases		(7,011)	(5,879)
Net Cash Provided By / (Used In) Financing Activities		376,101	(3,923,824)
Net decrease in cash and cash equivalents		(1,941,922)	(2,008,339)
Net foreign exchange differences		151,544	99,029
Cash and cash equivalents at beginning of financial year		3,426,060	5,335,370
Cash and Cash Equivalents at End of Financial Year	4	1,635,682	3,426,060

Notes to the Financial Statements

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**(a) Introduction**

This financial report covers the Consolidated Entity of Metals Finance Limited (the "Company") and its controlled entities (together referred to as the "Consolidated Entity"). Metals Finance Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the Consolidated Entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Operations and principal activities

The principal activity of the Consolidated Entity is metals recovery and production.

Currency

The financial report is presented in Australian dollars, rounded to the nearest dollar, which is the functional currency of the Parent Entity.

Authorisation of financial report

The financial report was authorised for issue on 26 November 2012.

(b) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Metals Finance Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of the Consolidated Entity also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

Historical cost convention

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies.

Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the Consolidated Entity. These estimates and judgements made assume a reasonable expectation of future events but actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period or in the period and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below.

Key estimates – impairment

The Consolidated Entity assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Going concern basis of accounting

The Consolidated Entity incurred a net loss of \$6,826,103 for the year ended 31 August 2012. As at 31 August 2012 the Consolidated Entity has cash and cash equivalents of \$1,635,682, net current assets of \$712,177 and net assets of \$1,242,717.

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 that are under development.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) Basis of preparation (continued)**

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 and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

This 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.

Valuation of available-for-sale financial assets

31 August 2012

At 31 August 2012 the Consolidated Entity held 29,746,778 ordinary shares in ASX listed entity Bass Metals Ltd which were valued based on market bid price at 31 August 2012.

31 August 2011

At 31 August 2011 the Consolidated Entity held 26,413,445 shares in ASX listed entity Bass Metals Ltd. On 11 July 2011 Bass Metals Ltd entered into a voluntary trading halt pending completion of a capital raising and securing further debt funding. The trading halt was lifted on 7 November 2011 following the successful capital raising. The closing price of Bass Metals Ltd share preceding the trading halt on 11 July 2011 was 22 cents.

The Consolidated Entity follows the guidance of AASB139 Financial Instruments: Recognition and Measurement to determine the fair value of an available-for-sale investment and identify indicators of impairment.

In determining the value of the share price of Bass Metals Ltd at financial year end 31 August 2011, the Consolidated Entity evaluated, among other factors, the level of funding raised to date in the on-going financing transaction, the dilution effect of the current share issues on Bass Metals Ltd 's market capital position and the forecasted net asset position of Bass Metals Ltd subsequent to completion of capital raising as presented in the prospectus issued by Bass Metals Ltd on 15 September 2011. Based on these factors the Consolidated Entity has determined the share price of Bass Metals Ltd as at 31 August 2011 to be at a reduced value of 18.9 cents compared to the last trading value of 22 cents as at 11 July 2011. Refer Note 20 (e) and Note 20 (f) for the impact of price sensitivity and presentation of available-for-sale investments in accordance with the fair value hierarchy prescribed in AASB 7: Financial Instruments - Disclosure.

(c) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Metals Finance Limited at the end of the reporting period. A controlled entity is any entity over which Metals Finance Limited has the ability to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Consolidated Entity during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 24 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the Consolidated Entity have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated balance sheet and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is re-measured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Notes to the Financial Statements

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(d) Income tax**

The income tax benefit (expense) for the year comprises current income tax benefit (expense) and deferred tax benefit (expense). Current income tax benefit (expense) credited (charged) to profit or loss is the tax receivable (payable) on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority. Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

The credit (charge) for current income tax benefit (expense) is based on the profit (loss) for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the reporting date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(e) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer below for details of impairment).

The cost of fixed assets constructed within the Consolidated Entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the Consolidated Entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of asset is:

<u>Class of Fixed Asset</u>	<u>Depreciation Rate</u>
Plant and Equipment	10% - 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

Notes to the Financial Statements

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(f) Leases**

Leases where the Consolidated Entity assumes all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values.

Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses on a straight-line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

(g) Financial instrumentsRecognition and initial measurement

Financial assets and financial liabilities are recognised when the Consolidated Entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Consolidated Entity commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Consolidated Entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets where they are expected to mature during the period commencing 12 months after the end of the reporting period. All other investments are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (ie gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in non-current assets where they are expected to be sold during the period commencing 12 months after the end of the reporting period. All other financial assets are classified as current assets.

Notes to the Financial Statements

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(g) Financial instruments (continued)***(v) Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the Consolidated Entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: *Revenue*. Where the Consolidated Entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(h) Impairment of assets

At the end of each reporting period, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a re-valued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116). Any impairment loss of a re-valued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(i) Employee benefits

Provision is made for the Consolidated Entity's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within 1 year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than 1 year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Equity-settled compensation

Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The volatility input in the pricing model is determined by the historical volatility of the Company's share price over a similar period to the exercise period. Where applicable, the number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

(j) Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Interest revenue is recognised using the effective interest rate method.

Notes to the Financial Statements

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(k) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the balance sheet.

(l) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(m) Share capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(n) Earnings per share

The Consolidated Entity presents basic and diluted earnings (loss) per share (EPS) data for the Parent's ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, adjusted as appropriate. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(o) Comparative figures

When required by accounting standards comparative figures have been adjusted to conform to changes in presentation for the current financial year. Comparative figures have also been changed where classifications of income and expenditure items have been altered from the prior year as a result of a review by directors. The new classifications have been made to reflect a more accurate view of the Consolidated Entity's operations.

(p) New accounting standards and interpretations

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 August 2011:

- AASB 1054 Australian Additional Disclosures;
- Revised AASB 124: Related Party Disclosures (December 2009);
- AASB 2009-12 Amendments to Australian Accounting Standards;
- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project; and
- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets.

The adoption of these standards did not have any material impact on the current or any prior period and is not likely to materially affect future periods.

(q) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 August 2012 reporting periods. The Consolidated Entity has decided against early adoption of these standards. The Consolidated Entity's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The Consolidated Entity will adopt this standard from 1 September 2015 but the impact of its adoption is yet to be assessed by the Consolidated Entity.

Notes to the Financial Statements

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(q) New standards and interpretations not yet adopted (continued)**AASB 10: 'Consolidated Financial Statements'

This standard replaces part of IAS 27: 'Consolidated and Separated Financial Statements' and is applicable for annual periods beginning on or after 1 January 2013. This new standard introduces a new definition of control that determines which entities are consolidated. This new definition of control may potentially lead to the consolidation of entities that were not previously included in the Consolidated Entity resulting in more assets and liabilities on the books. The Consolidated Entity is currently assessing the impact of this standard.

AASB 11: 'Joint Arrangements'

This standard replaces IAS 31: 'Interest in Joint Ventures' and is applicable for annual periods beginning on or after 1 January 2013. This new standard introduces new rules which classify joint arrangements as either a joint operation or joint venture. Under the new standard, proportionate consolidation is not allowed and all joint ventures must be equity accounted. All joint arrangements held by the Consolidated Entity will need to be reassessed to determine whether the joint operation or joint venture classification is appropriate, and therefore the potential impacts of a change on the presentation of the Financial Statements. The Consolidated Entity is currently assessing the impact of this standard.

AASB 12: 'Disclosure of interest in other Entities'

This standard is applicable for annual reporting periods beginning on or after 1 January 2013. This standard clarifies the disclosure requirements for all forms of interests in other entities including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Consolidated Entity is assessing the impact of this standard.

AASB 13: 'Fair Value Measurement'

This standard establishes a single course of guidance for determining the fair value of assets and liabilities. The Consolidated Entity is currently assessing the impact of this standard.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The consolidated entity has yet to determine to potential effect of this standard.

Notes to the Financial Statements

2. INCOME TAX**(a) Income Tax Benefit**

	2012 \$	2011 \$
Current tax:		
Current tax year movement	225,089	46,704
Deferred tax:		
Current tax year movement	-	-
Income Tax Benefit	225,089	46,704

(b) Reconciliation of Income Tax Benefit to Loss Before Income Tax

Loss before income tax	(7,051,192)	(2,813,703)
Tax at the Australian tax rate of 30%	(2,115,358)	(844,111)
Deferred tax assets not recognised	2,115,358	844,111
R&D tax concession	225,089	46,704
Income Tax Benefit	225,089	46,704

(c) Unrecognised Deferred Tax Assets

Deferred tax assets not brought to account	3,790,461	3,619,465
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At 31 August 2012 (amounts are all stated in Australian Dollar) the Consolidated Entity had South African tax losses of \$1,040,499 (2011: \$1,290,138) and Australian tax losses of \$11,594,371 (2011: \$10,539,449) which may be carried forward and used to reduce certain taxable income in future years. The Australian and South African losses carry forward indefinitely.

No tax benefit has been recognised at reporting date as the Directors of the Company believe it is too uncertain to determine whether sufficient taxable income will be generated in future periods to utilise these tax losses.

3. LOSS PER SHARE**(a) Basic and Diluted Loss per Share**

Basic and diluted loss per share	(8.9) cents	(3.1) cents
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(b) Weighted Average Number of Shares used as the Denominator

	2012 Number	2011 Number
Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted earnings per share	73,109,576	73,109,576
Number of options excluded from the diluted loss per share calculation because they are anti-dilutive	6,500,000	4,000,000

4. CASH AND CASH EQUIVALENTS

	2012 \$	2011 \$
Cash at bank	1,635,682	3,426,060
Total Cash and Cash Equivalents	1,635,682	3,426,060

Notes to the Financial Statements

5. TRADE AND OTHER RECEIVABLES

	2012 \$	2011 \$
Current:		
Trade receivables	10,834	-
Other receivables	99,659	171,263
Convertible notes – Bass Metals Ltd	-	500,000
Total Current Receivables	110,493	671,263
Non-Current:		
Due from related parties	140,510	134,737
Total Non-Current Receivables	140,510	134,737

Ageing and Impairment

A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired. At 31 August 2012 all receivables are within their standard terms (none past due) and are not considered impaired (2011: All receivables were within their standard terms (none past due) and were not considered impaired).

There was no impairment or provision for doubtful debts for the Consolidated Entity for the current or prior period.

Convertible notes – Bass Metals Ltd

During the preceding period the Consolidated Entity purchased 500,000 convertible notes from Bass Metals Ltd at \$1.00 per note. The notes had the following key terms and conditions:

- Each \$1.00 Convertible Note would convert into 6.666666 shares at a conversion price of 15 cents per Share. If a further fundraising was undertaken by way of a Convertible Note (ie Tranche 2) and if the conversion price of any Tranche 2 Convertible note issue occurring within 3 months from the date of issue of the convertible notes was 13 cents or lower per share, then the conversion price shall be reduced to match the conversion price of these Tranche 2 notes.
- The convertible notes bear interest at the bank bill swap rate plus 5% per annum payable quarterly in advance or at the rate consistent with the interest rate on any Tranche 2 convertible note issue occurring within 3 months from the date of issue of the convertible notes if the Tranche 2 coupon rate is greater than 12.1%.
- The convertible notes had a maturity date three years from the date of issue.
- Unless converted or redeemed before the maturity date, the convertible notes must be redeemed in full on the maturity date.
- At any time after 18 months from the issue date of the convertible notes, the issuer had the right to redeem in full the outstanding Convertible Notes at a redemption price representing 120% of the outstanding principal amount (plus accrued but unpaid interest). The convertible note holders would have the opportunity to elect to convert any or all of the outstanding convertible notes in the event that the issuer exercised this early redemption option.
- The convertible notes were granted a second ranking security via a subordination agreement approved by the issuer's secured lender to the Hellyer Mine Project, RMB Australia Holdings Ltd. However, this security would automatically terminate on the settlement of a Tranche 2 fundraising transaction whereby the issuer is seeking to raise up to a further approximately \$20 million.

On 30 September 2011, the Consolidated Entity converted all convertible notes into 3,333,333 Bass Metals Ltd ordinary shares with 3,333,333 attaching options.

6. OTHER ASSETS

	2012 \$	2011 \$
Current:		
Prepaid assets	-	467
Total Other Assets	-	467

Notes to the Financial Statements

7. PROPERTY, PLANT AND EQUIPMENT

	2012 \$	2011 \$
Plant and equipment		
At cost	756,220	747,042
Accumulated depreciation	(96,341)	(75,679)
Allowance for impairment ¹	(484,524)	(363,393)
Total Plant and Equipment	175,355	307,970
Movements during the Year		
Plant and Equipment:		
Balance at beginning of year	307,970	425,378
Additions	12,033	-
Additions - leases	-	49,713
Disposals	-	(18,604)
Depreciation	(23,517)	(27,386)
Impairment ¹	(121,131)	(121,131)
Balance at End of Year	175,355	307,970

¹During the year ended 31 August 2008 the Company halted development of the Lucky Break project due to uncertainty over the project's feasibility. All capitalised development costs were written off in the 31 August 2008 year. During the 31 August 2008 year the Company had also acquired plant to develop the Lucky Break project and this has been stored since the project was halted. This plant was tested for impairment at 31 August 2012 and an impairment loss of \$121,131 was recognised due to the plant not being utilised for its intended purpose as a result of the project halt (2011: \$121,131).

8. OTHER FINANCIAL ASSETS**(a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are held for trading and include the following:

	2012 \$	2011 \$
Current:		
Derivative instruments – Bass Metals Ltd Options ¹	3,333	395,173
Derivative instruments – Bass Metals Ltd Options ²	-	15,385
Total Derivative Instruments	3,333	410,558

¹ At 31 August 2012 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 31 August 2012.

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

At 31 August 2011 the derivative instruments represented attaching options to the convertible notes held as detailed in Note 5. The options were reflected at a value of 11.9 cents as determined by the valuation methodology applied per Note 20(f).

² The Company also holds a further 250,000 Bass Metals Ltd options which were acquired on 7 December 2009 with an expiry date of 31 December 2012 and an exercise price of 30 cents per share.

Refer Note 20 (f) for the valuation methodology applied to determine the value of these derivative instruments.

(b) Available-for-sale financial assets

	2012 \$	2011 \$
Non-current:		
Listed shares – Bass Metals Ltd ³	237,974	4,992,141

³ At 31 August 2012 the Consolidated Entity held 29,746,778 ordinary shares. The ordinary shares in Bass Metals Ltd were reflected at a value of 0.8 cents.

Refer Note 1(b) for further information.

Notes to the Financial Statements

9. TRADE AND OTHER PAYABLES

	2012 \$	2011 \$
Current:		
Trade payables	121,508	16,347
Other creditors and accruals	248,289	73,041
Total Current Trade and Other Payables	369,797	89,388

Trade payables are usually due within 30 days.

Secured Amounts Payable

None of the payables are secured.

10. PROVISIONS

	2012 \$	2011 \$
Current:		
Employee benefits	67,724	46,361

11. INTEREST BEARING LOANS AND BORROWINGS

	Note	2012 \$	2011 \$
Current:			
Loan from related party - unsecured	18	592,495	209,383
Finance lease liabilities - secured		7,315	7,011
		599,810	216,394
Non-Current:			
Finance lease liabilities - secured		23,299	30,615
Total interest bearing loans and borrowings		623,109	247,009
<i>Facilities utilised at reporting date:</i>			
Loan from related party - unsecured		592,495	209,383
Finance lease facility - secured		30,614	37,626
		623,109	247,009

Loans from Related Parties

Amounts due to the Muva Metals (Pty) Ltd related party are unsecured and all call however no fixed date for repayment has been determined. No amounts will be repayable until the underlying entity generates sufficient surpluses.

Finance Lease Liability (Wholly-Secured)

The Consolidated Entity leases a motor vehicle with a carrying amount of \$32,530 (2011: \$37,274) under finance lease. The finance lease liability is secured over the motor vehicle. The lease expires in March 2016. The effective interest rate is 8.5%. The motor vehicle was sold subsequent to year-end for \$30,909 and the finance lease settled in full.

Defaults and Breaches

During the current and prior period, there were no defaults or breaches on any of the loans.

Notes to the Financial Statements

12. CONTRIBUTED EQUITY

	2012	2011
Issued Capital - Number of shares	73,109,576	73,109,576
Value of Issued Capital	\$22,083,126	\$22,083,126

Movement in contributed equity during the year:**Share Capital Movements**

	2012		2011	
	Number	\$	Number	\$
Fully paid ordinary shares at 1 September	73,109,576	22,083,126	73,109,576	22,083,126
Movement during the year	-	-	-	-
Total fully paid ordinary shares at 31 August	73,109,576	22,083,126	73,109,576	22,083,126

Terms and Conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation. Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Capital Management

Management controls the capital of the Company in order to provide capital growth to shareholders and ensure the Company can fund its operations and continue as a going concern. The Company's capital includes ordinary share capital, reserves and retained losses as disclosed in the Balance Sheet. There are no externally imposed capital requirements. Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and the market. These responses include the management of share issues.

There have been no changes in the strategy adopted by management to control the capital of the Consolidated Entity since the prior year.

Options

The Company grants incentive stock options for the purchase of ordinary fully paid shares of the Company to its officers, directors, employees and consultants. The exercise price and vesting terms of the share options is determined by the board of directors of the Company at the time of the option grant.

Information relating to the Metals Finance Limited's Share Option Plan (ESOP), including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of financial year, is set out in note 25.

Notes to the Financial Statements

13. RESERVES

	2012 \$	2011 \$
Foreign exchange translation reserve	214,342	74,161
Share based payments reserve	266,594	215,261
Investment revaluation reserve	-	1,823,314
Total Reserves	480,936	2,112,736

Movement in Reserves

	Share-based Payments		Foreign Exchange Translation		Investment Revaluation Reserve		Convertible Notes Reserve	
	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$
Balance at 1 September	215,261	215,261	74,161	(28,930)	1,823,314	1,189,391	-	1,571,630
Options expensed	51,333	-	-	-	-	-	-	-
Transfer to contributed equity	-	-	-	-	-	-	-	(1,571,630)
Change in fair value	-	-	-	-	(5,254,167)	633,923	-	-
Reclassification through profit and loss	-	-	-	-	3,430,853	-	-	-
Foreign currency translation	-	-	140,181	103,091	-	-	-	-
Balance at 31 August	266,594	215,261	214,342	74,161	-	1,823,314	-	-

Nature and purpose of reserves*Share based payments reserve*

The share based payment reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration.

Foreign exchange translation reserve

The foreign exchange translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired.

14. COMMITMENTS**(a) Operating Lease Commitments**

	2012 \$	2011 \$
Future minimum lease payments under non-cancellable operating leases:		
Within one year	4,560	28,541
Later than one year and no later than five years	-	4,560
	4,560	33,101

Terms and Conditions

The Group leases various offices and office equipment under non-cancellable operating leases expiring within one to three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

(b) Finance Lease Payment Commitments

	Note	2012 \$	2011 \$
Future minimum lease payments:			
Within one year		9,941	9,941
Later than one year and no later than five years		25,680	35,620
		35,621	45,561
Less: Future lease finance charges not provided for in the Financial Statements		(5,007)	(7,935)
		30,614	37,626
Carrying amount:			
Current	11	7,315	7,011
Non-current	11	23,299	30,615
Total Lease Liability		30,614	37,626

Finance leases relate to motor vehicles which have residual payments with options to purchase at the end of the lease term.

Notes to the Financial Statements

15. CONTINGENT LIABILITIES

The Consolidated Entity has no known contingent assets or contingent liabilities at 31 August 2012.

16. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2012 \$	2011 \$
Loss after income tax	(6,826,103)	(2,766,999)
<i>Add / (less) non-cash items:</i>		
Depreciation and amortisation	23,517	27,386
Share-based payments	51,333	-
Impairment of property, plant and equipment	121,131	121,131
Impairment of available-for-sale financial assets	3,430,853	-
Fair value losses/(gains) on financial assets at fair value through profit or loss	407,225	(410,558)
Gain on sale of property, plant and equipment	-	(3,465)
<i>Change in operating assets and liabilities</i>		
(Increase) / decrease in trade receivables	(10,834)	21,936
Decrease in other receivables	194,647	5,543,919
Decrease in other assets	467	1,498
Increase / (decrease) in accounts payable	105,162	(28,273)
Increase / (decrease) in other payables and accruals	175,249	(99,356)
Increase in provisions	21,363	8,266
Net cash (outflow) / inflow from operating activities	(2,305,990)	2,415,485

Non-cash Investing Activities

In the prior year the Consolidated Entity acquired motor vehicles for a cost totalling \$49,713, less trade in totalling \$18,604, by way of finance lease.

There were no non-cash financing activities in the current financial year.

17. KEY MANAGEMENT PERSONNEL DISCLOSURES**(a) Key Management Personnel Compensation**

	2012 \$	2011 \$
Short-term benefits	661,608	672,081
Share based payments	28,000	-
Post-employment superannuation benefits	65,413	70,905
	755,021	742,986

(b) Loans to Key Management Personnel

There were no loans to key management personnel during the year.

Notes to the Financial Statements

17. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)**(c) Movement in Share holdings held by Key Management Personnel**

	Held at 1 September 2011	Received During the Year on the Exercise of Options	Other Changes During the Year	Held at 31 August 2012
Directors				
G Hill ¹	5,504,350	-	-	5,504,350
R Anthon ¹	50,000	-	-	50,000
M Gunn	30,000	-	(30,000) ²	-
S Bird ¹	100,000	-	-	100,000
T Treasure ¹	3,177,596	-	155,000	3,332,596
Executives				
A de Vos	630,000	-	-	630,000
I Morgan	-	-	-	-
Total	9,491,946	-	125,000	9,616,946

	Held at 1 September 2010	Received During the Year on the Exercise of Options	Other Changes During the Year	Held at 31 August 2011
Directors				
G Hill ¹	5,504,350	-	-	5,504,350
R Anthon ¹	50,000	-	-	50,000
M Gunn	30,000	-	-	30,000
S Bird ¹	50,000	-	50,000	100,000
T Treasure ¹	3,177,596	-	-	3,177,596
Executives				
A de Vos	630,000	-	-	630,000
I Morgan	-	-	-	-
Total	9,441,946	-	50,000	9,491,946

¹ Held directly and indirectly² Number of securities held at cessation as a Key Management Person.

No shares were granted as remuneration in 2012 or 2011.

Notes to the Financial Statements

17. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)**(d) Movement in Option holdings held by Key Management Personnel**

	Held at 1 September 2011	Issued as Remuneration	Options Exercised	Net Change Other	Held at 31 August 2012	Total Vested and Exercisable
Directors						
G Hill	1,000,000	-	-	-	1,000,000	1,000,000
R Anthon	500,000	-	-	-	500,000	500,000
M Gunn	500,000	-	-	(500,000) ¹	-	-
S Bird	-	-	-	-	-	-
T Treasure	2,000,000	-	-	-	2,000,000	2,000,000
Executives						
A de Vos	-	1,000,000	-	-	1,000,000	1,000,000
I Morgan	-	-	-	-	-	-
Total	4,000,000	1,000,000	-	(500,000)	4,500,000	4,500,000

	Held at 1 September 2010	Issued as Remuneration	Options Exercised	Net Change Other	Held at 31 August 2011	Total Vested and Exercisable
Directors						
G Hill	1,000,000	-	-	-	1,000,000	1,000,000
R Anthon	500,000	-	-	-	500,000	500,000
M Gunn	500,000	-	-	-	500,000	500,000
S Bird	-	-	-	-	-	-
T Treasure	2,000,000	-	-	-	2,000,000	2,000,000
Executives						
A de Vos	-	-	-	-	-	-
I Morgan	-	-	-	-	-	-
Total	4,000,000	-	-	-	4,000,000	4,000,000

¹ Number of securities held at cessation as a Key Management Person.

18. RELATED PARTIES**Transactions with Related Entities****(a) Management Services – Karton Investments Pty Ltd**

Karton Investments Pty. Ltd. (“Karton”), a company related to the Managing Director (T Treasure), provides management services to the Consolidated Entity. The cost of these services, aggregating \$18,030 (2011: \$25,155) was charged to consulting services. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

(b) Management Services – Hong Kong Administrative Services Pty Ltd

Hong Kong Administrative Services Pty. Ltd. (“HKAS”), a company related to the Chairman (G Hill), provides management services to Consolidated Entity. The cost of these services, aggregating \$9,487 (2011: \$4,262) was charged for administrative expenses. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

(c) Legal Services – Hemming + Hart Lawyers

Hemming + Hart Lawyers (“H+H”), a firm related to a non-executive Director (R Anthon), provides legal services to the Consolidated Entity. The cost of these services, aggregating \$44,667 (2011: \$102,798) was charged to legal expenses. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

(d) Consulting Services – Gunn Metallurgy

M & A Gunn Family Trust trading as Gunn Metallurgy (“GM”), is an entity related to a non-executive Director (M Gunn), provides consulting services to the Consolidated Entity. The cost of these services, aggregating \$4,686 (2011: \$51,744) was charged to project expenses. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

There were no amounts owing to the related entities identified above as at the end of 2012 or 2011.

Notes to the Financial Statements

18. RELATED PARTIES (continued)**(e) Balances with Related Parties**

The aggregate amounts payable or provided for, to related parties at the reporting date are as follows:

	2012 \$	2011 \$
Interest Bearing Loans and Borrowings:		
<i>Payable to related parties</i>		
Beginning of the year	209,383	627,328
Loans advanced	383,112	116,747
Loan repayments	-	(534,692)
End of year	<u>592,495</u>	<u>209,383</u>
Trade and Other Receivables		
<i>Due from related parties</i>		
Beginning of the year	134,737	179,751
Loan repayments	-	(38,338)
Foreign exchange adjustment	5,773	(6,676)
End of year	<u>140,510</u>	<u>134,737</u>

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties.

Outstanding balances are unsecured and are repayable in cash.

19. AUDITOR'S REMUNERATION

	2012 \$	2011 \$
Audit of the Consolidated Entity		
BDO East Coast Partnership:		
Audit and review of Financial Reports	37,000	44,500
Non-Audit Services:		
BDO East Coast Partnership:		
Taxation services	10,000	21,810
	<u>47,000</u>	<u>66,310</u>

20. FINANCIAL RISK MANAGEMENT

The Consolidated Entity's principal financial instruments comprise deposits with banks, accounts receivable and payable, investments and borrowings. The main purpose of these financial instruments is to raise cash for the Consolidated Entity's operations. The Consolidated Entity's policy is to manage its finance costs using a mix of fixed and variable rate debt. Borrowings are carried at amortised cost and it is acknowledged that fair value exposure is a by-product of the Consolidated Entity's attempt to manage its cash flow volatility arising from interest rate changes.

The main risks arising from the Consolidated Entity's financial instruments are interest rate risk, foreign currency risk, price risk, credit risk and liquidity risk. The Consolidated Entity uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risk and assessments of market forecasts for interest rate prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, and liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the directors of the Consolidated Entity. They review and agree to policies for managing each of the risks identified below, including limits for approved instruments, transaction values, tenor and counterparties with whom the Consolidated Entity transacts. The Consolidated Entity does not enter into financial transactions for the purpose of short-term trading.

Notes to the Financial Statements

20. FINANCIAL RISK MANAGEMENT (continued)**(a) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will affect the Consolidated Entity's income or the value of its instruments, and arises on floating rate instruments. The Consolidated Entity's exposure to market interest rates relates primarily to cash and cash equivalents.

At reporting date, the Consolidated Entity had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	Note	2012 \$	2011 \$
Financial Assets:			
Cash assets	4	1,635,682	3,426,060
		<u>1,635,682</u>	<u>3,426,060</u>
Financial Liabilities:			
Loans from related parties	11	592,495	209,383
		<u>592,495</u>	<u>209,383</u>

Interest rates over the 12 month period were analysed and a sensitivity analysis determined to show the effect on profit and equity after tax if the interest rates at the reporting date had been 1.0% higher or lower, with all other variables held constant. This level of sensitivity was considered reasonable given the current level of both short-term and long-term Australian interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 31 August, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgments of reasonably possible movements:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2012 \$	2011 \$	2012 \$	2011 \$
Consolidated Entity				
+1.00%	10,432	32,167	10,432	32,167
- 1.00%	(10,432)	(32,167)	(10,432)	(32,167)

(b) Foreign Currency Risk

Foreign currency risk arises as a result of having instruments/cash flows denominated in a currency other than the functional currency. At 31 August, the Consolidated Entity had the following exposure to foreign currency:

	2012 \$	2011 \$
Financial Assets:		
Cash and cash equivalents	756	931
Trade and other receivables	-	16,905
	<u>756</u>	<u>17,836</u>
Financial Liabilities:		
Trade and other payables	<u>7,040</u>	<u>6,928</u>

Exchange rates over the 12 month period were analysed and a sensitivity analysis determined to show the effect on profit and equity after tax if the exchange rates at reporting date had been 10.0% higher or lower, with all other variables held constant. The following sensitivity analysis is based on the foreign currency risk exposures in existence at the reporting date:

Judgments of reasonably possible movements:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2012 \$	2011 \$	2012 \$	2011 \$
Consolidated Entity				
+ 10.00%	(628)	1,091	(628)	1,091
- 10.00%	628	(1,091)	628	(1,091)

Notes to the Financial Statements

20. FINANCIAL RISK MANAGEMENT (continued)**(c) Credit Risk**

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet contractual obligations. The consolidated entity does not hold any collateral.

Credit risk arises from the financial assets of the Consolidated Entity, which comprise cash and cash equivalents and trade and other receivables. The Consolidated Entity's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Receivable balances are monitored on an ongoing basis with the result that the Consolidated Entity's exposure to bad debts is not significant.

At 31 August 2012 the Consolidated Entity had a concentration of credit risk relating to cash deposits totalling \$1,635,682 (2011: \$3,426,060), and convertible note instruments issued by Bass Metals Limited totalling \$Nil (2011: \$500,000). Cash deposits are only held with banks and financial institutions who are independently rated parties with a minimum rating of 'A'.

At 31 August 2012 the Consolidated Entity had a concentration of credit risk relating to a receivable from a related party, Met-Solve Laboratories Inc. ('Met-Solve') of \$139,958 (2011: \$134,184). The Consolidated Entity held a 50% stake in Met-Solve until December 2009 and receives annual financial records from Met-Solve to allow for assessment of the recoverability of the receivable.

The Consolidated Entity had no other concentrations of credit risk with any single counterparty or group of counterparties.

(d) Liquidity Risk

The Consolidated Entity's objective is to maintain a balance between continuity of funding and flexibility through the use of convertible notes, related party loans and finance leases.

The table below reflects the contractual maturity of fixed and floating rate financial liabilities. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 31 August 2012. The amounts disclosed represent undiscounted cash flows.

The remaining contractual maturities of the financial liabilities are:

	≤ 6 months \$	6-12 months \$	1-2 years \$	2-5 years \$	5+ years \$	Contractual cash flows \$	Carrying Amount \$
2012							
Financial Liabilities:							
Payables	369,797	-	-	-	-	369,797	369,797
Loan from related party	-	592,495	-	-	-	592,495	592,495
Finance leases	4,970	4,971	9,941	15,739	-	35,621	30,614
	374,767	597,466	9,941	15,739	-	997,913	992,906
2011							
Financial Liabilities:							
Payables	89,388	-	-	-	-	89,388	89,388
Loan from related party	-	209,383	-	-	-	209,383	209,383
Finance leases	4,970	4,971	9,941	25,679	-	45,561	37,625
	94,358	214,354	9,941	25,679	-	344,332	336,396

(e) Price Risk

The Consolidated Entity's exposure to securities in the current period arose from an investment in one listed company, Bass Metals Ltd.

The Consolidated Entity actively monitors the underlying investment in the context of its overall strategic and financial objectives.

At 31 August, the Consolidated Entity had the following exposure to price risk:

	Note	2012 \$	2011 \$
<i>Financial assets at fair value through profit and loss</i>			
Derivative instruments – Bass Metals Ltd Options	8	3,333	410,558
<i>Available-for-sale financial assets</i>			
Listed shares – Bass Metals Limited	8	237,974	4,992,141
Total other financial assets		241,307	5,402,699

Notes to the Financial Statements

20. FINANCIAL RISK MANAGEMENT (continued)**(e) Price Risk (continued)**

Bass Metals Ltd's share price volatility over the 12 month period was analysed and a sensitivity analysis determined to show the effect on profit and equity after tax if the share price at reporting date had been 20.0% higher or lower, with all other variables held constant. The following sensitivity analysis is based on the price risk exposures in existence at the reporting date:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2012 \$	2011 \$	2012 \$	2011 \$
Consolidated Entity				
<i>Financial assets at fair value through profit and loss</i>				
+ 20.0%	667	82,112	667	82,112
- 20.0%	(667)	(82,112)	(667)	(82,112)
<i>Available-for-sale financial assets</i>				
+ 20.0%	47,595	998,428	47,595	998,428
- 20.0%	(47,595)	(998,428)	(47,595)	(998,428)

(f) Fair Value

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

Fair value of financial liabilities is calculated based on 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 7 *Financial Instruments: Disclosures* 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 tables analyses the Group's financial instruments carried at fair value by the measurement levels set out above:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
2012				
Financial assets at fair value through profit or loss				
Listed options – Bass Metals Ltd	3,333	-	-	3,333
Available-for-sale financial assets				
Listed shares – Bass Metals Ltd	237,974	-	-	237,974
Total assets	241,307	-	-	241,307

2011

Financial assets at fair value through profit or loss				
Attaching options on Bass Metals Ltd convertible notes	-	410,558	-	410,558
Available-for-sale financial assets				
Listed shares – Bass Metals Ltd	-	4,992,141	-	4,992,141
	-	5,402,699	-	5,402,699

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

2012 - Listed shares and options: For the year ended 31 August 2012 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 2012.

2011 – Listed shares: Bass Metals Ltd entered into a trading halt on 11 July 2011 which was lifted on 7 November 2011. As the shares of Bass Metals Ltd were not being traded in an active market at 31 August 2011 the investment held by the Consolidated Entity was no longer considered a level 1 fair value measurement was considered a level 2 fair value measurement in accordance with the fair value hierarchy.

Level 2 Investments: Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices)

2011 - Listed shares: Note 1 (b) - *Valuation of available-for-sale financial assets* details the methodology applied to determine the value of the listed shares for the year ended 31 August 2011.

Notes to the Financial Statements

20. FINANCIAL RISK MANAGEMENT (continued)**(f) Fair Value (continued)**

Unlisted derivative instruments (2011 and 2012): 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.

21. SEGMENT INFORMATION*Identification of reportable operating segments*

The Consolidated Entity operates primarily in two operating locations, Australia and South Africa.

Operating segments are identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance. There is no aggregation of operating segments.

The accounting policies adopted for internal reporting to the chief operating decision maker are consistent with those adopted in the financial statements. Information reported to the chief operating decision maker is on at least a monthly basis.

Types of products and services

The principal activities of both operating segments are the same, being the provision of project implementation and funding for the development of metal recovery projects.

Intersegment transactions

Intersegment transactions were made at market rates and are eliminated on consolidation.

Major customers

During the years ended 31 August 2012 and 31 August 2011 the Consolidated Entity's revenue from external sources was not derived from services provided to any one major customer.

Geographical information is as follows:

	Australia 2012 \$	South Africa 2012 \$	Consolidated 2012 \$
Revenue:			
Revenue from outside the Consolidated Entity	216,954	823	217,777
Other unallocated revenue	-	-	-
Revenue from Ordinary Activities	216,954	823	217,777
Result:			
Segment result	(6,364,646)	(686,546)	(7,051,192)
Loss from ordinary activities before income tax	(6,364,646)	(686,546)	(7,051,192)
Income tax benefit			225,089
Net loss			(6,826,103)
Depreciation and amortisation	18,427	5,090	23,517
Assets:			
Segment assets	2,299,629	3,718	2,303,347
Unallocated corporate assets	-	-	-
Consolidated Total Assets	2,299,629	3,718	2,303,347
Liabilities:			
Segment liabilities	461,618	599,012	1,060,630
Unallocated corporate liabilities	-	-	-
Consolidated Total Liabilities	461,618	599,012	1,060,630
Acquisition of property, plant and equipment	10,762	1,271	12,033

Notes to the Financial Statements

21. SEGMENT INFORMATION (continued)

	Australia 2011 \$	South Africa 2011 \$	Consolidated 2011 \$
Revenue:			
Revenue from outside the Consolidated Entity	321,649	34,362	356,011
Other unallocated revenue	-	-	-
Revenue from Ordinary Activities	321,649	34,362	356,011
Result:			
Segment result	(1,774,143)	(1,039,560)	(2,813,703)
Loss from ordinary activities before income tax	(1,774,143)	(1,039,560)	(2,813,703)
Income tax benefit			46,704
Net loss			(2,766,999)
Depreciation and amortisation	21,348	6,038	27,386
Assets:			
Segment assets	9,932,826	10,370	9,943,196
Unallocated corporate assets	-	-	-
Consolidated Total Assets	9,932,826	10,370	9,943,196
Liabilities:			
Segment liabilities	166,215	216,543	382,758
Unallocated corporate liabilities	-	-	-
Consolidated Total Liabilities	166,215	216,543	382,758
Acquisition of property, plant and equipment	49,713	-	49,713

22. SUBSEQUENT EVENTS

No matter or circumstance has arisen since 31 August 2012, that has significantly affected, or, may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Company in financial years subsequent to 31 August 2012.

23. DIVIDENDS AND FRANKING CREDITS

There were no dividends paid or recommended during the financial year. There were no franking credits available to the shareholders of the Consolidated Entity.

24. PARENT ENTITY INFORMATION

The parent entity within the Consolidated Entity is Metals Finance Limited. The ultimate parent entity in Australia is Metals Finance Limited.

	2012 \$	2011 \$
(a) Parent Entity Financial Information		
Current assets	1,865,675	6,785,689
Non-current assets	1,770,733	5,593,257
Total assets	3,636,408	12,378,946
Current liabilities	365,870	134,888
Non-current liabilities	23,299	30,615
Total liabilities	389,169	165,503
Net assets	3,247,239	12,213,443
Contributed equity	22,083,126	22,083,126
Reserves	266,594	2,038,575
Accumulated losses	(19,102,481)	(11,908,258)
Total equity	3,247,239	12,213,443
Loss after income tax	(7,194,223)	(1,084,008)
Other comprehensive income	(1,823,314)	530,506
Total comprehensive income	(9,017,537)	(553,502)

Notes to the Financial Statements

24. PARENT ENTITY INFORMATION (continued)**(a) Guarantees entered into by the parent entity**

The parent entity has not provided any financial guarantees as at 31 August 2012 (2011: \$nil).

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 August 2012 or 31 August 2011.

(c) Contractual commitments for acquisition of property, plant and equipment

As at 31 August 2012, the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment.

Significant investment in subsidiaries:

Name	Formation / Incorporation	Class of Share	Interest Held % ¹	
			2012	2011
Nickel Developments Limited	Australia	Ordinary	100	100
MFCH Pte Ltd	Singapore	Ordinary	100	100
Metals Finance Chile Limitada	Chile	Ordinary	100	100
Metals Finance Africa Pty Ltd	South Africa	Ordinary	50 ²	50 ²
Metals Finance Zambia Limited	Zambia	Ordinary	75	75
Metals Finance Europe plc	Europe	Ordinary	100	-
Metals Finance Albania SHPK	Europe	Ordinary	100	-

¹ Percentage of voting power is in proportion to ownership being a combined direct and indirect holding

² The Company has a 50% representation on the board of Metals Finance Africa Pty Ltd, however Metals Finance Limited director Tony Treasure is the Chairman of Metals Finance Africa Pty Ltd and thus controls the casting vote which gives the Company the power to govern the financial and operating policies of Metals Finance Africa Pty Ltd, deeming it to be a subsidiary in accordance with AASB 127: *Consolidated and Separate Finance Statements*.

All companies have a 31 August reporting date.

Accounting Policies

The financial information for the parent entity, Metals Finance Limited, has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Metals Finance Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

25. SHARE BASED PAYMENTS*Equity based instruments – Options***Employee option plan**

The Metals Finance Directors and Employee Option Incentive Plan ("the Employee Plan") was last approved by shareholders at the annual general meeting held 18th December 2009.

Options granted to Company employees are issued under the Employee Plan. Options are granted under the Employee Plan for no consideration and once capable of exercise entitle the holder to subscribe for one fully-paid ordinary share upon exercise at the exercise price.

Options granted under the Employee Plan that have not vested at the time an option holder becomes ineligible (i.e. no longer an employee), are forfeited and not capable of exercise. When an option holder becomes ineligible and the options have already vested then the option holder has 3 months to exercise or they expire. Options must be exercised by the expiry dates or they lapse.

During the year 1,000,000 options were issued to an employee which vest in equal portions on 1 May 2012, 1 November 2012 and 1 May 2013 dependent upon continued service up to those dates. The recipient of these options resigned on 30 September 2012. The first tranche of options vested on 1 May 2012 and have been expensed in the 2012 financial year. Subsequent to 31 August 2012, the remaining options have been forfeited due to failure to meet the service condition attached to the options and as a result will not affect future years remuneration.

A further 1,500,000 options were issued to employees during the 2012 year which, along with all other options on issue at year end, vest on grant date.

At 31 August 2012 there were 6,500,000 (2011: 4,000,000) options over ordinary shares outstanding.

Notes to the Financial Statements

25. SHARE BASED PAYMENTS (continued)

Grant date	Expiry Date	Exercise Price \$	Number beginning of year	Granted	Forfeited	Exercised	Number at end of year	Vested and exercisable
2012								
<i>Options granted</i>								
18/01/2010	31/01/2013	0.25	2,000,000	-	-	-	2,000,000	2,000,000
18/01/2010	31/01/2013	0.30	2,000,000	-	-	-	2,000,000	2,000,000
30/03/2012	28/02/2017	0.15	-	2,500,000	-	-	2,500,000	1,833,333
Total			4,000,000	2,500,000	-	-	6,500,000	5,833,333
Weighted average exercise price			0.275	0.150	-	-	0.227	0.236

Grant date	Expiry Date	Exercise Price \$	Number beginning of year	Granted	Forfeited	Exercised	Number at end of year	Vested and exercisable
2011								
<i>Options granted</i>								
18/01/2010	31/01/2013	0.25	2,000,000	-	-	-	2,000,000	2,000,000
18/01/2010	31/01/2013	0.30	2,000,000	-	-	-	2,000,000	2,000,000
Total			4,000,000	-	-	-	4,000,000	4,000,000
Weighted average exercise price			0.275	-	-	-	0.275	0.275

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.99 years (2011 – 1.42 years).

The fair value of the equity-settled share options granted under the option plans is estimated as at the date of grant using a binomial or other appropriate model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used in the valuation of the options:

	2012	2011
Expected volatility	124%	-
Risk-free rate average	3.63%	-
Expected life average (years)	5	-
Dividend yield	-	-
Weighted average exercise price	\$ 0.15	-
Share price at grant date	\$ 0.042	-
Fair value per option	\$ 0.028	-

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were \$51,333 (2011: \$nil).

DIRECTORS' DECLARATION

The directors of Metals Finance Limited ("the Company") declare that:

- The financial statements, comprising the statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:
 - a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - b) give a true and fair view of the Consolidated Entity's financial position as at 31 August 2012 and of its performance for the year ended on that date.
- The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
- In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- The remuneration disclosures included in pages 15 to 18 of the directors' report (as part of audited Remuneration Report), for the year ended 31 August 2012, comply with section 300A of the Corporations Act 2001.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

Signed for and on behalf of the directors by:



Director

Brisbane, 26 November 2012

INDEPENDENT AUDITOR'S REPORT

To the members of Metals Finance Limited

Report on the Financial Report

We have audited the accompanying financial report of Metals Finance Limited, which comprises the balance sheet as at 31 August 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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 report.

Opinion

In our opinion:

- (a) the financial report of Metals Finance Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 August 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial report which indicates that the consolidated entity incurred a net loss of \$6,826,103 for the year ended 31 August 2012. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 18 of the directors' report for the year ended 31 August 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Metals Finance Limited for the year ended 31 August 2012 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

BDO



A S Loots

Partner

Brisbane, 26th November 2012

SHAREHOLDER INFORMATION

The information set out below was prepared as at 16th November 2012.

(a) Class of Shares and Voting Rights

There are currently 367 holders of ordinary fully paid shares of the Company. The voting rights attaching to ordinary shares and set out in the Company's Constitution are:

- (a) On a show of hands each person present as a member, proxy, attorney or representative has one vote; and
- (b) On a poll each member present in person or by proxy, attorney or representative has:
 - (i) one vote for each fully paid share held by him; and
 - (ii) in respect of each partly paid share held by him, a fraction of a vote equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited). Amounts paid in advance of a call shall be ignored when calculating the proportion.

(b) Distribution of Shareholders

Holdings Ranges	Number Holders	Number of Shares	Percentage of Total Shares
1-1,000	11	798	0.0%
1,001-5,000	48	194,741	0.3%
5,001-10,000	52	474,699	0.6%
10,001-100,000	177	7,377,588	10.1%
100,001- and over	79	65,061,750	89.0%
Totals	367	73,109,576	100.00%
Minimum \$ 500.00 parcel	59	195,539	0.3%

(c) Substantial Shareholders

Substantial shareholders, as disclosed by substantial shareholder notices given to the Company:

Substantial Holder Name	Balance of Shares Held	Percentage of Total Shares
PROTO RESOURCES & INVESTMENTS LTD	14,024,516	19.18%
H F T NOMINEES PTY LTD - HFT SUPER FUND A/C	4,904,350	6.71%
MESUTA PTY LTD	3,818,127	5.22%

(d) Largest Twenty Shareholders

Holder Name	Balance of Shares Held	Percentage of Total Shares
1 PROTO RESOURCES & INVESTMENTS LTD	13,874,516	19.0%
2 H F T NOMINEES PTY LTD - HFT SUPER FUND A/C	4,454,350	6.1%
3 MESUTA PTY LTD	4,403,697	6.0%
4 JP MORGAN NOMINEES AUSTRALIA LIMITED	3,558,160	4.9%
5 ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	3,197,576	4.4%
6 RYAHED PTY LTD	2,600,000	3.6%
7 MR PATRICK ANTHONY TREASURE	1,762,500	2.4%
8 MR COLIN WEEKS	1,760,916	2.4%
9 MR JAMES PERCY FORREST	1,605,240	2.2%
10 KARTON INVESTMENTS PTY LTD	1,570,096	2.2%
11 BLUMOS S A	1,500,000	2.1%
12 G & N LORD SUPERANNUATION PTY LTD	1,500,000	2.1%
13 MARLEY HOLDINGS PTY LTD	1,500,000	2.1%
14 MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,440,000	2.0%
15 MR ROBERT NEIL CATTERALL	1,410,000	1.9%
16 MR RUPERT JAMES MCCAMMON	1,065,000	1.5%
17 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	953,075	1.3%
18 SHORETYPE PTY LTD	840,000	1.2%
19 MR ARNO DE VILLIERS DE VOS	630,000	0.9%
20 METALLICA MINERALS LIMITED	600,000	0.8%
TOTAL	50,225,126	69.1%

SHAREHOLDER INFORMATION (continued)**(e) Unquoted Securities****Options 30 cents exercise price and expiring 31 Jan 2013**

Holder Name	Balance of Options Held
MR PATRICK ANTHONY TREASURE	1,000,000
MR GEOFF GUILD HILL	500,000
MR MICHAEL JOHN GUNN	250,000
STEFREWAN PTY LTD	250,000
TOTAL	<u>2,000,000</u>

Options 25 cents exercise price and expiring 31 Jan 2013

Holder Name	Balance of Options Held
MR PATRICK ANTHONY TREASURE	1,000,000
MR GEOFF GUILD HILL	500,000
MR MICHAEL JOHN GUNN	250,000
STEFREWAN PTY LTD	250,000
TOTAL	<u>2,000,000</u>

Options 15 cents exercise price and expiring 28 Feb 2017

Holder Name	Balance of Options Held
MR ARNO DE VOS	1,000,000
MR PETER SHELLEY	500,000
MR ANDY ROBERTS	333,333
TOTAL	<u>1,833,334</u>

(f) On-market Buy Back

There is no current on-market buy back.

(g) Securities Exchange

The Company's ordinary fully paid shares are listed on the Australian Securities Exchange and trade under the ASX code: MFC.

The Company's home exchange is Brisbane.

CORPORATE GOVERNANCE

1. INTRODUCTION

The Board and management are committed to corporate governance and to the extent they are applicable to the Company, have adopted the Corporate Governance Principles.

The ASX Corporate Governance Council encourages companies to use the guidance stated in the Corporate Governance Principles and Recommendations with 2010 Amendments (2nd Edition 2007) issued on 30th June 2010 by the ASX Corporate Governance Council as a focus for their corporate governance practices. The principles (Principles) are:

- (a) Principle 1 – Lay solid foundations for management and oversight. Companies should establish and disclose the respective roles and responsibilities of board and management.
- (b) Principle 2 – Structure the Board to add value. Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.
- (c) Principle 3 – Promote ethical and responsible decision-making. Companies should actively promote ethical and responsible decision-making.
- (d) Principle 4 – Safeguard integrity in financial reporting. Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.
- (e) Principle 5 – Make timely and balanced disclosure. Companies should promote timely and balanced disclosure of all material matters concerning the company.
- (f) Principle 6 – Respect the rights of shareholders. Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.
- (g) Principle 7 – Recognise and manage risk. Companies should establish a sound system of risk oversight and management and internal control.
- (h) Principle 8 – Remunerate fairly and responsibly. Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

2. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board has adopted a Corporate Governance Policy, which appears on the Company's website www.metalsfinance.com.

The Company's Corporate Governance Policy defines functions reserved for the Board and those delegated to the Company's management.

The Board is accountable to shareholders for the performance of the Company and has overall responsibility for its operations.

The Board's primary objective is to protect and enhance shareholder value within a defined, informed structure which protects the rights and interests of shareholders and other stakeholders by ensuring that the Company and its controlled entities are properly managed.

The Board, together with Company's management, is responsible to shareholders and other stakeholders for the Company's total business performance.

Management of the business of the Company is conducted by the Chief Executive Officer / Managing Director as designated by the Board and by officers and employees to whom the management function is delegated by the Chief Executive Officer / Managing Director.

3. STRUCTURE THE BOARD TO ADD VALUE

There is a majority of independent directors, the chair and chief executive are different persons; but the Chair is a substantial shareholder and not independent.

The Board considers that the Board's structure is appropriate for the Company's size. Each Director, independent or not, brings an independent judgement to bear on Board decisions. Directors of the Company have access to any information which the Directors may consider necessary to perform their responsibilities and exercise their independent judgement when making decisions.

In assessing the independence of directors, the Company has regard to Principle 2 Recommendation 2.1 of the Corporate Governance Principles and regards an independent director as a non-executive director who is not a member of the Company's management and who is free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the independent exercise of their judgement and who:

- (a) is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- (b) within the last three years has not been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- (c) within the last three years has not been a principal of a material professional advisor or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- (d) is not a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- (e) has no material contractual relationship with the Company or another group member other than as a director of the Company.

The Board of four (4) directors consists of two (2) independent directors:

- (a) Geoff Hill Non-Executive Chairperson and substantial shareholder;
- (b) Tony Treasure Managing Director;
- (c) Richard Anthon Non-Executive Director; and
- (d) Simon Bird Non-Executive Director.

CORPORATE GOVERNANCE (continued)

The Company is a small company with limited operations. Accordingly, the Board considers that maintaining two independent directors is appropriate for the Company's size

The Board considers that given the current size, scale and level of complexity of the Company's operations, it is not presently justified to set up a discrete Nominations Committee. The Board as a whole operates as a Nominations Committee (Principle 2, Recommendation 2.4).

The Company has established a Remuneration Committee. The charter of the Company's Remuneration Committee, including the process for evaluating the performance of the board, its committees and individual directors, is incorporated into the Company's Corporate Governance Charter on the Company's website www.metalsfinance.com.

Details of the professional experience and qualifications for each director are set out in the Directors' Report included in this Annual Report.

4. PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

The Company has established a Code of Conduct. This Code sets out the standard which the Board, management and employees of the Company are encouraged to comply with when dealing with each other, shareholders, and the broader community. This Code is incorporated into the Company's Corporate Governance Charter on the Company's website www.metalsfinance.com.

The Company has established a policy concerning diversity:

(a) Purpose

The Company recognises the importance of:

- (i) corporate benefits arising from employee and Board diversity;
- (ii) the Company benefiting from all available talent; and
- (iii) Promoting an environment conducive to the appointment of well qualified employees, senior management and Board candidates so that there is appropriate diversity to maximise the achievement of corporate goals.

(b) Scope

The Diversity Policy is aimed at implementing Principle 3 Recommendation 3.2 of the Corporate Governance Principles and Recommendations.

This Policy appears on the Company's website www.metalsfinance.com.

As proposed by Principle 3 Recommendation 3.3 of the Corporate Governance Principles and Recommendations, the Company will apply its best endeavours to disclose in each annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

5. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Board has established an Audit Committee (Principle 4, Recommendation 4.1). The Audit Committee consists of the following:

- (a) Only non-executive directors;
- (b) A majority of independent directors;
- (c) An Independent Chairperson who is not Chairperson of the Board; and
- (d) Two members, but where there are not two or more non-executive directors of the Company, the Board may appoint executive directors to the Committee.

Each member of the Audit Committee is financially literate and at least one member of the Committee has accounting or related financial management experience.

The members of the Audit Committee are:

- (a) Simon Bird (Audit Committee Chairperson) Non-Executive Director; and
- (b) Richard Anthon Non-Executive Director.

The Audit Committee is a committee of the Board.

The Audit Committee's primary function is to approve all financial statements issued by the Company and to assist the Board in discharging its responsibility to exercise due care, diligence and skill, including in relation to the Company's financial statements:

- (a) quality of financial controls;
- (b) reviewing scope and results of external audits;
- (c) monitoring corporate conduct and business ethics;
- (d) maintaining open lines of communication between the Board, management and the external auditors;
- (e) reviewing matters of significance affecting the financial welfare of the Company;
- (f) ensuring that systems of accounting and reporting of financial information to shareholders, regulators and the general public are adequate;
- (g) reviewing the Company's internal financial control system; and

CORPORATE GOVERNANCE (continued)

- (h) considering the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor.

The Audit Committee meets at least twice a year. The attendees are the Audit Committee Members, Chief Financial Officer, External Auditor and Company Secretary.

The Audit Committee charter is incorporated into the Company's Corporate Governance Charter on the Company's website www.metalsfinance.com.

6. MAKE TIMELY AND BALANCED DISCLOSURE

Under the provisions of ASX Listing Rule 3.1, the Company is required to immediately notify the ASX of any information concerning the Company of which it is, or becomes, aware, and which a reasonable person would expect to have a material effect on the price and value of the Company securities.

The Company's corporate ethics policy, including disclosure obligations, appears in the Company's Corporate Governance Charter on the Company's website www.metalsfinance.com.

7. RESPECT THE RIGHTS OF SHAREHOLDERS

The Company's shareholder communications policy is included in the Company's Corporate Governance Charter on the Company's website www.metalsfinance.com :

- (a) Purpose

The Company recognises the value of providing current, relevant information to its shareholders and of empowering its shareholders through effective communication.

- (b) Scope

The Shareholder Communications Policy is aimed at implementing Principle 6 of the Corporate Governance Principles and Recommendations.

- (c) Maintaining Shareholder Communications

It will be the responsibility of the Managing Director or Chief Executive Officer (as the case may be) to ensure that:

- (i) materials required to be disclosed by the Shareholder Communications Policy incorporated into the Company's Corporate Governance Charter are available on the Company website www.metalsfinance.com within a reasonable timeframe;
- (ii) shareholder communications are distributed to shareholders in accordance with the Corporations Act and ASX Listing Rules; and
- (iii) the Shareholder Communications Policy is updated and maintained as required.

8. RECOGNISE AND MANAGE RISK

The Company has adopted a Risk Management Policy, included in the Company's Corporate Governance Charter on the Company's website www.metalsfinance.com :

- (a) Purpose

The Company recognises the value of controlling the risk that arises through its activities. Eliminating all risk however also adversely affects the ability of the Company to take up opportunities for potential reward.

- (b) Scope

The Risk Management Policy is aimed at implementing Principle 7 of the Corporate Governance Principles and Recommendations.

Included in the Company's Risk Management Policy is the requirement for the Board to ensure that certain necessary controls are in place for risk management policies to be maintained, including by ensuring that the Board has received assurance from the Chief Executive Officer or Managing Director (if applicable) and the Chief Financial Officer that the declaration required under section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks (Principle 7, Recommendation 7.3).

9. REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Remuneration Committee (Principle 8, Recommendation 8.1). The Remuneration Committee consists of the following: (Principle 8, Recommendation 8.2):

- (a) A majority of independent directors;
- (b) A Chairperson who is an Independent Director; and
- (c) Three members, but where there are not three or more non-executive directors of the Company, the Board may appoint executive directors to the Committee.

CORPORATE GOVERNANCE (continued)

The members of the Remuneration Committee are:

- (a) Richard Anthon (Remuneration Committee Chairperson) Non-Executive Director; and
- (b) Geoff Hill Non-Executive Board Chairperson.

The Company is a small company with limited operations. Accordingly, the Board considers that maintaining an independent chair of the Remuneration Committee and two members is appropriate for the Company's size

The Remuneration Committee is a committee of the Board. The Committee is responsible for reviewing the remuneration policies and practices of the Company and making recommendations to the Board in relation to:

- (a) executive remuneration and incentive plans:
- (b) the remuneration packages for Management, directors and the Managing Director (if any):
- (c) non-executive director remuneration:
- (d) the Company's recruitment, retention and termination policies and procedures for senior Management;
- (e) incentive plans and share allocation schemes:
- (f) superannuation arrangements;
- (g) remuneration of members of other committees of the Board; and
- (h) remuneration by gender.

The Company's Remuneration Committee Charter is included in the Company's Corporate Governance Charter on the Company's website www.metalsfinance.com :

The table below contains each of the ASX Best Practice Recommendations. The Company has compiled relevant corporate governance documentation, such as charters, codes of conduct, and policies, which have been placed on the Company's website at www.metalsfinance.com under the heading "Corporate Governance".

ASX BEST PRACTICE RECOMMENDATIONS

Where the Company has complied with a recommendation during the reporting period, this is indicated with "Comply" in the appropriate column and the policy is contained in the Company's Corporate Governance Charter available on the Company's website at www.metalsfinance.com . Where the Company considered it was not appropriate to comply with a particular recommendation, this is indicated with a "Does not comply" and the Company's reasons are set out in the corresponding note in the table.

ASX Principles/Recommendations	Compliance	MFC Corporate Governance Charter Reference www.metalsfinance.com	Disclosure Requirement for Non Compliance
Principle 1			
Principle 1 – Lay solid foundations for management and oversight. Companies should establish and disclose the respective roles and responsibilities of board and management.			
Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. Box 1.1 Content of a director's letter upon appointment	Comply	SECTION B.3	Not Applicable
Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.	Comply	SECTION D	Not Applicable
Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.	Comply		Not Applicable
Principle 2			
Principle 2 – Structure the board to add value Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.			
Recommendation 2.1: A majority of the board should be independent directors. Box 2.1: Relationships affecting independent status.	Does not comply	SECTION B.3 (c)	The Company is a small company with limited operations. Accordingly, the Board considers that maintaining two independent directors is appropriate for the Company's size

CORPORATE GOVERNANCE (continued)

ASX Principles/Recommendations	Compliance	MFC Corporate Governance Charter Reference www.metalsfinance.com	Disclosure Requirement for Non Compliance
Recommendation 2.2: The chair should be an independent director.	Does not comply	SECTION B.3 (c)	The Company is a small company with limited operations. Accordingly, the Board considers that maintaining a non-executive Chairperson who is not independent is appropriate for the Company's size.
Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.	Comply	SECTION B.3 (c)	Not Applicable
Recommendation 2.4: The board should establish a nomination committee.	Does not comply	SECTION E	The Board considers that given the current size, scale and level of complexity of the Company's operations, it is not presently justified to set up a discrete Nominations Committee. The Board as a whole operates as a Nominations Committee.
Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Comply	SECTION D	Not Applicable
Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.	Comply		Not Applicable
Principle 3			
Principle 3 – Promote ethical and responsible decision-making. Companies should actively promote ethical and responsible decision-making.			
Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. • Box 3.1: Suggestions for the content of a code of conduct 	Comply	SECTION B.7	Not Applicable
Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them. <p>Box 3.2: Suggestions for the content of a diversity policy.</p>	Comply	SECTION H	Not Applicable

CORPORATE GOVERNANCE (continued)

ASX Principles/Recommendations	Compliance	MFC Corporate Governance Charter Reference www.metalsfinance.com	Disclosure Requirement for Non Compliance
Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Comply	SECTION H 4 (a)	Not Applicable
Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Comply	Proportion of women in the Consolidated Entity totals 17%. There are no women in senior executive positions or on the board.	Not Applicable
Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.	Comply		Not Applicable
Principle 4			
Principle 4 – Safeguard integrity in financial reporting Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.			
Recommendation 4.1: The board should establish an audit committee.	Comply	SECTION C	Not Applicable
Recommendation 4.2: The audit committee should be structured so that it: <ul style="list-style-type: none"> • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members. 	Does not comply	SECTION C.1	The Company is a small company with limited operations. Accordingly, the Board considers that maintaining two (2) audit committee members, instead of three (3), is appropriate for the Company's size.
Recommendation 4.3: The audit committee should have a formal charter.	Comply	SECTION C	Not Applicable
Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.	Comply		Not Applicable
Principle 5			
Principle 5 – Make timely and balanced disclosure. Companies should promote timely and balanced disclosure of all material matters concerning the company.			
Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. Box 5.1: Continuous disclosure policies	Comply	SECTION G.11	Not Applicable
Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.	Comply		Not Applicable
Principle 6			
Principle 6 – Respect the rights of shareholders. Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.			

CORPORATE GOVERNANCE (continued)

ASX Principles/Recommendations	Compliance	MFC Corporate Governance Charter Reference www.metalsfinance.com	Disclosure Requirement for Non Compliance
Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. Box 6.1: Using electronic communications effectively	Comply	SECTION I	Not Applicable
Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.	Comply		Not Applicable
Principle 7			
Principle 7 – Recognise and manage risk Companies should establish a sound system of risk oversight and management and internal control.			
Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Comply	SECTION J	Not Applicable
Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Comply	SECTION J.4	Not Applicable
Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Comply	SECTION J.4	Not Applicable
Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.	Comply		Not Applicable
Principle 8			
Principle 8 – Remunerate fairly and responsibly. Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.			
• Recommendation 8.1: The board should establish a remuneration committee.	Comply	SECTION D	Not Applicable
Recommendation 8.2: The remuneration committee should be structured so that it: <ul style="list-style-type: none"> • consists of a majority of independent directors • is chaired by an independent chair • has at least three members. 	Comply	SECTION D.1	The Company is a small company with limited operations. Accordingly, the Board considers that maintaining an independent chair and two members is appropriate for the Company's size

CORPORATE GOVERNANCE (continued)

ASX Principles/Recommendations	Compliance	MFC Corporate Governance Charter Reference www.metalsfinance.com	Disclosure Requirement for Non Compliance
<ul style="list-style-type: none"> • Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. • Box 8.1: Guidelines for executive remuneration packages • Box 8.2: Guidelines for non-executive director remuneration 	Does not comply	SECTION D.3	Not Applicable
<ul style="list-style-type: none"> • Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8. 	Comply		Not Applicable