



# **Metals Finance Limited**

(ABN 83 127 131 604)

and its Controlled Entities

## **2010 Financial Report**

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## DIRECTORY

### CORPORATE INFORMATION

#### Registered Office

Metals Finance Limited  
Unit 32, 28 Burnside Road  
Yatala, Queensland, Australia, 4207  
Telephone: +61 7 3807 4166  
Facsimile: +61 7 3807 3801  
Website: [www.metalsfinance.com](http://www.metalsfinance.com)  
Email: [info@metalsfinance.com](mailto:info@metalsfinance.com)

#### Directors

Geoff Hill (Chairman)  
Tony Treasure (Executive Director)  
Richard Anthon (Non-Executive Director)  
Michael Gunn (Non-Executive Director)  
Simon Bird (Non-Executive Director)

#### Principal Office

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

#### Solicitors

Hemming + Hart Lawyers  
Level 2, 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

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

#### Bankers

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

#### Auditor

PKF  
Level 6, 10 Eagle Street  
Brisbane Qld 4000

#### Investor enquires

Unit 32, 28 Burnside Road  
Yatala, QLD, 4207  
PO Box 689, Ormeau, Qld, 4208  
Telephone: +61 7 3807 4166  
Facsimile: +61 7 3807 3801  
[www.metalsfinance.com](http://www.metalsfinance.com)

## DIRECTORS' REPORT

The Directors present their Report together with the Financial Report of Metals Finance Limited ('Company') and of the Consolidated Entity ('Consolidated Entity'), being the Company and its Controlled Entities, for the year ended 31 August 2010 and the Auditor's Report thereon.

### DIRECTORS

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

<i>Name, qualifications and independence status</i>	<i>Experience, special responsibilities and other directorships</i>
<p>Geoff Hill Chairperson Non-Executive Director</p>	<p>Geoffrey Hill is a merchant banker based in Hong Kong and is currently Chairman of International Pacific Securities Inc. and Principal of Debt Management Corporation. He has over 30 years experience in the resources industry, as Director, Investor and Advisor. During this period he has acted for many of Australia's larger mining groups, including Rio Tinto, Woodside, New Hope, Woodside Petroleum, Santos, North Broken Hill, Homestake, Gold Mines of Kalgoorlie and Bell Resources. His career highlights include the formation of Bancorp Holdings, appointment to the board of Morgan Grenfell and Co Plc and the merger of his merchant banking business to form Pitt Capital Partners, with W H Soul Pattinson Partners in 2002.</p> <p>Geoff's professional directorships include Hills Industries Limited, Metals Finance Limited, Centrex Limited International Pacific Securities Limited, So Co. Limited and Heritage Gold. He served as a Director of Metals Finance Limited since 9 March 2007, and Chairman since 18 December 2008.</p>
<p>Tony Treasure Executive Director and Chief Executive Officer</p>	<p>Tony Treasure is a geologist by profession who has been actively involved in the resource and metal recovery industry for over 34 years, holding senior executive positions with a number of publicly listed companies in the process metallurgy and mining fields. He has more recently been the principal driver, both technically and commercially, behind the inception, development and commercialisation of a novel metal electrowinning technology. 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.</p> <p>Tony Treasure has served as a Director of Metals Finance Limited since 2 September 2003. He was appointed as Chief Executive Officer on May 14, 2005. He was Chairman of the Board from September 2, 2003 to March 7, 2007 and Secretary from September 2, 2003 to November 20, 2005.</p>
<p>Richard Anthon Independent Non-Executive Director (appointed 7 October 2009)</p>	<p>Rick Anthon is the Managing Partner of the Queensland law firm Hemming+Hart. He has practiced extensively in corporate, mining and resources law for over 20 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 for a number of public resource companies over the last 15 years and has previously chaired audit and remuneration committees for those companies.</p>
<p>Michael Gunn Independent Non-Executive Director (appointed 7 October 2009)</p>	<p>Mike Gunn is a metallurgical engineer with a 34 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>
<p>Simon Bird Independent Non-Executive Director (appointed 13 July 2010)</p>	<p>Simon Bird is Chief Executive Officer of ASX listed mining company King Island Scheelite Limited and member of the Board of Directors at CPA Australia Limited. Simon's 29 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).</p>
<p>Warren Eades Independent Non-Executive Director (resigned 18 December 2009)</p>	<p>Warren Eades joined the Board of Metals Finance Limited on 22 September 2008 and resigned on 18 December 2009. Mr Eades has held a number of executive and non executive positions on Australian public Company boards in the past. Warren was Managing Director of International Pacific Securities Limited (IPS) from 1991 until 1996. He was Chief Executive of International Pacific Investments from 1991 to 1998. From 1998 to 2001, he was Group General Manager of the listed Sabre Group Ltd. From 1997 to 2003, he was a Director of the listed Balmoral Corporation Limited and from 1999 to 2004, he was a Director of Pacific Strategic Investments. He currently acts as a portfolio manager to a private investment group.</p>

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 is the Chief Financial Officer and was appointed to the added position of Company secretary on 25 March 2009. Arno de Vos previously held the role of Director, compliance manager and Company secretary with numerous private companies for the past nine years

Arno is a Chartered Accountant with over 17 years experience in accounting, audit, corporate finance, treasury and Company secretarial and was Chief Financial Officer of a property industry related company for 8 years. Arno has also served as a Director on more than 34 private companies. Employed by Deloitte for a period of 5 years, Arno was involved in numerous listed entities.

Arno is a member of the Institute of Chartered Accountants Australia (ICAA), affiliate 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 (appointed 11 March 2010)

Ian Morgan is a Chartered Accountant and Company Secretary with initial experience in a major international accounting firm. Ian's subsequent experience includes six years as Financial Controller and Company Secretary for the Republic Group merchant bank, as well as its listed and unlisted public company affiliates.

He spent two years as Group Financial Controller for Green's Foods Limited and five years as Financial Accountant for AKZO Australia Limited, the Australian subsidiary of the AKZO chemical and pharmaceutical group. Ian has been involved in the resources sector for many years and his current clients include being Company Secretary for Finders Resources Ltd, King Island Scheelite Limited and Newcastle Coal Infrastructure Group Pty Ltd. Ian is also an Executive Director of Spencer Hamilton Limited.

## 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](http://www.metalsfinance.com)) and in accordance with ASX best practice guidelines. Further information is provided in the last section of this report on page (44).

## 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	
	Held <sup>1</sup>	Attended	Held	Attended
G Hill	10	10	1	1
T Treasure	10	10	-	-
W Eades	2	2	1	1
R Anthon	9	9	1	1
M Gunn	9	8	1	1
S Bird	1	1	-	-

<sup>1</sup> Reflects the number of meetings held during the time the Director held office during the year.

No 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.

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.

## PRINCIPAL ACTIVITIES (continued)

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 AND RESULTS OF OPERATIONS

### Consolidated Result

The consolidated loss after income tax for the year attributable to the Owners of the Consolidated Entity was \$2,930,928 (2009: \$1,077,433).

### DIVIDENDS

There were no dividends paid or declared by the Consolidate Entity (2009: nil).

### STATE OF AFFAIRS

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

### 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.

### SUBSEQUENT EVENTS

There has arisen in the interval between the end of the financial year and the date of this Report transactions and events of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years. These items were:

1. The repayment of the convertible notes liability on 18 October 2010 to the value of \$3,500,000 plus an interest portion of \$107,700, both of which were paid out of existing cash reserves. None of the convertible notes were converted to shares and consequently all related options attached to the notes lapsed in accordance with the terms of the note agreements. Refer to note 12(d) of the financial statements for further details on convertibles notes.
2. At 31 August 2010 Metal Finance Limited's shareholding in Bass Metals Limited of 26,413,445 shares equated to an investment of \$4,358,218 at a closing share price of \$0.165 per share on that date. Also refer to note 9 of the financial statements. Subsequent to year end the share price of Bass Metals Limited has increased and at the date of this report is trading at approximately \$0.35. As a result Metals Finance Limited's investment has increased by \$4,886,488 to a total value of approximately \$9,244,706.

## SUBSEQUENT EVENTS (continued)

On 5 November 2010 Bass Metals Limited completed a share placement of 15.3 million ordinary shares resulting in a dilution of Metals Finance Limited's shareholding from 15.5% to 14.2%.

3. Metals Finance Zambia Limited was incorporated on 3 September 2010 and its shareholding is held 50% by Metals Finance Africa Pty Ltd and 50% by MFCH Pte Ltd where Metals Finance Limited owns and indirect holding of 75% in Metals Finance Zambia.
4. Metals Finance Chile Limitada was incorporated on 26 October 2010 and is 99% held by MFCH Pte Ltd and 1% by IPS Nominees Limited on behalf of MFCH Pte Ltd. Metals Finance Limited owns indirectly 100% of Metals Finance Chile Limitada.

## LIKELY DEVELOPMENTS

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 of 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 Report is as follows:

	Ordinary Shares	Options
G Hill*	5,504,350	1,000,000
T Treasure*	3,177,596	2,000,000
M Gunn	30,000	500,000
R Anthon*	50,000	500,000
S Bird*	50,000	-

\* Held directly and indirectly

## AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

We confirm that we have obtained the Auditor's Independence Declaration which is set out on Page 11.

## OPTIONS

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

Expiry date	Exercise price	Number of options
31 January 2013	\$ 0.25	2,000,000
31 January 2013	\$ 0.30	2,000,000
		4,000,000

## 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 \$17,737 (this includes a portion of cover for 2011 financial year) in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and 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 of the Company.

## 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

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

## NON-AUDIT SERVICES

During the year PKF, 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 Consolidated Entity 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 Combined Group, acting as an advocate for the Combined Group 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:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>PKF Chartered Accountants:</b>		
Other assurance services	2,700	7,190
Taxation services	13,250	9,115
	<b>15,950</b>	<b>16,305</b>

Signed in accordance with a resolution of the Directors:



Director

Dated at Brisbane, 30<sup>th</sup> November, 2010

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## REMUNERATION REPORT

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 for 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 (Chairperson) (appointed 7 October 2009) – Independent Non-Executive
- Geoffrey Hill (appointed 9 March 2007) – Non-Executive not considered independent
- Mike Gunn (appointed 7 October 2009) – Independent Non-Executive
- Warren Eades (resigned 18 December 2009) – Independent Non-Executive

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 and equity-based remuneration paid in either the current or the prior financial period.

### Fixed Remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT 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 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. The maximum aggregate amount of fees that can be paid to Non-executive Directors is subject to approval by shareholders at a General Meeting. Fees for Non-executive Directors are not linked to the performance of the Consolidated Entity. However, to align Non-executive Directors' interests with shareholder 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 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 are based on an executive's performance.

All remuneration paid to Directors and Executives is valued at cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

### Base Salary

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

### Benefits

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

**REMUNERATION REPORT (continued)****Discussion on the relationship between the Remuneration Policy and the Consolidated Entity's Performance**

In considering the Consolidated Entity's performance and the benefits for security holders' wealth the Remuneration Committee have had regard to the following in respect of the current financial year and previous financial year:

	2010	2009	2008
Net profit / (loss) (\$)	(2,930,928)	(1,077,433)	(3,841,815)
EPS (cents)	(4.01)	(1.47)	(6.21)
Dividends / distributions (\$)	-	-	-
Security price at year end (\$)	0.058	0.10	0.10
Market capitalisation (\$)	4,240,355	7,310,957	7,310,957

Metals Finance Limited listed in 2007 and as a result the data shown above is only for the previous three years.

The Remuneration Committee considers that the Consolidated Entity's remuneration policy is generating desirable outcomes.

**Employment Contracts**

The only employment contract in existence is of the Chief Executive Officer, Mr Tony Treasure. During the financial year Mr Treasure was retained via an employment contract dated 17 October 2007 which expired on 31 October 2010. At the date of this report a new employment contract for Mr Treasure is being composed, the terms of which are yet to be finalised.

**Details of Directors and Key Management Personnel****Directors**

Name	Position
G Hill	Non -Executive Chairman
T Treasure	Executive Director / Chief Executive Officer
M Gunn	Non-Executive Director
R Anthon	Non-Executive Director
S Bird	Non-Executive Director

**Key Management Personnel**

Name	Position
A de Vos	Chief Financial Officer / Company Secretary
I Morgan	Company Secretary
H Muller	General Manager: Projects
L Heurlin	Executive (Metals Finance Africa)
G Parker	Executive (Metals Finance Africa)

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

**REMUNERATION REPORT (continued)**

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

Key Management Personnel	Year	Short-Term Employee Benefits			Post-Employment	Termination	Total
		Salary & Fees	Bonus	Non-Monetary Benefits	Superannuation	Benefits Severance	
		\$	\$	\$	\$	\$	\$
<b>Directors</b>							
<b>Non-executive Directors</b>							
G Hill	2010	90,000	-	-	-	-	90,000
	2009	84,753	-	-	-	-	84,753
R Anthon <sup>1</sup>	2010	27,016	-	-	2,431	-	29,447
M Gunn <sup>1</sup>	2010	27,016	-	-	-	-	27,016
S Bird <sup>2</sup>	2010	5,667	-	-	510	-	6,177
<b>Former</b>							
W Eades <sup>3</sup>	2010	15,057	-	-	1,355	-	16,412
	2009	47,917	-	-	4,313	-	52,230
B Boyes <sup>4</sup>	2009	53,970	-	-	-	-	53,970
<b>Executive Director</b>							
T Treasure	2010	208,000	-	-	64,500	-	272,500
	2009	178,000	-	-	94,500	-	272,500
<b>Executives (Other)</b>							
A de Vos	2010	160,833	-	-	16,292	-	177,125
	2009	145,000	-	-	18,500	-	163,500
H Muller	2010	157,810	-	-	6,000	-	163,810
I Morgan	2010	9,666	-	-	-	-	9,666
L Heurlin	2010	190,000	-	-	17,100	-	207,100
	2009	190,000	-	-	17,100	-	207,100
G Parker	2010	109,592	-	-	-	-	109,592
	2009	125,771	-	-	-	-	125,771
<b>Total</b>	<b>2010</b>	<b>671,065</b>	<b>-</b>	<b>-</b>	<b>121,088</b>	<b>-</b>	<b>792,153</b>
	<b>2009</b>	<b>825,411</b>	<b>-</b>	<b>-</b>	<b>134,413</b>	<b>-</b>	<b>959,824</b>

<sup>1</sup> R Anthon and M Gunn were appointed as Directors on 7 October 2009.

<sup>2</sup> S Bird was appointed as Director on 13 July 2010.

<sup>3</sup> W Eades resigned as Director on 18 December 2009

<sup>4</sup> B Boyes resigned as Director on 16 December 2008

The Key Management Personnel are also the five most highly paid Executive Officers of the consolidated entity for the year ended 31 August 2010.

**Auditor's Independence Declaration**

As lead auditor for the audit of Metals Finance Limited for the year ended 31 August 2010, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

**PKF**

**Albert Loots**  
Partner

Dated at Brisbane this 30<sup>th</sup> day of November 2010.

Tel: 61 7 3226 3555 | Fax: 61 7 3226 3500 | [www.pkf.com.au](http://www.pkf.com.au)  
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GPO Box 1078 | Brisbane | Queensland 4001

The PKF East Coast Practice is a member of the PKF International Limited network of legally independent member firms. The PKF East Coast Practice is also a member of the PKF Australia Limited national network of legally independent firms each trading as PKF. PKF East Coast Practice has offices in NSW, Victoria and Brisbane. PKF East Coast Practice does not accept responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Liability limited by a scheme approved under Professional Standards Legislation.

## Statement of Comprehensive Income for the Year Ended 31 August 2010

	Note	2010 \$	2009 \$
Consulting revenue		161,531	643,882
Employee expenses		(1,236,237)	(1,213,330)
Project costs		(182,925)	(98,285)
Depreciation and amortisation expense		(48,388)	(123,440)
Foreign exchange loss		(61,593)	(223,353)
Finance costs		(1,155,289)	(805,732)
General administration and operating expenses		(1,221,179)	(1,211,043)
Impairment of property, plant and equipment		(121,131)	(121,131)
<b>Results from operating activities</b>		<b>(3,865,211)</b>	<b>(3,152,432)</b>
<i>Other Income</i>			
Interest received		866,714	1,557,139
Loss on investment		(55)	(24,299)
Rental income		19,637	1,671
		<u>886,296</u>	<u>1,534,511</u>
<b>Loss before income tax benefit</b>		<b>(2,978,915)</b>	<b>(1,617,921)</b>
<b>Income tax benefit</b>	2	47,987	540,488
<b>Loss after income tax</b>		<b>(2,930,928)</b>	<b>(1,077,433)</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations		(763)	(19,730)
(Loss)/Gain on available for sale financial assets		(1,068,544)	2,257,935
Income tax on other comprehensive income		-	-
<b>Total other comprehensive income</b>		<b>(1,069,307)</b>	<b>2,238,205</b>
<b>Total comprehensive income attributable to the owners of Metals Finance Limited</b>		<b>(4,000,235)</b>	<b>1,160,772</b>
<b>Earnings per Share:</b>			
Basic and diluted loss per share (cents per share)	3(a)	4.01	1.47

## Balance Sheet as at 31 August 2010

	Note	2010 \$	2009 \$
<b>Current Assets:</b>			
Cash and cash equivalents	4	5,335,370	8,225,139
Trade and other receivables	5	63,445	636,264
Other	6	1,964	3,163
<b>Total Current Assets</b>		<b>5,400,779</b>	<b>8,864,566</b>
<b>Non-Current Assets:</b>			
Trade and other receivables	5	5,701,256	5,119,320
Property, plant and equipment	7	425,378	580,443
Deferred development costs	8	-	-
Other financial assets	9	4,358,218	4,322,200
<b>Total Non-Current Assets</b>		<b>10,484,852</b>	<b>10,021,963</b>
<b>Total Assets</b>		<b>15,885,631</b>	<b>18,886,529</b>
<b>Current Liabilities:</b>			
Trade and other payables	10	327,216	302,793
Provisions	11	38,095	-
Interest bearing loans and borrowings	12	4,020,592	548,855
<b>Total Current Liabilities</b>		<b>4,385,903</b>	<b>851,648</b>
<b>Non-Current Liabilities:</b>			
Interest bearing loans and borrowings	12	12,396	2,687,836
<b>Total Non-Current Liabilities</b>		<b>12,396</b>	<b>2,687,836</b>
<b>Total Liabilities</b>		<b>4,398,299</b>	<b>3,539,484</b>
<b>Net Assets</b>		<b>11,487,332</b>	<b>15,347,045</b>
<b>Equity:</b>			
Contributed equity	13	20,511,496	20,511,496
Reserves	14	1,375,722	2,304,507
Equity component of convertible notes		1,571,630	1,571,630
Accumulated losses		(11,971,516)	(9,040,588)
<b>Total Equity</b>		<b>11,487,332</b>	<b>15,347,045</b>

## Statement of Changes in Equity for the Year Ended 31 August 2010

	Share Capital \$	Reserves \$	Convertible Notes \$	Accumulated Losses \$	Total \$
<b>Balance at 1 September 2008</b>	20,407,177	66,302	1,571,630	(7,963,155)	14,081,954
<b>Transactions with owners in their capacity as owners</b>					
Adjustments to share issue costs	104,319	-	-	-	104,319
<b>Total transactions with owners</b>	<b>104,319</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>104,319</b>
<b>Comprehensive income</b>					
Loss for the year	-	-	-	(1,077,433)	(1,077,433)
Foreign exchange translation loss for the year	-	(19,730)	-	-	(19,730)
Gain on revaluation of Available-For-Sale Financial Assets	-	2,257,935	-	-	2,257,935
<b>Total comprehensive income</b>	<b>-</b>	<b>2,238,205</b>	<b>-</b>	<b>(1,077,433)</b>	<b>(1,160,772)</b>
<b>Balance at 31 August 2009</b>	<b>20,511,496</b>	<b>2,304,507</b>	<b>1,571,630</b>	<b>(9,040,588)</b>	<b>15,347,045</b>
<b>Balance at 1 September 2009</b>	20,511,496	2,304,507	1,571,630	(9,040,588)	15,347,045
<b>Transactions with owners in their capacity as owners</b>					
Share-based payment expense	-	140,522	-	-	140,522
<b>Total transactions with owners</b>	<b>-</b>	<b>140,522</b>	<b>-</b>	<b>-</b>	<b>140,522</b>
<b>Comprehensive income</b>					
Loss for the year	-	-	-	(2,930,928)	(2,930,928)
Foreign exchange translation loss for the year	-	(763)	-	-	(763)
Loss on revaluation of Available-For-Sale Financial Assets	-	(1,068,544)	-	-	(1,068,544)
<b>Total comprehensive income</b>	<b>-</b>	<b>(1,069,307)</b>	<b>-</b>	<b>(2,930,928)</b>	<b>(4,000,235)</b>
<b>Balance at 31 August 2010</b>	<b>20,511,496</b>	<b>1,375,722</b>	<b>1,571,630</b>	<b>(11,971,516)</b>	<b>11,487,332</b>

## Statement of Cash Flows for the Year Ended 31 August 2010

	Note	2010 \$	2009 \$
<b>Cash Flows from Operating Activities:</b>			
Cash receipts in the course of operations		194,610	311,471
Interest received		340,835	723,118
Cash payments in the course of operations		(2,497,230)	(2,955,039)
Income tax benefit received		588,475	-
Finance costs paid		(432,150)	(273,295)
<b>Net Cash Used In Operating Activities</b>	17	<b>(1,805,460)</b>	<b>(2,193,745)</b>
<b>Cash Flows from Investing Activities:</b>			
Payments for property plant and equipment		(15,685)	(9,046)
Payments for deferred development expenditure		(37,222)	(668,733)
Payments for investments		(1,104,562)	(2,064,265)
<b>Net Cash Used In Investing Activities</b>		<b>(1,157,469)</b>	<b>(2,742,044)</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from the issue of shares		-	104,320
Proceeds/ (repayments) of loans		78,473	(4,367)
Principal repayment - finance leases		(5,313)	(5,313)
<b>Net Cash Provided By Financing Activities</b>		<b>73,160</b>	<b>94,640</b>
Net decrease in cash and cash equivalents		(2,889,769)	(4,841,149)
Cash and cash equivalents at beginning of financial year		8,225,139	13,066,288
<b>Cash and Cash Equivalents at End of Financial Year</b>	4	<b>5,335,370</b>	8,225,139

Notes to the Financial Statements for the Year Ended 31 August 2010

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**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICES**

Metals Finance Limited (the "Company") is a publicly traded company on the Australian Stock Exchange (symbol: MFC) with principal operations in metals recovery and production. The Company became a resident company of Australia on 15 May 2009 and changed its name from Metals Finance Corp. to Metals Finance Limited on the same date (ACN 127 131 604). This was as resolved at the Company's Annual General Meeting that was held on 16 December 2008.

The Financial Report of the Consolidated Entity was authorised for issue by the Directors on 30<sup>th</sup> November 2010.

**Basis of Preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards (including Australian Accounting Standards).

*Compliance with IFRS*

Compliance with Australian Accounting Standards ensures that the Financial Statements comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

The financial report is presented in Australian dollars.

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.

**Critical accounting estimates and judgments**

The directors evaluate estimates and judgements 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 current trends and economic data, obtained both externally and within the consolidated entity.

*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. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

**(a) Principles of consolidation***Subsidiaries*

A controlled entity is any entity over which Metals Finance Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

*Associated and jointly controlled entities (equity accounted investees)*

Associates are those entities in which the Consolidated Entity has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the group holds 20 to 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Consolidated Entity has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associated and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Consolidated Entity's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Consolidated Entity's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Consolidated Entity, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Consolidated Entity's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Consolidated Entity has an obligation or has made payments on behalf of the investee.

*Jointly controlled operations and assets*

The interest of the Consolidated Entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

**(b) Foreign Currencies**

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements for the Year Ended 31 August 2010

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**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICES (continued)****(c) Revenue Recognition**

Revenues are recognised at the fair value of the consideration received or receivable, net of the amount of Goods and Services Tax ('GST'). Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

***Interest Revenue***

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

***Rendering of Services***

Consulting revenue is recognised as it accrues.

***Other Revenue***

All other classes of revenue are recognised as they accrue.

**(d) Taxes**

The income tax expense or benefit for the period is the tax payable on the current periods taxable income based on the notional income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**(e) Goods and Services Tax (GST)**

Revenues, expenses, and assets are recognised net of the amount of GST, except where the GST incurred on a purchase of goods or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the assets or as part of the expense item as applicable, and except for receivables and payables which are stated inclusive of GST.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the taxation authority are classified as operating cash flows.

The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the Balance Sheet. Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the taxation authority.

**(f) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

***Operating leases***

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

***Finance leases***

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Company are capitalised at the present value of the minimum lease payments. A lease liability of equal value is also recognised. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

**(g) Cash and cash equivalents**

For purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

Notes to the Financial Statements for the Year Ended 31 August 2010

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**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICES (continued)****(h) Receivables**

All trade receivables are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision of doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

The carrying amounts of the loans are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the loan is impaired to its recoverable amount. The recoverable amount of the receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate.

**(i) Investments and other financial assets**

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends upon the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

*(i) Financial Assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.

*(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. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Such assets are carried at amortised cost using the effective rate interest method. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

*(iv) Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the Statement of Comprehensive Income within other income or other expenses in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes, in the carrying amount of the security. The translation differences are recognised in profit and loss and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Statement of Comprehensive Income as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arms' length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition costs and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the Statement of Comprehensive Income.

## Notes to the Financial Statements for the Year Ended 31 August 2010

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICES (continued)****(j) Deferred Development Expenditure**

Development costs incurred subsequent to the determination of the feasibility of mining operations are deferred until the property to which they relate is placed into production, sold, allowed to lapse or abandoned. These costs are amortised over the estimated useful life of the property following commencement of commercial production according to the units of production used.

**(k) Property, Plant and Equipment***Plant and Equipment*

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

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 economic benefits associated with the item will flow to the group 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 their useful life to the Company commencing from the time the asset is held ready for use. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Property and equipment	5 – 10 years
Computer equipment	3 years
Laboratory equipment	5 years
Motor vehicles	5 years
Pilot plant	2 years

*Maintenance and repairs*

Plant of the Consolidated Entity is required to be overhauled on a regular basis. This is managed as part of an ongoing cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and amortised as noted above. Other routine operating maintenance, repair and minor renewal costs are also charged as expenses as incurred.

The cost of plant and equipment constructed by the Consolidated Entity includes the cost of all materials used in construction, direct labour on the project, borrowing costs incurred during construction and an appropriate proportion of directly attributable variable and fixed overheads.

**(l) Trade & Other Payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accruals basis. Trade account payables are usually settled on a 30 day basis.

**(m) Borrowings**

All loans and convertible notes are measured at the principal amount net of transaction costs incurred. Costs in relation to the convertible notes issued are amortised on a straight line basis over the period from issue of the notes until the redemption date of the notes. Interest is charged as an expense as it accrues.

**(n) Contributed Equity**

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

**(o) Employee Benefits***(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and any vesting sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Notes to the Financial Statements for the Year Ended 31 August 2010

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**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICES (continued)****(o) Employee Benefits***(ii) Long service leave*

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*iii) Share-based payments*

The Company has issued options to executives and employees as part of their remuneration. The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

*(iv) Employee benefit on-costs*

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

**(p) Earnings/Loss per Share***Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of the ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares, including convertible notes and options that have been granted.

**(q) 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, the equity portion of convertible notes, reserves and retained losses. 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 group since the prior year.

**(r) Comparatives**

When required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(s) Impairment of Assets***Financial Assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

## Notes to the Financial Statements for the Year Ended 31 August 2010

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICES (continued)****(s) Impairment of Assets (Continued)**

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset previously recognised in equity is transferred to profit or loss. Any impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

*Non-Financial Assets*

The carrying amounts of the Consolidated Entity's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(t) New Standards and Interpretations**

When the adoption of the Standard or Interpretation is deemed to have a material impact on the financial statements or performance of the Consolidated Entity, its impact is described below:

*AASB 3 'Business Combinations (revised 2008)' and AASB 127 'Consolidated and Separate Financial Statements (revised 2008)'*

AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously "minority interests"), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. Furthermore the revised standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 3 (revised 2008) and AASB 127 (revised 2008) will affect future acquisitions, changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.

*AASB 101 'Presentation of Financial Statements'*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Consolidated Entity has elected to present one statement.

*AASB 123' Borrowing Costs'*

The revised AASB 123 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The revised standard does not affect the Consolidated Entity as all borrowings costs are capitalised with regard to qualifying assets.

*AASB 2008-7 'Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'*

The amendments delete the reference to the "cost method" making the distinction between pre and post acquisition profits no longer relevant. All dividends received are now recognised in profit or loss rather than having to be split between a reduction in the investment and profit and loss. However the receipt of such dividends requires an entity to consider whether there is an indicator of impairment of the investment in that subsidiary.

The amendments further clarify cases or reorganisations where a new parent is inserted above an existing parent of the Consolidated Entity. It states that the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. The adoption of these amendments did not have any impact on the financial position or the performance of the Consolidated Entity.

Notes to the Financial Statements for the Year Ended 31 August 2010

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**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICES (continued)****(u) New Standards and Interpretations Not Yet Adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 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 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project. Amendments are made to AASB 5, 8, 101, 107, 117, 118, 136 & 139.' These standards are applicable to annual reporting periods beginning on or after 1 January 2010. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions'. This standard is applicable to annual reporting periods beginning on or after 1 January 2010. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence these two Interpretations are superseded by the amendments. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

AASB 9 'Financial Instruments'. This standard is applicable to annual reporting periods beginning on or after 1 January 2013. Simplifies the classifications into two categories; those carried at amortised cost, and those carried at fair value. This standard simplifies requirements related to embedded derivatives that exist in financial assets that are carried at amortised cost, such that there is no longer a requirement to account for the embedded derivative separately. The standard also removes the tainting rules associated with held-to-maturity asset. Investments in equity instruments that are not held for trade can be designated at fair value through other comprehensive income, with only dividends being recognised in profit and loss. Investments in unquoted equity instruments (and contracts on those investments that must be settled by delivery of the unquoted equity instrument) must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]'. This standard is applicable to annual reporting periods beginning on or after 1 January 2013. This standard gives effect to the consequential changes arising from the issuance of AASB 9: Financial Instruments. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

Revised AASB 124: Related Party Disclosures (December 2009): Related Party Disclosures (December 2009). This standard is applicable to annual reporting periods beginning on or after 1 January 2011. Simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition of a related party. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]. AASB 2009-12 makes amendments to a number of Standards and Interpretations. These standards are applicable to annual reporting periods beginning on or after 1 January 2011. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Consolidated Entity has yet to determine the potential effect of these standards.

The Consolidated Entity has no plans to adopt accounting policy options with effect from 1 July 2009. Application of the amending standards will not affect any of the amounts recognised in the Financial Statements and is expected to only impact disclosures contained within the Financial Report.

## Notes to the Financial Statements for the Year Ended 31 August 2010

	2010 \$	2009 \$
<b>2. INCOME TAX</b>		
<b>(a) Income Tax Expense</b>		
Current tax:		
Current tax year movement	47,987	540,488
Deferred tax expense from temporary difference:		
Current tax year movement	-	-
<b>Income Tax Benefit</b>	<b>47,987</b>	<b>540,488</b>
<b>(b) Reconciliation of Income Tax Benefit to Loss Before Income Tax</b>		
Loss before income tax expense	<b>(2,978,915)</b>	<b>(1,617,921)</b>
Tax at the Australian tax rate of 30%	(893,675)	(485,376)
Other adjustments and the effect of different foreign exchange rates	(244,754)	(266,936)
Tax losses not recognised	(648,921)	(218,440)
R&D tax concession	47,987	540,488
<b>Income Tax Benefit</b>	<b>47,987</b>	<b>540,488</b>
<b>(c) Unrecognised Deferred Tax Assets</b>		
<b>The Balance Comprises Temporary Differences</b>		
<b>Attributable to:</b>		
Tax losses not brought to account	3,056,130	2,407,209
At 31 August 2010 (amounts are all stated in Australian Dollar) the Company had South African losses of \$706,442 (2009: \$590,918) and Australian losses of \$10,187,100 (2009: \$7,472,505) 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.		
<b>3. EARNINGS PER SHARE</b>		
<b>(a) Basic and Diluted Earnings per Share</b>		
Basic and diluted loss per share	4.01 cents	1.47 cents
<b>(b) Weighted Average Number of Shares used as the Denominator</b>		
	<b>Number of Shares</b>	
	<b>2010</b>	<b>2009</b>
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
	<b>Number of Securities</b>	
	<b>2010</b>	<b>2009</b>
Number of options excluded from the diluted earnings per share calculation because they are anti-dilutive	4,000,000	9,000,000
Number of convertible notes excluded from diluted earnings per share calculation because they are anti-dilutive	7,000,000	7,000,000
<b>4. CASH AND CASH EQUIVALENTS</b>		
Cash at bank	5,335,370	8,225,139
<b>Total Cash and Cash Equivalents</b>	<b>5,335,370</b>	<b>8,225,139</b>

## Notes to the Financial Statements for the Year Ended 31 August 2010

	2010 \$	2009 \$
<b>5. TRADE AND OTHER RECEIVABLES</b>		
<b>Current:</b>		
Trade receivables	21,936	39,749
Other receivables	41,509	596,515
<b>Total Current Receivables</b>	<b>63,445</b>	<b>636,264</b>
<b>Non-Current:</b>		
Receivable from Palabora Mining Company	5,521,505	4,958,404
Due from related parties	179,751	160,916
<b>Total Non-Current Receivables</b>	<b>5,701,256</b>	<b>5,119,320</b>

**(a) Fair Value and Credit Risk**

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. For the fair values of trade and other receivables refer to Note 21(f).

**(b) Ageing and Impairment Loss**

Other receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired. All receivables are within their standard terms and are not considered impaired (2009: All receivables were within their standard terms and were not considered impaired).

The receivable from the Palabora Mining Company Limited ('PMC') is interest bearing (currently at 10.0%, based on the variable prime overdraft lending rate of the South African banks) and secured over plant that was constructed through a joint venture agreement with PMC (refer note 8). At 31 August 2010 the receivable is not past due or considered impaired.

Trade receivables as disclosed below are generally aged on 30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. Indicators of impairment include where there is objective evidence of significant financial difficulties, debtor bankruptcy, financial reorganisation or default in payment. All impairment losses have been provided for.

The ageing of trade receivables at the reporting date was:

<b>Trade Receivables Ageing</b>		
0-30 days	21,936	39,749
<b>Total</b>	<b>21,936</b>	<b>39,749</b>

The ageing of all trade receivables at 31 August 2010 is within standard trading terms.

Trade receivables past due but not considered to be impaired at 31 August 2010 are \$Nil for the Consolidated Entity (2009: \$Nil).

There was no impairment or movement in the provision for doubtful debts of trade receivables for the Consolidated Entity for the current or prior period.

All trade receivables are subject to normal terms of trade which provide for settlement within 30 days or are subject to a contractual settlement date within 12 months of year end.

**6. OTHER ASSETS****Current:**

Prepaid assets	1,964	3,163
<b>Balance at End of Year</b>	<b>1,964</b>	<b>3,163</b>

## Notes to the Financial Statements for the Year Ended 31 August 2010

**7. PROPERTY, PLANT AND EQUIPMENT**

	2010 \$	2009 \$
Leasehold improvements		
At cost	42,905	42,905
Accumulated amortisation	(42,905)	(28,036)
<b>Total Leasehold Improvements</b>	<b>-</b>	<b>14,869</b>
Plant and equipment		
At cost	748,052	733,467
Accumulated depreciation	(80,412)	(46,762)
Allowance for impairment <sup>1</sup>	(242,262)	(121,131)
<b>Total Land and Buildings</b>	<b>425,378</b>	<b>565,574</b>
<b>Total Property, Plant and Equipment</b>	<b>425,378</b>	<b>580,443</b>
<b>Movements During the Year</b>		
<b>Leasehold Improvements:</b>		
Balance at beginning of year	14,869	34,562
Additions	-	1,742
Depreciation	(14,869)	(21,435)
<b>Balance at End of Year</b>	<b>-</b>	<b>14,869</b>
<b>Plant and Equipment:</b>		
Balance at beginning of year	565,574	715,781
Additions	15,685	7,303
Disposals	(1,230)	-
Depreciation	(33,520)	(36,379)
Impairment <sup>1</sup>	(121,131)	(121,131)
<b>Balance at End of Year</b>	<b>425,378</b>	<b>565,574</b>

<sup>1</sup>During the year ended 31 August 2008 the Company halted development of the Lucky Break project due to uncertainty over the projects 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 2010 and an impairment loss of \$121,131 was recognized (2009: \$121,131).

**8. DEFERRED DEVELOPMENT COSTS**

<b>Total Deferred Development Costs</b>	<b>-</b>	<b>-</b>
<b>Movements During the Year</b>		
Balance at beginning of year	-	3,318,718
Rental	-	-
Travel	-	12,972
Supplies	-	13,504
Consulting	-	447,296
Interest	-	972,041
Equipment (under development)	-	193,873
Write-off of deferred costs	-	-
Transfer of deferred development costs to receivables	-	(4,958,404)
<b>Balance at End of Year</b>	<b>-</b>	<b>-</b>

Recoverability of the carrying amount of deferred development costs is dependent on the successful development and commercial exploitation of the assets.

## Notes to the Financial Statements for the Year Ended 31 August 2010

**8. DEFERRED DEVELOPMENT COSTS (continued)***Palabora Project*

Metals Finance Africa Pty Ltd "the Company" entered into a joint venture agreement dated 5 September 2006 ("Joint Venture Agreement") with Palabora Mining Company Limited ("PMC") to assess and if warranted, install a new nickel recovery circuit at the Palabora Mining Company copper refinery in the Republic of South Africa. The Joint Venture Agreement was originally with Muva Metals (PTY) Limited and was subsequently assigned to Metals Finance Africa Pty Ltd on 23 June 2007.

Under the terms of the original Joint Venture Agreement:

- (i) At the date of the Joint Venture Agreement, the Company had a 60% interest and PMC held a 40% interest. The Company was responsible for funding the Final Evaluation Period and the participants made a decision to proceed to the Development and Operational Phase in April 2007. The Company is responsible for implementation and funding of the commercial treatment facility.
- (ii) PMC is responsible for ensuring supply of Electrolyte Bleed Stream to the operating plant and is also responsible for certain supplies.
- (iii) The Company is also responsible for funding any operational deficits. The Company is entitled to recover its funding of the project (Capex Account balance) from operating cash flows. The Company retains ownership of capital property until 100% of capital costs are recovered at which point the capital property is transferred to PMC.
- (iv) Liabilities of the participants to each other and third parties are several in proportion to their respective joint venture interests and is neither joint nor joint and several.

An Addendum to the Joint Venture Agreement was signed by PMC and Metals Finance Africa Pty Ltd on 13 February 2009 varying the terms of the agreement.

Under the terms of the amended Joint Venture Agreement:

- (i) Ownership of the Operational Plant vests with PMC and the amount accumulated in the Capex Account are owing to the Company from PMC.
- (ii) PMC has also incurred Capital costs in the construction of the plant. These capital amounts shall be included in the total capital costs to be repaid before sharing in the proceeds of the net cash flow available for distribution. The allocation of the surplus of the net cash flow for the repayment of the two Capex accounts will be on a pro rata basis of the Capex Account to PMC and the Company.
- (iii) As owner of the Operational Plant, PMC will be entitled to claim the full wear and tear allowances.

As a result of the new agreement the Deferred Development costs that have been capitalised in Metals Finance Africa Pty Ltd's accounts have been transferred to a receivable from PMC.

2010	2009
\$	\$

**9. OTHER FINANCIAL ASSETS**

Other investments – available for sale	4,358,218	4,322,200
<b>Total Other Financial Assets</b>	<b>4,358,218</b>	<b>4,322,200</b>

Other financial assets consists of an equity investment in Bass Metals Limited. At 31 August 2010 the Consolidated Entity held 26,413,445 shares equating to a 15.5% holding. The share in Bass Metals Limited was reflected at \$0.165 cents at year end at a value of \$4,358,218. Subsequent to year end the share price of Bass Metals Limited has increased and at the date of this report is trading at approximately \$0.35. As a result Metals Finance's investment has increased by \$4,886,488 to a total value of approximately \$9,244,706. On 5 November 2010 Bass Metals Limited completed a share placement of 15.3 million ordinary shares resulting in a dilution of Metals Finance Limited's shareholding from 15.5% to 14.2%. Refer note 23, subsequent events.

**10. TRADE AND OTHER PAYABLES****Current:**

Trade payables	44,619	68,034
Other creditors and accruals	282,597	234,759
<b>Total Current Trade and Other Payables</b>	<b>327,216</b>	<b>302,793</b>

Trade payables are usually due within 30 days. No interest is charged on the balances paid outside normal terms.

**(a) Fair Value**

The carrying amounts of payables approximate fair values.

**(b) Secured Amounts Payable**

None of the payables are secured.

## Notes to the Financial Statements for the Year Ended 31 August 2010

	2010 \$	2009 \$
<b>11. Provisions</b>		
<b>Current:</b>		
Employee benefits	38,095	-
<b>12. INTEREST BEARING LOANS AND BORROWINGS</b>		
<b>Current:</b>		
Loan from related party - unsecured	627,328	548,855
Convertible notes	3,393,264	-
	<b>4,020,592</b>	<b>548,855</b>
<b>Non-Current:</b>		
Convertible notes	-	2,670,127
Finance lease liabilities - secured	12,396	17,709
	<b>12,396</b>	<b>2,687,836</b>
<i>Convertible notes</i>		
Face value	3,500,000	3,500,000
Amount classified as equity	(1,571,630)	(1,571,630)
Accreted interest	1,464,894	741,757
Carrying amount of the liability at 31 August	<b>3,393,264</b>	<b>2,670,127</b>
<i>Facilities utilised at balance date:</i>		
Loan from related party	627,328	548,855
Convertible notes	3,393,264	2,670,127
Finance lease facility	12,396	17,709
	<b>4,032,988</b>	<b>3,236,691</b>
<i>Facilities not utilised at balance date:</i>		
Loan from related party	-	-
Convertible notes	-	-
Finance lease facility	-	-
	-	-

**(a) Restrictions as to Use or Withdrawal**

There are no restrictions on use or withdrawal of any facilities.

**(b) Loans from Related Parties**

Amounts due to the Met-Solve related party is unsecured and bears interest at 6% per annum and is repayable upon agreement with the joint venture partner. The amount has arisen as a result of advances from the joint venture partner to the Met-Solve Joint venture for start up costs.

Amounts due to the Metals Finance Africa Pty Ltd related party is unsecured, bears interest at LIBOR and is repayable on a fixed ratio of the joint ventures surplus. Should the joint venture not attain any surpluses or should the Company exit the joint venture, no amounts will be repayable.

**(c) Finance Lease Liability (Wholly-Secured)**

The finance lease liability is secured over the leased asset being a motor vehicle. The leases expires in November 2012. The effective interest rates is 9.5%

**(d) Convertible Notes**

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

The fair value of the conversion feature of the notes has been recorded as an equity component of the notes financing, reducing the amount assigned to the debt component.

**(e) 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 for the Year Ended 31 August 2010

	2010 \$	2009 \$
<b>13. CONTRIBUTED EQUITY</b>		
Issued Capital - Number of shares	73,109,576	73,109,576
Value of Issued Capital	<u>\$ 20,511,496</u>	<u>\$ 20,511,496</u>

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

Share Capital Movements	2010 Shares	2010 \$	2009 Shares	2009 \$
Fully paid ordinary shares at 1 September	73,109,576	20,511,496	73,109,576	20,407,177
Share issue costs	-	-	-	104,319
Total fully paid ordinary shares at 31 August	<u>73,109,576</u>	<u>20,511,496</u>	<u>73,109,576</u>	<u>20,511,496</u>

**(a) 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 Share Holders' Meetings. In the event of winding up of the Company, ordinary share holders rank after all creditors and are fully entitled to any proceeds of liquidation

**(b) 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, the equity portion of convertible notes, reserves and retained losses. 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 group since the prior year.

**(c) Warrants**

The Company had the following warrants outstanding at year end:

	2010	2009
Number of warrants outstanding	-	3,900,000
Exercise price	-	\$ 0.265
Expiry date	-	<u>6 March 2010</u>

**(d) Options**

The Company grants incentive stock options for the purchase of common shares of the Company to its officers, directors and consultants. The exercise price and vesting terms of the stock options is determined by the Board of Directors of the Company at the time of the grant.

	2010	2009
Number of options outstanding	4,000,000	5,100,000
Exercise price	\$0.25 – \$ 0.30	\$ 0.265

During the year ended 31 August 2007 3,600,000 options were issued which expired on 3 February 2010 and 1,500,000 options which expired on 6 March 2010. All options were fully vested at the date of the grant.

During the year ended 31 August 2010 4,000,000 options were issued which expire on 31 January 2013. 2,000,000 of these options have an exercise price of \$0.25 and the other 2,000,000 have an exercise price of \$0.35. All options were fully vested at the date of the grant.

The fair value of the options granted in the year ended 31 August 2010 has been determined using the Black-Scholes option pricing model using the following assumptions

Risk-free rate	5.50%
Expected life	3 years
Expected volatility	86%
Expected dividends	-

## Notes to the Financial Statements for the Year Ended 31 August 2010

	2010 \$	2009 \$
<b>14. RESERVES</b>		
Foreign exchange translation reserve	(28,930)	(28,167)
Share based payments reserve	215,261	74,739
Investment revaluation reserve	1,189,391	2,257,935
<b>Total Reserves</b>	<b>1,375,722</b>	<b>2,304,507</b>
Balance at beginning of year	2,304,507	66,302
Share-based payments	140,522	-
Foreign currency translation	(763)	(19,730)
Investment valuation gain/ (loss) recognised	(1,068,544)	2,257,935
	<b>1,375,722</b>	<b>2,304,507</b>

**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.

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

Future minimum lease payments:

Within one year	41,729	29,769
Later than one year and no later than five years	37,230	13,423
	<b>78,959</b>	<b>43,192</b>

Operating lease commitments relate to the rental of office premises in Yatala, Queensland and photocopier machines.

**(b) Finance Lease Payment Commitments**

Future minimum lease payments:

Within one year	-	-
Later than one year and no later than five years	13,945	18,967
	<b>13,945</b>	<b>18,967</b>
Less: Future lease finance charges not provided for in the Financial Statements	(1,549)	(1,258)
	<b>12,396</b>	<b>17,709</b>

Present value of minimum lease payments:

Current (Note 12)	-	-
Non-current (Note 12)	12,396	17,709
<b>Total Lease Liability</b>	<b>12,396</b>	<b>17,709</b>

**16. CONTINGENT LIABILITIES**

The Consolidated Entity has no known contingent assets or contingent liabilities at 31 August 2010.

**17. NOTES TO THE CASH FLOW STATEMENT****Reconciliation of Net Cash Provided By / (Used In) Operating Activities to Operating Profit after Income Tax**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Operating profit after income tax	(2,930,928)	(1,077,434)
<i>Add / (less) non-cash items:</i>		
Depreciation / amortisation	48,388	123,440
Share-based payments	140,522	-
Impairment of property, plant and equipment	121,131	121,131
Loss on investments	-	24,299
Movement in interest payable	723,138	532,437
Movement in interest receivable	(525,879)	(834,021)
Loss on sale of property, plant and equipment	1,230	-
Movement in foreign currency reserve	(763)	(19,730)
<i>Change in assets and liabilities</i>		
Decrease / (Increase) in trade receivables	5,960	(334,082)
Decrease in other receivables	7,535	-
Decrease in other assets	1,199	10,851
Decrease in accounts payable	(23,415)	(4,511)
Increase / (decrease) in other payables and accruals	47,839	(736,125)
Increase in provisions	38,095	-
Decrease in tax balances	540,488	-
<b>Net Cash Used In Operating Activities</b>	<b>(1,805,460)</b>	<b>(2,193,745)</b>

**18. KEY MANAGEMENT PERSONNEL DISCLOSURES****(a) Directors**

The following persons were Directors and key management personnel of the Company during the year:

- G Hill (Chairman, Non-Executive Director);
- T Treasure (Executive Director and Chief Executive Officer);
- R Anthon (Non-Executive Director); appointed 7 October 2009;
- M Gunn (Non-Executive Director); appointed 7 October 2009;
- S Bird (Non-Executive Director); appointed 13 July 2010;
- W Eades (Non-Executive Director); resigned 18 December 2009;
- A de Vos (Chief Financial Officer and Company Secretary);
- I Morgan (Company Secretary); appointed 11 March 2010;
- H Muller (General Manager: Projects);
- L Heurlin (Executive Metals Finance Africa);
- G Parker (Executive Metals Finance Africa).

## Notes to the Financial Statements for the Year Ended 31 August 2010

**18. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)****(b) Key Management Personnel Compensation**

Key management personnel are those directly accountable and responsible for the operational management and strategic direction of the Company and the Consolidated Entity. The following table provides the details of all the key management personnel (including Directors) and the nature and amount of the elements of their remuneration for the year ended 31 August 2010:

Key Management Personnel	Year	Short-Term Employee Benefits			Post-Employment	Termination Benefits	Total
		Salary & Fees	Bonus	Non-Monetary Benefits	Superannuation	Severance	
		\$	\$	\$	\$	\$	\$
<b>Directors</b>							
<b>Non-executive Directors</b>							
G Hill	2010	90,000	-	-	-	-	90,000
	2009	84,753	-	-	-	-	84,753
R Anthon <sup>1</sup>	2010	27,016	-	-	2,431	-	29,447
M Gunn <sup>1</sup>	2010	27,016	-	-	-	-	27,016
S Bird <sup>2</sup>	2010	5,667	-	-	510	-	6,177
<b>Former</b>							
W Eades <sup>3</sup>	2010	15,057	-	-	1,355	-	16,412
	2009	47,917	-	-	4,313	-	52,230
B Boyes <sup>4</sup>	2009	53,970	-	-	-	-	53,970
<b>Executive Director</b>							
T Treasure	2010	178,000	-	-	94,500	-	272,500
	2009	178,000	-	-	94,500	-	272,500
<b>Executives (Other)</b>							
A de Vos	2010	160,833	-	-	16,292	-	177,125
	2009	145,000	-	-	18,500	-	163,500
H Muller	2010	157,810	-	-	6,000	-	163,810
I Morgan	2010	9,666	-	-	-	-	9,666
L Heurlin	2010	190,000	-	-	17,100	-	207,100
	2009	190,000	-	-	17,100	-	207,100
G Parker	2010	109,592	-	-	-	-	109,592
	2009	125,771	-	-	-	-	125,771
<b>Total</b>	<b>2010</b>	<b>671,065</b>	<b>-</b>	<b>-</b>	<b>121,088</b>	<b>-</b>	<b>792,153</b>
	<b>2009</b>	<b>825,411</b>	<b>-</b>	<b>-</b>	<b>134,413</b>	<b>-</b>	<b>959,824</b>

<sup>1</sup> R Anthon and M Gunn were appointed as Directors on 7 October 2009.

<sup>2</sup> S Bird was appointed as Director on 13 July 2010.

<sup>3</sup> W Eades resigned as Director on 18 December 2009

<sup>4</sup> B Boyes resigned as Director on 16 December 2008

The Key Management Personnel are also the five most highly paid Executive Officers of the consolidated entity for the year ended 31 August 2010.

## Notes to the Financial Statements for the Year Ended 31 August 2010

**18. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)****(c) Loans to Key Management Personnel**

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

**(d) Share Holdings of Key Management Personnel at 31 August 2010**

Directors	Held at 1 September 2009	Purchased	Received on Exercise of Options	Sales	Other	Held at 31 August 2010
<b>Directors</b>						
G Hill <sup>2</sup>	4,904,350	600,000	-	-	-	5,504,350
R Anthon <sup>2</sup>	-	50,000	-	-	-	50,000
M Gunn	-	-	-	-	30,000 <sup>1</sup>	30,000
S Bird <sup>2</sup>	-	50,000	-	-	-	50,000
T Treasure <sup>2</sup>	2,708,187	469,409	-	-	-	3,177,596
<b>Executives</b>						
A de Vos	610,000	20,000	-	-	-	630,000
H Muller	-	-	-	-	-	-
I Morgan	-	-	-	-	-	-
L Heurlin	-	-	-	-	-	-
G Parker	-	-	-	-	-	-

<sup>1</sup> Number of securities at commencement and / or cessation of employment.

<sup>2</sup> Held directly and indirectly

**(e) Option Holdings of Key Management Personnel at 31 August 2010**

Directors	Held at 1 September 2009	Issued as remuneration	Options exercised	Net Change Other	Held at 31 August 2010	Total Vested and Exercisable
<b>Directors</b>						
G Hill	600,000	1,000,000	-	(600,000) <sup>1</sup>	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	1,500,000	2,000,000	-	(1,500,000) <sup>1</sup>	2,000,000	2,000,000
<b>Executives</b>						
A de Vos	-	-	-	-	-	-
H Muller	-	-	-	-	-	-
I Morgan	-	-	-	-	-	-
L Heurlin	300,000	-	-	(300,000) <sup>1</sup>	-	-
G Parker	-	-	-	-	-	-

<sup>1</sup> Represents number of options which expired during the period.

**19. RELATED PARTIES****1. Transactions with Related Entities****(i) Management Services – Karton Investments Pty Ltd**

Karton Investments Pty. Ltd. ("Karton"), a company related to the CEO (T Treasure), provides management services to the Company. The cost of these services, aggregating \$27,685 (\$24,000 in 2009) 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.

**(ii) 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 MFCH Pte Ltd. The cost of these services, aggregating \$9,147 (\$Nil in 2009) was charged for incorporating MFCH Pte Ltd and general and 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.

**(iii) Legal Services – Hemming + Hart Lawyers**

Hemming + Hart Lawyers ("H+H"), a company related to a non-executive Director (R Anthon), provides legal services to the Company. The cost of these services, aggregating \$44,874 (\$Nil in 2009) 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.

## Notes to the Financial Statements for the Year Ended 31 August 2010

**19. RELATED PARTIES (continued)****(iv) Consulting Services – Gunn Metallurgy**

Gunn Metallurgy ("GM"), a company related to a non-executive Director (M Gunn), provides consulting services to the Company. The cost of these services, aggregating \$56,046 (\$Nil in 2009) 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.

**(v) Balances with Related Parties**

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

	2010 \$	2009 \$
<b>Interest Bearing Loans and Borrowings:</b>		
Loan from Joint Venture Partners	627,328	548,855
<b>Trade and Other Receivables</b>		
Due from related parties	179,751	160,916

**20. AUDITOR'S REMUNERATION****Audit of the Consolidated Entity****PKF Chartered Accountants:**

Audit and review of Financial Reports	42,000	40,000
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**Non-Audit Services:****PKF Chartered Accountants:**

Audit of Canadian GAAP to AIFRS conversion	-	5,000
Other assurance services	2,700	2,190
Taxation services	13,250	9,115
	<u>15,950</u>	<u>16,305</u>

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Consolidated Entity's principal financial instruments comprise deposits with banks, accounts receivable and payable, loans to subsidiaries, convertible notes and finance leases. 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 Metals Finance Limited, the Company. 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.

**(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 obligations, and arises on floating debt rate. The Consolidated Entities' exposure to market interest rates relates primarily to long-term debt obligations. The level of debt is disclosed in Note 12.

At balance 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:

**Financial Assets:**

Cash assets	5,335,370	8,225,139
Receivable from Palabora Mining Company	5,521,505	4,958,404
	<u>10,856,875</u>	<u>13,183,543</u>

**Financial Liabilities:**

Loans from joint venture partners	627,328	548,855
	<u>627,328</u>	<u>548,855</u>

## Notes to the Financial Statements for the Year Ended 31 August 2010

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

Interest rates over the 12 month period were analysed and a sensitivity determined to show the effect on profit and equity after tax if the interest rates at reporting date had been 100 basis points 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 balance sheet 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:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>Consolidated Entity</b>				
+1.00% (100 basis points)	102,295	126,347	102,295	126,347
- 1.00% (100 basis points)	(102,295)	(126,347)	(102,295)	(126,347)

**(b) Foreign Currency Risk**

Foreign currency risk arises as a result of having assets/cash flows denominated in a currency other than the home currency in which they are reported. At 31 August 2010, the Consolidated Entity had the following exposure to foreign currency:

	2010 \$	2009 \$
<b>Financial Assets:</b>		
Cash and cash equivalents	18,583	4,071
Trade and other receivables	21,936	39,749
Receivable from Palabora Mining Company	5,521,505	4,958,404
	<b>5,562,024</b>	<b>5,002,224</b>
<b>Financial Liabilities:</b>		
Trade and other payables	14,198	21,222
Loan from Joint Venture Partners	627,328	548,855
	<b>641,526</b>	<b>570,077</b>

Exchange rates over the 12 month period were analysed and a sensitivity determined to show the effect on profit and equity after tax if the exchange rates at reporting date had been 10% basis 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 balance sheet date:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>Consolidated Entity</b>				
+ 10.00%	492,050	443,214	492,050	443,214
- 10.00%	(492,050)	(443,214)	(492,050)	(443,214)

## Notes to the Financial Statements for the Year Ended 31 August 2010

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (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.

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. Exposure at balance date is addressed in each applicable note.

In addition, 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 2010 the Consolidated Entity had a concentration of credit risk relating to cash deposits totaling \$5,335,370 (2009: \$8,225,139). The Consolidated Entity also had a concentration of credit risk in relation to a receivable from Palabora Mining Company amounting to \$5,521,505 (2009: \$4,958,404)

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 2010. The amounts disclosed represent undiscounted cash flows.

The remaining contractual maturities of the financial liabilities are:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
6 months or less	3,934,916	302,793
6-12 months	627,328	548,855
1-2 years	-	3,607,700
2-5 years	12,396	18,967
Over 5 years	-	-
	<b>4,574,640</b>	<b>4,478,315</b>

Contractual maturity analysis of financial liabilities:

	<b>≤ 6 months</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>5+ years</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2010</b>						
<b>Financial Liabilities:</b>						
Payables	327,216	-	-	-	-	327,216
Loan from Joint Venture Partners	-	627,328	-	-	-	627,328
Convertible notes	3,607,700	-	-	-	-	3,607,700
Finance leases	-	-	-	12,396	-	12,396
	<b>3,934,916</b>	<b>627,328</b>	<b>-</b>	<b>12,396</b>	<b>-</b>	<b>4,574,640</b>
<b>2009</b>						
<b>Financial Liabilities:</b>						
Payables	302,793	-	-	-	-	302,793
Loan from Joint Venture Partners	-	548,855	-	-	-	548,855
Convertible notes	-	-	3,607,700	-	-	3,607,700
Finance leases	-	-	-	18,967	-	18,967
	<b>302,793</b>	<b>548,855</b>	<b>3,607,700</b>	<b>18,967</b>	<b>-</b>	<b>4,478,315</b>

## Notes to the Financial Statements for the Year Ended 31 August 2010

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****(e) Price Risk**

The Consolidated Entity's exposure to equity 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:

	2010 \$	2009 \$
Available-for-Sale Investments	4,358,218	4,322,200
	<b>4,358,218</b>	<b>4,322,200</b>

At 31 August, the movement in equity securities price risk, as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>Consolidated Entity</b>				
+ 10.00%	-	-	435,821	432,220
- 10.00%	-	-	(435,821)	(432,220)

**(f) Fair Value**

The carrying amount of the Consolidated Entity's Financial Assets and Financial Liabilities approximate their fair value.

Fair value of the 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.

## Notes to the Financial Statements for the Year Ended 31 August 2010

**22. SEGMENT INFORMATION**

The Consolidated Entity operates primarily in two operating locations, Australia and South Africa. The closure of the Canadian office had an effect on the prior period's revenue and expenses which has been included for disclosure purposes.

Operating segments are identified on the basis of internal reports that are regularly reviewed by the chief decision maker in order to allocate resources to the segment and assess its performance.

Geographical information is as follows:

	<b>Australia 2010 \$</b>	<b>South Africa 2010 \$</b>	<b>Consolidated 2010 \$</b>	
<b>Revenue:</b>				
Revenue from outside the Consolidated Entity	404,287	643,598	1,047,882	
Other unallocated revenue			-	
<b>Revenue from Ordinary Activities</b>			<b>1,047,882</b>	
<b>Result:</b>				
Segment result	(2,863,391)	(115,524)	(2,978,915)	
Loss from ordinary activities before income tax			(2,978,915)	
Income tax benefit			47,987	
<b>Net Loss</b>			<b>(2,930,928)</b>	
Depreciation and amortisation	41,528	6,860	48,388	
<b>Assets:</b>				
Segment assets	10,304,943	5,580,688	15,885,631	
Unallocated corporate assets			-	
<b>Consolidated Total Assets</b>			<b>15,885,631</b>	
<b>Liabilities:</b>				
Segment liabilities	3,756,773	641,526	4,398,299	
Unallocated corporate liabilities			-	
<b>Consolidated Total Liabilities</b>			<b>4,398,299</b>	
Acquisition of property, plant and equipment	15,285	400	15,685	
	<b>Canada 2009 \$</b>	<b>Australia 2009 \$</b>	<b>South Africa 2009 \$</b>	<b>Consolidated 2009 \$</b>
<b>Revenue:</b>				
Revenue from outside the Consolidated Entity	-	791,542	1,411,151	2,202,693
Other unallocated revenue	-			-
<b>Revenue from Ordinary Activities</b>				<b>2,202,693</b>
<b>Result:</b>				
Segment result	-	(2,337,353)	719,432	(1,617,921)
Loss from ordinary activities before income tax expense				(1,617,921)
Income tax benefit				540,488
<b>Net Profit</b>	-			<b>(1,077,433)</b>
Depreciation and amortisation	-	117,177	6,263	123,440
<b>Assets:</b>				
Segment assets	-	13,858,168	5,028,361	18,886,529
Unallocated corporate assets				-
<b>Consolidated Total Assets</b>				<b>18,886,529</b>
<b>Liabilities:</b>				
Segment liabilities	-	2,983,357	556,127	3,539,484
Unallocated corporate liabilities	-			-
<b>Consolidated Total Liabilities</b>				<b>3,539,484</b>
Acquisition of property, plant and equipment	7,502	-	1,543	9,045

## Notes to the Financial Statements for the Year Ended 31 August 2010

**23. SUBSEQUENT EVENTS**

There has arisen in the interval between the end of the financial year and the date of this Report transactions and events of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years. These items were:

1. The repayment of the convertible notes liability on 18 October 2010 to the value of \$3,500,000 plus an interest portion of \$107,700, both of which were paid out of existing cash reserves. None of the convertible notes were converted to shares and consequently all related options attached to the notes lapsed in accordance with the terms of the note agreements. Refer to note 12(d) of the financial statements for further details on convertibles notes.
2. At 31 August 2010 Metal Finance Limited's shareholding in Bass Metals Limited of 26,413,445 shares equated to an investment of \$4,358,218 at a closing share price of \$0.165 per share on that date. Also refer to note 9 of the financial statements. Subsequent to year end the share price of Bass Metals Limited has increased and at the date of this report is trading at approximately \$0.35. As a result Metals Finance Limited's investment has increased by \$4,886,488 to a total value of approximately \$9,244,706. On 5 November 2010 Bass Metals Limited completed a share placement of 15.3 million ordinary shares resulting in a dilution of Metals Finance Limited's shareholding from 15.5% to 14.2%.
3. Metals Finance Zambia Limited was incorporated on 3 September 2010 and its shareholding is held 50% by Metals Finance Africa Pty Ltd and 50% by MFCH Pte Ltd where Metals Finance Limited owns and indirect holding of 75% in Metals Finance Zambia.
4. Metals Finance Chile Limitada was incorporated on 26 October 2010 and is 99% held by MFCH Pte Ltd and 1% by IPS Nominees Limited on behalf of MFCH Pte Ltd. Metals Finance Limited owns indirectly 100% of Metals Finance Chile Limitada.

**24. 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.

**25. PARENT ENTITY INFORMATION**

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

	2010 \$	2009 \$
<u>Parent Entity Financial Information</u>		
Current assets	5,353,621	8,217,941
Non-current assets	11,056,254	10,873,234
Total assets	<u>16,409,875</u>	<u>19,091,175</u>
Current liabilities	3,746,347	252,668
Non-current liabilities	-	2,670,127
Total liabilities	<u>3,746,347</u>	<u>2,922,795</u>
Net assets	<u>12,663,528</u>	<u>16,168,380</u>
Contributed equity	20,511,496	20,511,496
Reserves	1,404,652	2,332,674
Equity component of convertible notes	1,571,630	1,571,630
Accumulated losses	(10,824,250)	(8,247,420)
Total equity	<u>12,663,528</u>	<u>16,168,380</u>
Loss after income tax	(2,576,830)	(5,301,035)
Other comprehensive income	(1,068,544)	2,238,205
Total comprehensive income	<u>(3,645,374)</u>	<u>(3,062,830)</u>

Significant investment in subsidiaries:

Name	Formation / Incorporation	Class of Share	Interest Held % <sup>1</sup>	
			2010	2009
Metals Finance Australia Pty Ltd	Australia	Ordinary	100	100
MFCH Pte Ltd	Singapore	Ordinary	100	100
Metals Finance Africa Pty Ltd	South Africa	Ordinary	50	50

<sup>1</sup> Percentage of voting power is in proportion to ownership

All companies have a 31 August balance date.

Directors' Declaration

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The Directors of Metals Finance Limited declare that:

- (a) in the Directors' opinion the financial statements and notes on pages 12 to 38, and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 8 to 10, are 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 2010 and of their performance, for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) the Financial Report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as disclosed in Note 1; and
- (c) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 'Related Party Disclosures,' the Corporations Act 2001 and the Corporations Regulations 2001; and
- (d) 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 Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 August 2010, required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors.



Director

Dated at Brisbane, 30<sup>th</sup> November 2010



Chartered Accountants  
& Business Advisers

## **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 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, selected explanatory notes and the directors' declaration for the consolidated entity. The consolidated entity comprises Metals Finance Limited 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 Metals Finance Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with Australian Accounting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 entity's preparation and fair presentation of the financial report 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 entity'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*.

*Auditor's 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 the Consolidated Entity's financial position as at 31 August 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note .

**Report on the Remuneration Report**

We have audited the Remuneration Report included on pages 8 to 10 of the directors' report for the year ended 31 August 2010. 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.

*Auditor's Opinion*

In our opinion the Remuneration Report of Metals Finance Limited for the period ended 31 August 2010, complies with section 300A of the *Corporations Acts 2001*.



PKF



**Albert Loots**  
Partner

Dated at Brisbane this 30<sup>th</sup> day of November 2010

## SHAREHOLDER INFORMATION

The information set out below was prepared as at 19<sup>th</sup> November 2010.

### (A) Class of Shares and Voting Rights

There are currently 454 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	8	780	0.00
1,001-5,000	50	204,127	0.28
5,001-10,000	66	601,654	0.82
10,001-100,000	235	10,222,242	13.98
100,001-9,999,999,999	95	62,080,773	84.92
<b>Totals</b>	<b>454</b>	<b>73,109,576</b>	<b>100.00</b>

The number of shareholders holding less than a marketable parcel as at 19<sup>th</sup> November 2010 was 59. They held a total of 210,207 ordinary fully paid shares.

### (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	5,800,000	7.93
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**

	<b>Holder Name</b>	<b>Balance of Shares Held</b>	<b>Percentage of Total Shares</b>
1	PROTO RESOURCES & INVESTMENTS LTD	5,848,766	8.00
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,358,379	7.33
3	H F T NOMINEES PTY LTD <HFT SUPER FUND A/C>	4,454,350	6.09
4	MESUTA PTY LTD	3,818,127	5.22
5	RYAHED PTY LTD <RYAHED SUPER FUND A/C>	2,600,000	3.56
6	MR PATRICK ANTHONY TREASURE	1,762,500	2.41
7	MR JAMES PERCY FORREST	1,605,240	2.20
8	BLUMOS S A	1,500,000	2.05
9	ECLECTIC INVESTMENTS PTY LIMITED	1,500,000	2.05
10	MR GEOFFREY FREDERICK LORD & MRS NANETTE KATHLEEN LORD & MR RONALD CHARLES PECK <GNR SUPER FUND A/C>	1,500,000	2.05
11	MARLEY HOLDINGS PTY LTD	1,500,000	2.05
12	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,440,000	1.97
13	KARTON INVESTMENTS PTY LTD <KARTON INV P/L STAFF S/F A/C>	1,415,096	1.94
14	SVEN FOLKE INGEMAR HEURLIN	1,200,000	1.64
15	CARMANT PTY LTD <CARMANT S/F A/C>	961,166	1.32
16	MR PETER JOUGHIN	900,000	1.23
17	SHORETYPE PTY LTD	877,034	1.20
18	TOLTEC HOLDINGS PTY LTD	860,428	1.18
19	COLVIC PTY LTD	799,755	1.09
20	BATROSA CONCRETE PRODUCTS PTY LTD <SUPERANNUATION FUND A/C>	793,719	1.09
	<b>TOTAL</b>	<b>40,694,560</b>	<b>55.67</b>

**(E) Unquoted Securities****Options \$0.30 exp 31 Jan 2013**

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

**Options \$0.25 exp 31 Jan 2013**

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

**(F) On-market Buy Back**

There is no current on-market buy back.

**(G) Securities Exchange**

The Company's Ordinary 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 30<sup>th</sup> 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](http://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 five (5) directors consists of a majority of three (3) independent directors:

- (a) Geoffrey Hill Non-Executive Chairperson and substantial shareholder;
- (b) Tony Treasure Executive Director / Chief Executive Officer;
- (c) Richard Anthon Non-Executive Director;

## CORPORATE GOVERNANCE (continued)

- (d) Simon Bird Non-Executive Director; and
- (e) Michael Gunn Non-Executive Director.

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](http://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](http://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](http://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 measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

As proposed by Principle 3 Recommendation 3.4 of the Corporate Governance Principles and Recommendations, it is expected that the Company will first disclose measurable objectives, for gender diversity, in its annual report for the year ended 31<sup>st</sup> August 2011. The measurable objectives are expected to identify how the Company measures achievement of gender diversity objectives. Reporting would include the proportion of women:

- (a) In the Company;
- (b) In senior executive positions; and
- (c) On the Board.

#### 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:

## CORPORATE GOVERNANCE (continued)

- (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
- (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](http://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](http://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](http://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](http://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](http://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

## CORPORATE GOVERNANCE (continued)

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.

The members of the Remuneration Committee are:

- (a) Richard Anthon (Remuneration Committee Chairperson) Non-Executive Director;
- (b) Michael Gunn Non-Executive Director; and
- (c) Geoffrey Hill Non-Executive Board Chairperson.

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](http://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](http://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](http://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 <a href="http://www.metalsfinance.com">www.metalsfinance.com</a>	Disclosure Requirement for Non Compliance
<b>Principle 1</b>			
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
<b>Principle 2</b>			

## CORPORATE GOVERNANCE (continued)

ASX Principles/Recommendations	Compliance	MFC Corporate Governance Charter Reference <a href="http://www.metalsfinance.com">www.metalsfinance.com</a>	Disclosure Requirement for Non Compliance
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.	Comply	SECTION B.3 (c)	Not Applicable
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
<b>Principle 3</b>			
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"> <li>• the practices necessary to maintain confidence in the company's integrity</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> <li>• Box 3.1: Suggestions for the content of a code of conduct</li> </ul>	Comply	SECTION B.7	Not Applicable

## CORPORATE GOVERNANCE (continued)

ASX Principles/Recommendations	Compliance	MFC Corporate Governance Charter Reference <a href="http://www.metalsfinance.com">www.metalsfinance.com</a>	Disclosure Requirement for Non Compliance
<p>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> <p>Box 3.2: Suggestions for the content of a diversity policy.</p>	Comply	SECTION H	Not Applicable
<p>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.</p>	Comply	SECTION H 4 (a)	Not Applicable
<p>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.</p>	Comply	SECTION H 4 (b)	Not Applicable
<p>Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.</p>	Comply		Not Applicable
<b>Principle 4</b>			
<p>Principle 4 – Safeguard integrity in financial reporting. Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.</p>			
<p>Recommendation 4.1: The board should establish an audit committee.</p>	Comply	SECTION C	Not Applicable
<p>Recommendation 4.2: The audit committee should be structured so that it:</p> <ul style="list-style-type: none"> <li>• consists only of non-executive directors</li> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair, who is not chair of the board</li> <li>• has at least three members.</li> </ul>	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.
<p>Recommendation 4.3: The audit committee should have a formal charter.</p>	Comply	SECTION C	Not Applicable
<p>Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.</p>	Comply		Not Applicable
<b>Principle 5</b>			
<p>Principle 5 – Make timely and balanced disclosure. Companies should promote timely and balanced disclosure of all material matters concerning the company.</p>			

## CORPORATE GOVERNANCE (continued)

ASX Principles/Recommendations	Compliance	MFC Corporate Governance Charter Reference <a href="http://www.metalsfinance.com">www.metalsfinance.com</a>	Disclosure Requirement for Non Compliance
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
<b>Principle 6</b>			
Principle 6 – Respect the rights of shareholders. Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.			
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.			
<b>Principle 7</b>			
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

## CORPORATE GOVERNANCE (continued)

ASX Principles/Recommendations	Compliance	MFC Corporate Governance Charter Reference <a href="http://www.metalsfinance.com">www.metalsfinance.com</a>	Disclosure Requirement for Non Compliance
Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.	Comply		Not Applicable
<b>Principle 8</b>			
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"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair</li> <li>• has at least three members.</li> </ul>	Comply	SECTION D.1	Not Applicable
• Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. <ul style="list-style-type: none"> <li>• Box 8.1: Guidelines for executive remuneration packages</li> <li>• Box 8.2: Guidelines for non-executive director remuneration</li> </ul>	Comply	SECTION D.3	Not Applicable
• Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.	Comply		Not Applicable