



ORION METALS LIMITED

Orion Metals Limited (ASX:ORM)
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QUARTERLY REPORT to 31 AUGUST 2010

ASX release - 29 September 2010

ORION METALS LIMITED

ASX Code : **ORM**

Issued Capital (at 31/08/2010):
55,696,686 shares issued/listed
15,492,928 options issued/listed

500,000 unlisted broker options
2,500,000 unlisted Directors' options
500,000 unlisted Consultants options

Number of share holders: 698
Number of option holders: 150

Top 20 shareholders:
Hold 74.6 % of listed Shares

Managing Director: Mr James Canning-Ure

Non Executive Directors:
Mr David Barwick - Chairman
Mr Andrew Gillies
Mr Adrian Day

Company Secretary: Mr Bill Lyne

Largest Shareholders:

Metallica Minerals Ltd	25.36%
Jien Mining Pty Ltd	12.97%
Mr Conglin Yue	12.24%

Cash Balance:
As at 31 August 2010 approximately
\$960,000.

HIGHLIGHTS

- The Company has acquired a rare earth prospect at Killi Killi Hills WA and initial reconnaissance sampling has confirmed high concentrations of valuable elements.
- The joint venture partner, Newmont Exploration Pty Limited, completes field work and advises a drilling programme is to start in the next quarter.
- Drilling of 8 RC holes at the Top Camp mining leases south of Cloncurry was completed in June and analysis is ongoing.
- ORM continues to acquire a number of exploration permits throughout north Qld in search for mineral accumulations that might host rare earth elements (REE).
- The Company continues to assess other gold and rare earth opportunities as well as new high value project generation concepts.



OPERATIONS SUMMARY

We are delighted at the ongoing interest in the company and are appreciative of the continued support and confidence that share holders have demonstrated. Since the release of the Killi Killi Hills rock chip samples we have seen interest from many new shareholders and we welcome them to the company.

Our focus remains on the creation of sustainable and enduring value for all share holders. Your board and management are passionate about the company and continue to actively pursue, acquire and develop both gold and high value REE projects. The strong gold price and the recent shortages of REEs have affirmed this strategy.



We have continued to manage overheads and operating costs to preserve cash for exploration and project development. As part of this strategy, all board members have taken on executive responsibilities above and beyond their usual duties to provide additional services at limited or no cost to the company. I would like to particularly acknowledge the work undertaken by Mr Barwick and Mr Gillies during the quarter for the benefit of all shareholders. Their expertise, insight and commercial acumen have allowed us to quickly evaluate a large funnel of projects during this period.

Non Executive Directors Andrew Gillies, Adrian Day and Chairman David Barwick. Managing Director James Canning-Ure and Company Secretary Bill Lyne.

The acquisition of the Killi Killi Hills project and the recent rock chip exploration programme has been managed by Mr Day. This has proved to be a very promising opportunity for the company and the board would like to acknowledge and thank Mr Day for his outstanding work with this project. Mr Day has been working closely with stakeholders and regulators to fast track an authority to commence drilling at Killi Killi Hills and we are hopeful to make an announcement within the next 7 days.



KILLI KILLI HILLS – Rare Earth Project (200 kms south-east of Halls Creek, WA)

An option to purchase 2 exploration licences at Killi Killi Hills, 80 kms north east of the Coyote gold mine in the Tanami Desert, was exercised on 9 September after a due diligence investigation and site visit. Although low grade uranium mineralisation has been known at the locality for some years, ORM's principal interest is the rare earth elements (REE) associated with the mineral, xenotime, occurring in an Upper Proterozoic basal conglomerate.

During a helicopter reconnaissance in July, 45 rock chip samples were collected and a suite of geochemical analyses, petrological examination and preliminary mineral separation has been completed. Many samples have recorded significant levels of REE, especially those of the "heavy" end of the sequence and the preliminary data is being collated and assessed.

The Company proposed to commence a drilling programme in October with assay results expected prior to the end of the year subject to regulatory approvals and weather.

TOP CAMP – Gold-Copper Project (40 kms south of Cloncurry)

Five of the holes were drilled into a discrete bulls-eye magnetic anomaly beneath Mary Douglas Hill, the site of historical lode and alluvial gold workings, and 3 of these intersected altered magnetite rock. Little visible mineralisation was observed.

The remaining 3 holes were drilled into magnetic anomalies peripheral to the central zone and intersected magnetite mineralisation of a style different to that of the Mary Douglas Hill.

Analyses of the holes, which were sampled from the collar to the bottom of each hole, showed geochemically anomalous copper values associated with the magnetite sections, and scattered anomalous gold grades.

Results are being evaluated and future exploration options are being considered including possible joint venture opportunities.

MALCOLM CREEK – Gold Project (80 km south Georgetown)

Malcolm Ck EPM 14231, EPMA 17739 – Gold bearing breccias, porphyry and quartz vein swarms similar style to the Kidston gold deposit.

Under the joint venture agreement with Newmont Exploration Pty Ltd to fund further exploration on the Malcolm Creek project, Newmont will conduct a minimum initial \$250,000 exploration programme within one year of signing the Farm-in Agreement, which will form part of the earn-in expenditure of up to \$2 million to earn an interest of up to 70% over four years.



ORM retains the right to contribute in proportion to its equity at decision points of 51%: 49%, 60%: 40%, and 70%: 30%. If ORM fails to contribute at these equity positions, Newmont may then spend an additional \$1 million for a cumulative expenditure of \$3 million to earn equity of 80%.

Newmont has now completed reviewing all field results from geochemical and geophysical data in relation to the geological mapping of significant aspects. It is its intention to test some discrete features by drilling in the next quarter.

FULFORD & BONNOR CREEKS - (northeast of Mt Surprise and southeast of Chillagoe)

Fulford Creek EPM 18331, Bonnor Creek EPM 18449, and Dickson Creek EPMs 17011 & 17891 & MLA 30128 - Heavy mineral concentrations in streams draining radiogenic granites that contact monazite and xenotime hosting rare earth elements (REE).

Apart from the 2 Exploration Permits and an option on 2 other EPM's and 1 Mining Lease Application north of Mt Surprise and north-east of Georgetown in far north Queensland, application has been made for another 100 sub-blocks in the Fulford Creek drainage to compliment the current holdings. These tenements are contiguous cover creek systems draining radiogenic granites where past alluvial tin operations have encountered heavy mineral concentrations that contain monazite and possibly xenotime.

It is planned to sample these drainages and have mineral assemblages identified and analysed for their contained rare earth elements. Some reconnaissance samples have been examined by a consultant petrologist who confirms the existence of monazite in the heavy mineral suite.

LESTREE HILL - (90 kilometres west of Clermont)

Lestree Hill EPM 18495 - A series of magnetically anomalous intrusive pipes on a major northeast structure that may host rare earth elements (REE).

Applications have been made for an Exploration Permit on a series of intrusive plugs in central Queensland that have a peculiar magnetic signature and are associated with old stream channels that are magnetically anomalous. The tenement covers a localised structural environment that host volcanic pipes that may be of unusual chemical composition and if so may represent a host for rare earth mineralisation.

Initial reconnaissance samples of heavy mineral concentrates have been examined by a consultant petrologist and his report is being evaluated.



PROPOSED WORK PROGRAM TO 30 NOVEMBER 2010

The following exploration programmes are envisaged:

- Killi Killi Hills - Completion of title transfers, transfer of Native Title agreements to provide access for an initial drilling programme in October with assay results expected prior to the end of the year subject to regulatory approvals and weather.
- Malcolm Creek - testing of drilling targets by Orion's joint venture partner, Newmont.
- Top Camp - Further assessment of drill results and formulation of future exploration works and consider joint venture opportunities.
- Fulford & Bonnor Creeks and Lestree Hill - Data compilation and assessment and initial reconnaissance.

CORPORATE

The Company held its Annual General Meeting on 29 July and the passing of resolutions 4 to 12 resulted in the placement of 6,300,000 shares to directors at five cents per share on exactly the same terms and conditions offered to all shareholders per the recent rights issue. The proceeds of \$315,000 will be applied to additional working capital requirements.

TENEMENT INFORMATION (as at 31 August 2010)

Tenement	Project Name	Registered Holder	Orion Interest	Commodity
EPM 17739	Malcolm Creek	FH Skerritt 50%	100% subject to 1% Net Smelter	Gold
EPM 14321		S B Terry 50%		
EPMA 18331	Fulford Creek	ORM 100%	100%	Rare Earth Elements
EPMA 18449	Bonnor Creek	ORM 100%	100%	Rare Earth Elements
EPMA 18495	Lestree Hill	ORM 100%	100%	Rare Earth Elements
EPM 17011	Black Springs Ck	J W Withers	100% subject to royalty	All minerals
EPMA 17891	Dickson Creek			
MLA 30128				

Table 1: Orion Metals Ltd. Exploration permits for minerals (EPM) and mining lease applications (MLA). (^Orion has an agreement with the registered holders that deliver 100% ownership to Orion Metals Limited.



Mining Lease	Project Name	Registered Holder	Orion Interest	Commodity
ML 2764	Top Camp	ORM 100%	100%	Gold Copper
ML 2785				
ML 2786				
ML 2792				
ML 1035	Rutherfords Table	ORM 100%	100%	Gold
ML 1060				

Table 2: Mining leases (ML)

RARE EARTH ELEMENT DEPOSITS

Rare earths are relatively abundant, however, they are often of low quality and rarely presented in economic concentration. The rare earths range in crustal abundance from cerium, the most abundant, at 0.006%, which is more abundant than nickel to thulium and lutetium which are the least abundant rare earth elements at less than 1 part per million.

There is a large range in the prices of rare earths oxides (REO) dependent on the primary REE and the purity level. The principal economic ores of the rare earths are the minerals bastnasite, loparite, and monazite and the lateritic ion-adsorption clays.

Rare Earths Element deposits are typically in minerals that contain a mix of many of the Rare Earth elements which need to be separated out into their individual components. This adds to the cost and complexity of processing. Generally commercial processing facilities for lower value light rare earths may require on site concentration before shipping to a rare earth extraction plant. Heavy rare earth element ore may be of a value where a direct shipment ore (DSO) operation without the need for concentration and processing at the mine is feasible.

The individual rare earth elements show a great deal of variance when it comes to their presence in the earth's crust. The rare earths with even atomic numbers are more abundant than their odd number counterparts. Second, the lighter rare earth elements are more incompatible (because they have larger ionic radii) and therefore more strongly concentrated in the continental crust than the heavier rare earth elements. In most rare earth deposits, the first four rare earth elements—La, Ce, Pr, and Nd—constitute 80 percent to 99 percent of the total deposits. Therefore, deposits containing relatively high grades of the scarcer and more valuable heavy rare earth elements, (Gd, Dy, Er to Lu, Y, Sc and Eu) are particularly valuable and may be mined and processed after a DSO operation.

Approximately 95 percent of the world's supply of rare earths comes from China. With China using nearly two-thirds of what it produces, it's naturally keen to protect its own interests. The country is stockpiling its supplies and continuing to reduce annual exports of rare earths. The real concern is that within a few years China may decide to keep



everything it produces. As a result, explorations companies around the world are in a race to discover, and develop, the world's next rare earth mines.

To make extraction of rare earth elements profitable, deposits need to be discovered in areas where they occur in dense concentration, and there are very few areas in North America, Australia and China where the rare earths are found in abundance. The number of workable rare earth deposits, already severely limited by the geochemical properties of the rare earths, has in recent years also been affected by environmental and regulatory factors.

James Canning-Ure
Managing Director
Orion Metals Limited
Ph 07 3249 3060

In accordance with Listing Rules 5.1 and 5.12 of the Australian Securities Exchange technical information contained in this report has been compiled by **Mr. Adrian Day BSc (Geology), MAIG, MSEG, MGSA** who is a competent person and member of the Australasian Institute of Geoscientists. Mr Day has relevant experience to the mineralisation being reported on to qualify as a Competent Person as defined by the Australasian Code for Reporting of Minerals Resources and Reserves. Mr Day is a non-executive Director of Orion Metals Limited and part-time consultant to the company. He consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Orion Metals Limited

ABN

89 096 142 737

Quarter ended ("current quarter")

31 August 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	20
1.2 Payments for		
(a) exploration & evaluation	(213)	(215)
(b) development	-	-
(c) production	-	-
(d) administration	(304)	(478)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	10	18
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(507)	(655)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	(5)
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	(5)
1.13 Total operating and investing cash flows (carried forward)	(507)	(660)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(507)	(660)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares	315	1,550
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	(126)
1.18	Dividends paid	-	-
1.19	Share issue costs	-	(26)
	Net financing cash flows	315	1,398
	Net increase (decrease) in cash held	(192)	738
1.20	Cash at beginning of quarter/year to date	1,147	217
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	955	955

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	147
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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+ See chapter 19 for defined terms.

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	A\$ '000
4.1 Exploration and evaluation	235
4.2 Development	-
4.3 Production	-
4.4 Administration	182
Total	417

+ See chapter 19 for defined terms.

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	(9)	62
5.2 Deposits at call	964	1,085
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	955	1,147

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	NIL		
6.2	Interests in mining tenements acquired or increased	NIL		

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 +Ordinary securities	49,391,686	49,391,686	-	-
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	6,305,000 -	6,305,000 -	- -	- -
7.5 +Convertible debt securities <i>(description)</i>	-	-	-	-
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	- -	- -	- -	- -
7.7 Options <i>(description and conversion factor)</i>	500,000 12,347,928	- 12,347,928	<i>Exercise price</i> 80 cents 12 cents	<i>Expiry date</i> 3/1/11 25/2/11
7.8 Issued during quarter	3,150,000 500,000 500,000 2,000,000	3,150,000 - - -	12 cents 10 cents 15 cents 12 cents	25/2/11 29/7/13 29/7/13 29/7/13
7.9 Exercised during quarter	5,000	5,000	12 cents	25/2/11
7.10 Expired during quarter	-	-		
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act [or other standards acceptable to ASX \(see note 4\)](#).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:
Managing Director

Date:29th September 2010.....

Print name: James Canning-Ure

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.