

ORION METALS LIMITED

ACN 096 142 737

**INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 AUGUST 2010**

Orion Metals Limited

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Corporate directory

| | |
|-------------------------|--|
| Directors | David Barwick (Non-Executive Chairman) James Canning-Ure (Managing Director) Andrew Gillies (Non-Executive Director) Adrian Day (Director – Operations) Dr Tao Li (Non-Executive Director) |
| Company secretary | Bill Lyne |
| Registered office | 71 Lytton Road East Brisbane QLD 4169 |
| Share registry | Link Market Services Limited Level 19 324 Queen Street Brisbane Qld 4000 Telephone: + 61 2 8280 7454 Facsimile: + 61 2 8280 0303 |
| Auditors | BDO Audit (Qld) Pty Ltd Level 18 300 Queen Street Brisbane Qld 4000 Telephone: + 61 7 3237 5999 Facsimile: + 61 7 3221 9227 |
| Lawyers | Hopgood Ganim Lawyers Level 8, Waterfront Place 1 Eagle Street Brisbane Qld 4000 Telephone: + 61 7 3024 0000 Facsimile: + 61 7 3024 0300 |
| Stock exchange listings | Orion Metals Limited shares and options are quoted on the Australian Securities Exchange |
| Website address | www.orionmetals.com.au |

Highlights for the half-year

Without doubt this half year has been the most exciting in Orion's history. In short, from the 28th of February to the date of this report, the following highlights have occurred :

- In May we completed a 1 : 1 Rights issue at 5 cents per share to all shareholders with an attaching option exercisable at 12 cents in February 2011
- In June we drilled 8 holes at Top Camp in the search for copper/gold
- In September we purchased 2 tenements at Killi Killi on the West Australian and Northern Territory border for \$ 55,000
- The discovery at Killi Killi from 45 rock chip samples assayed significant rare earth's including heavy rare earths
- As a result of the successful assays from Killi Killi our shares traded up to 30 cents in the half year
- Newmont, our JV partner at Malcolm's Creek completed 4 drill holes in August with results expected in late November
- On the 30th of September the company strengthened the board with the addition of Dr Tao Li an experienced mining engineer
- In September several large overseas investors joined the register
- As a result of the strong share price in October post half year end, the company took advantage of a placement to institutions and significant investors at 25 cents to raise \$2 million
- And finally Orion has come from a market capitalisation of \$1.4 million as at the 28th of February with \$ 220, 000 in the bank to a market capitalisation of over \$17.5 million with \$3.8 million in the bank as at the date of this report

Our Projects

Without doubt the main contribution to our success in the half year was the purchase of Killi Killi (WA) our Rare Earths and Gold acquisition. In July-August 2010, Orion completed due diligence and a site visit on the Killi Killi Hills Project, a uranium and rare earth element (REE) project, located approximately 80km North-East of the Coyote Gold Mine in the Tanami Desert in Western Australia. On 9th September 2010 an option to purchase the two Killi Killi exploration tenements was exercised. During a helicopter reconnaissance, 45 rock chip samples were collected and a suite of geochemical analyses, petrological examination and preliminary mineral separation were subsequently completed. Many samples have recorded significant levels of REE, especially those of the "heavy" end (HREE) of the sequence and the preliminary data is being collated and assessed. Orion has obtained title transfers and statutory clearances so a drilling program comprising up to 37 holes can be completed in November. The initial surface sampling at Killi Killi indicated potential for substantial neodymium and HREE's mineralisation, including dysprosium and terbium within the unconformity conglomerate sandstone host plus the possibility of a deeper and hopefully a richer "feeder" zone, both of which will be targeted by our drilling program.

At the Top Camp (gold) project south of Cloncurry in North Queensland eight RC holes were drilled in June, providing overall less than expected results. Anomalous copper values were associated with the magnetite zones and scattered anomalous gold grades. Future exploration options are being considered including attracting a JV partner to test deep exploration targets.

Highlights for the half-year (continued)

Our Malcolm Creek Gold Project is located 80km south of Georgetown in Queensland and Orion has a joint venture with Newmont Exploration Pty Ltd. Newmont Exploration Pty Ltd has advised that it has completed four RC drill holes to depths exceeding 300 metres at the Bald Mountain Prospect which is south of Forsyth in far north Queensland. The holes intersected zones of quartz veining, clay alteration and disseminated sulphides with areas of possible breccias development consistent with surface features. Samples have been submitted to the laboratory and results are expected in November.

Corporate

On the 15th October 2010 the Company announced the Placement of 8M shares at an issue price of 25 cents to raise a further \$2M. The Placement was to institutional and sophisticated investor clients of Fosters Stockbroking Pty Ltd and Taylor Collison Limited as Co-Lead Managers.

This was followed on the 20th October 2010 with the two largest shareholders of Orion exercising their February 2011 Options early raising a further \$600,000. The additional cash is to be used to progress its exploration activities on both its Rare Earth and Gold prospects and to seek other opportunities as they arise. Orion's cash position is approximately \$3.8 M with no debt as at the date of this report.

Competent Persons Statement – Adrian Day

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.

Directors' report

The directors of Orion Metals Limited (ORM or the Company) submit herewith the interim financial report of the Company for the half year ended 31 August 2010.

Directors

The names and details of the directors of the Company in office during the half-year and until the date of this report are:

James Canning-Ure (Managing Director) – appointed 18 March 2010
David Barwick (Non-Executive Chairman)
Andrew Gillies (Non – Executive Director)
Adrian Day (Non – Executive Director)
Dr Tao Li (Non – Executive Director) – appointed 30 September 2010

Principal activities

The principal activity of the Company during the period was exploration for rare earth metals and gold.

Review of operations

The Company recorded a loss after tax of \$730,743 for the half-year ended 31 August 2010 (31 August 2009: \$556,344).

During the half-year the Company completed a 1:1 rights issue, raising \$1.2m. A further \$350,000 was raised from share placements and the exercise of options.

The Company decided to exercise an option to purchase 2 exploration licenses at Killi Killi Hills, 80 kms north east of the Coyote gold mine in the Tanami Desert, after a site visit, for \$55,000. A \$5,000 deposit was paid prior to balance date, with the only remaining condition being the successful completion of due diligence within 60 days (see Subsequent events below). The remaining \$50,000 has been recorded as a liability in these accounts.

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.

Drilling activity was carried out on the Top Camp tenements. Future exploration options are being considered including possible joint venture opportunities.

Subsequent events

In early September the due diligence requirements for the Killi Killi Hills acquisition were satisfied and on the 9th September the Company announced the completion of the purchase at a total cost of \$55,000, of which \$25,000 was paid by the issue of 500,000 shares at five cents each and the balance in cash. This is considered to be an adjusting subsequent event and has been recognised in the financial statements.

On the 15th of September the company announced the results from the samples of the 45 rock chip samples and the highlights are listed below.

- 45 reconnaissance rock chip analyses have returned highly encouraging HREE.
- HREE mineralisation may be associated with anomalous gold and uranium.
- 20%+ of TREEO in prime samples is high value HREEO
- Preliminary petrology and crystallography indicate pervasive hydrothermal mineralization associated with a flat-dipping basal conglomerate unconformity.
- Sample KK43 returned 1.28% HREEO and 4.8% TREEO+Y
- Sample KK15 showed gold at 9.6 g/t

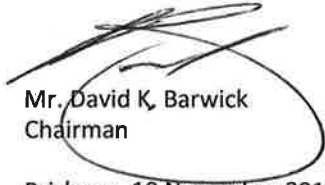
On the 19th of October the company raised \$2 million by way of private placement of eight million shares at 25 cents. These funds will be used as reserves for further drilling at Killi Kili Hills. The company has also banked a further \$ 850,000 with the early conversion of the February 2011 options at 12 cents mostly by the Company's two largest shareholders.

Directors' report (continued)

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the interim financial report.

Signed in accordance with a resolution of directors.



Mr. David K. Barwick
Chairman

Brisbane, 10 November 2010

DECLARATION OF INDEPENDENCE BY C R JENKINS TO THE DIRECTORS OF ORION METALS LIMITED

As auditor for the review of Orion Metals Limited for the half-year ended 31 August 2010, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Orion Metals Limited.



Craig Jenkins

Director

BDO Audit (QLD) Pty Ltd

Brisbane, 10 November 2010

Statement of Comprehensive Income
For the half-year ended 31 August 2010

| <u>Note</u> | <u>\$</u> <u>2010</u> | <u>\$</u> <u>2009</u> |
|--|--------------------------|--------------------------|
| Other income | - | 14,523 |
| Consultant and contractor expense | (73,305) | (25,002) |
| Depreciation expense | (20,152) | (23,561) |
| Occupancy expenses | (8,976) | (5,509) |
| Other administrative expenses | (390,873) | (168,989) |
| Impairment loss - investments | (55,355) | - |
| Impairment loss - exploration and evaluation expenditure | (200,000) | (332,621) |
| Results from operating activities | (748,661) | (541,159) |
| Finance income | 17,918 | - |
| Finance costs | - | (15,185) |
| Net finance income/(costs) | 17,918 | (15,185) |
| Profit/(Loss) before income tax | (730,743) | (556,344) |
| Income tax expense | - | - |
| Profit/(Loss) after income tax | (730,743) | (556,344) |
| Other Comprehensive income | - | - |
| Other comprehensive income, net of income tax | - | - |
| Total comprehensive income for the period | (730,743) | (556,344) |
| Loss attributable to: | | |
| owners of the Company | (730,743) | (556,344) |
| Total comprehensive income attributable to: | | |
| owners of the Company | (730,743) | (556,344) |
| Earnings per share | | |
| Basic earnings per share (cents) | (1.87) | (3.72) |
| Diluted earnings per share (cents) | (1.87) | (3.72) |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 31 August 2010

| <u>Note</u> | <u>\$</u> <u>31 August</u> <u>2010</u> | <u>\$</u> <u>28 February</u> <u>2010</u> |
|--|--|--|
| Current assets | | |
| Cash and cash equivalents | 948,363 | 217,637 |
| Trade and other receivables | 13,675 | 248,937 |
| Total current assets | 962,038 | 466,574 |
| Non-current assets | | |
| Other assets | 8,958 | 8,881 |
| Investments | 169,645 | - |
| Exploration and evaluation expenditure | 1,205,424 | 1,102,864 |
| Property, plant and equipment | 82,607 | 102,759 |
| Total non-current assets | 1,466,634 | 1,214,504 |
| Total assets | 2,428,672 | 1,681,078 |
| Current liabilities | | |
| Trade and other payables | 156,827 | 181,708 |
| Financial liabilities | - | 126,184 |
| Total current liabilities | 156,827 | 307,892 |
| Total liabilities | 156,827 | 307,892 |
| Net Assets | 2,271,845 | 1,373,186 |
| Equity | | |
| Share capital | 7,527,385 | 6,008,471 |
| Options reserve | 412,538 | 302,050 |
| Retained earnings | (5,668,078) | (4,937,335) |
| Total equity | 2,271,845 | 1,373,186 |

The above statement of financial position should be read in conjunction with the accompanying notes.

**Statement of changes in equity
For the half-year ended 31 August 2010**

| | Issued capital \$ | Options reserve \$ | Accumulated Losses \$ | Total \$ |
|--|----------------------|--------------------------|-----------------------------|------------------|
| Balance at 1 March 2009 | 5,716,240 | 302,050 | (4,476,601) | 1,541,689 |
| Net loss | - | | (556,344) | (556,344) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income | - | | (556,344) | (556,344) |
| Balance at 31 August 2009 | 5,716,240 | 302,050 | (5,032,945) | 985,345 |
| Balance at 1 March 2010 | 6,008,471 | 302,050 | (4,937,335) | 1,373,186 |
| Net loss | - | - | (730,743) | (730,743) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income | - | - | (730,743) | (730,743) |
| Transactions with owners, recorded directly in equity | | | | |
| Option issued during the half-year | - | 110,488 | - | 110,488 |
| Shares issued during the half-year | 1,550,392 | - | - | 1,550,392 |
| Transaction costs recognised during the half-year | (31,478) | - | - | (31,478) |
| Balance at 31 August 2010 | 7,527,385 | 412,538 | (5,668,078) | 2,471,845 |

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows**For the half-year ended 31 August 2010**

| Note | \$ | \$ |
|--|-----------------------|----------------------|
| | 2010 | 2009 |
| Cash flows from operating activities | | |
| Receipts from customers/government subsidies | 20,000 | 19,424 |
| Payments to suppliers and employees | (480,284) | (197,444) |
| Interest and finance costs paid | - | (2) |
| Interest received | 17,918 | 2,412 |
| Net cash (used in) from operating activities | <u>(442,366)</u> | <u>(175,610)</u> |
| Cash flows from investing activities | | |
| Payments for investments | (5,000) | - |
| Proceeds from property, plant and equipment | - | 15,000 |
| Payments for exploration and evaluation | (220,356) | (63,094) |
| Net cash used in investing activities | <u>(225,356)</u> | <u>(48,094)</u> |
| Cash flows from financing activities | | |
| Proceeds from the issue of share capital | 1,550,392 | - |
| Share issue costs | (25,760) | - |
| Proceeds from government bonds | - | 2,500 |
| Payment of borrowings | (126,184) | - |
| Net cash provided/ (used) by financing activities | <u>1,398,448</u> | <u>2,500</u> |
| Net (decrease) in cash and cash equivalents | 730,726 | (221,204) |
| Cash and cash equivalents | | |
| at the beginning of the half-year | 217,637 | 286,130 |
| Cash and cash equivalents | | |
| at the end of the half-year | <u>948,363</u> | <u>64,926</u> |

The above statement of cash flows should be read in conjunction with the accompany notes.

**Notes to interim financial report
for the half-year ended 31 August 2010**

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1 Basis of preparation

These general purpose financial statements for the interim half-year reporting period ended 31 August 2010 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Orion Metals Ltd. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Company. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended 28 February 2010, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

2 Operating segments

The Company has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Company is managed primarily on a geographic basis that is the location of the respective areas of interest (tenements) in Australia. Operating segments are determined on the basis of financial information reported to the Board which is at the company level. The Company does not have any products/services it derives revenue from.

Accordingly, management currently identifies the Company as having only one reportable segment, being exploration for gold and rare earth metals. There have been no changes in the operating segments during the period. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

3 Going Concern & Recoverability of Exploration Expenditure

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. This includes the realisation of capitalised exploration expenditure of \$1,205,024 (28 February 2010: \$1,102,864). The ability of the company to maintain continuity of normal business activities, to pay its debts as and when they fall due and to recover the carrying value of capitalised exploration and evaluation expenditure, is dependent on the ability of the company to successfully raise additional capital and/or the successful exploration and subsequent exploitation of areas of interest through sale or development.

4 Issued capital

Issuance of ordinary shares

In May 2010, the Company completed a 1:1 rights issue and 24,695,843 shares were issued at 5 cents per share.

In July 2010, 5,000 shares were issued upon the exercise of options at 12 cents per share.

In August 2010, 6,300,000 shares were issued to directors at 5 cents per share.

5 Financial liabilities

The following loans and borrowings were repaid during the six months ended 31 August 2010.

| | Interest rate | Carrying amount |
|---------------------------|---------------|--------------------|
| Balance at 1 March 2010 | 10% | \$126,184 |
| Repayments | | <u>(\$126,184)</u> |
| Balance at 31 August 2010 | | <u><u>-</u></u> |

6 Subsequent events

In early September the due diligence requirements for the Killi Killi Hills acquisition were satisfied and on the 9th September the Company announced the completion of the purchase at a total cost of \$55,000, of which \$25,000 was paid by the issue of 500,000 shares at five cents each and the balance in cash. This is considered to be an adjusting subsequent event and has been recognised in the financial statements.

On the 15th of September the company announced the results from the samples of the 45 rock chip samples from the Killi Killi tenements and the highlights are listed below.

- 45 reconnaissance rock chip analyses have returned highly encouraging HREE.
- HREE mineralisation may be associated with anomalous gold and uranium.
- 20%+ of TREEO in prime samples is high value HREEO
- Preliminary petrology and crystallography indicate pervasive hydrothermal mineralization associated with a flat-dipping basal conglomerate unconformity.
- Sample KK43 returned 1.28% HREEO and 4.8% TREEO+Y
- Sample KK15 showed gold at 9.6 g/t

On the 19th of October the company raised \$2 million by way of private placement of eight million shares at 25 cents. These funds will be used as reserves for further drilling at Killi Kili Hills. The company has also banked a further \$ 850,000 with the early conversion of the February 2011 options at 12 cents mostly by the Company's two largest shareholders.

7 Contingencies

The company's tenements could be subject to future native title or other claims, but to date, the company has not received any notification of such a claim and accordingly the directors do not believe a contingent liability of this nature exists at balance date.

The Company is liable to pay royalties of 1% of gross sales proceeds from the Killi Killi Hills project, capped at \$100,000.

Otherwise the Directors are not aware of any contingent liabilities or contingent assets that are likely to have a material effect on the results of the Company as disclosed in these financial statements.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 13 are in accordance with Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting; and
 - (ii) giving a true and fair view of the Company's financial position as at 31 August 2010 and of its performance, for the half-year ended on that date.
- (b) there are reasonable grounds to believe that Orion Metals Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

On behalf of the directors



Mr. David K. Barwick
Chairman

Brisbane, 10 November 2010



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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Orion Metals Limited

Report on the Half-Year Financial Report

We have reviewed the half-year financial report of Orion Metals Limited, which comprises the statement of financial position as at 31 August 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report that gives a true and fair view 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 August 2010 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Orion Metals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors at the time this auditor's review report was made.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Orion Metals Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the disclosing entity's financial position as at 31 August 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matters on Uncertainties Regarding Going Concern and Recoverability of Exploration & Evaluation Expenditure

Without qualification to the statement expressed above, we draw attention to the matters set out in Note 3. The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. This includes the realisation of capitalised exploration & evaluation expenditure of \$1,205,424 (28 February 2010: \$1,102,864). The ability of the company to maintain continuity of normal business activities, to pay their debts as and when they fall due and to recover the carrying value of capitalised exploration & evaluation expenditure, is dependent upon the ability of the company to successfully raise additional capital and/or the successful exploration and subsequent exploitation of their areas of interest through sale or development. No adjustments have been made to the carrying value of assets or recorded amount of liabilities should the company's plans not eventuate.

BDO Audit (QLD) Pty Ltd

CRAIG JENKINS

Director

Brisbane, 10 November 2010